SLM CORP
Form 10-K
February 26, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

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 numbers 001-13251

SLM Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2013874**
(State of Other Jurisdiction of	*(I.R.S. Employer*
Incorporation or Organization)	*Identification No.)*
300 Continental Drive, Newark, Delaware	**19713**
(Address of Principal Executive Offices)	*(Zip Code)*

(302) 283-8000

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act

Common Stock, par value $.20 per share.

Name of Exchange on which Listed:

The NASDAQ Global Select Market

6.97% Cumulative Redeemable Preferred Stock, Series A, par value $.20 per share

Floating Rate Non-Cumulative Preferred Stock, Series B, par value $.20 per share

Name of Exchange on which Listed:

The NASDAQ Global Select Market

Medium Term Notes, Series A, CPI-Linked Notes due 2017

Medium Term Notes, Series A, CPI-Linked Notes due 2018

6% Senior Notes due December 15, 2043

Name of Exchange on which Listed:

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer þ Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2012 was $7.3 billion (based on closing sale price of $15.71 per share as reported for the NASDAQ Global Select Market).

As of January 31, 2013, there were 453,341,352 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the registrant s Annual Meeting of Shareholders scheduled to be held on May 30, 2013 are incorporated by reference into Part III of this Report.

Table of Contents

SLM CORPORATION

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

Definitions for certain capitalized terms used in this document can be found in the Glossary at the end of this document.

References in this Annual Report to we, us, our Sallie Mae and the Company, refer to SLM Corporation and its subsidiaries, except as other indicated or unless the context otherwise requires.

AVAILABLE INFORMATION

Our website address is www.SallieMae.com. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. In addition, copies of our Board Governance Guidelines, Code of Business Conduct (which includes the code of ethics applicable to our chief executive officer, principal financial officer and principal accounting officer) and the governing charters for each committee of our board of directors are available free of charge on our website, as well as in print to any shareholder upon request. We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Chief Executive Officer or Chief Financial Officer) by posting such information on our website. Information contained or referenced on our website is not incorporated by reference into and does not form a part of this report.

Table of Contents

PART I.

Item 1. Business

SLM Corporation, more commonly known as Sallie Mae, is the nation s leading saving, planning and paying for education company. For 40 years, Sallie Mae has made a difference in students and families lives, helping more than 31 million Americans pay for college. We recognize there is no single way to achieve this task, so we provide a range of products to help families whether college is a long way off or right around the corner. Sallie Mae promotes responsible financial habits that help our customers dream, invest and succeed.

Our primary business is to originate, service and collect loans we make to students and their families to finance the cost of their education. Since July 2010 we have originated only Private Education Loans. We use Private Education Loans to mean education loans to students or their families that are non-federal loans and loans not insured or guaranteed under the previously existing Federal Family Education Loan Program (FFELP). The core of our marketing strategy is to generate student loan originations by promoting our products on campus through the financial aid office and through direct marketing to students and their families. Since the beginning of 2006, virtually all of our Private Education Loans have been originated and funded by Sallie Mae Bank, a Utah industrial bank subsidiary (the Bank), regulated by the Utah Department of Financial Institutions (UDFI) and the Federal Deposit Insurance Corporation (FDIC). We also provide servicing, loan default aversion and defaulted loan collection services for loans owned by other institutions, including the U.S. Department of Education (ED), as well as processing capabilities to educational institutions and 529 college-savings plan programs. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

In addition, we are the largest holder, servicer and collector of loans made under the previously existing FFELP. The majority of our income continues to be derived, directly or indirectly, from our portfolio of FFELP Loans and servicing we provide for FFELP Loans. In 2010, Congress passed legislation ending the origination of education loans under the FFELP program. The terms and conditions of existing FFELP Loans were not affected by this legislation. Our FFELP Loan portfolio will amortize over approximately 20 years. The fee income we earn from providing servicing and contingent collections services on such loans will similarly decline over time. For a full description of FFELP, see Appendix A Federal Family Education Loan Program.

At December 31, 2012, we had approximately 6,800 employees.

Private Education Loan Market

Key Drivers of Private Education Loan Market Growth

The size of the Private Education Loan market is based on three primary factors: college enrollment levels, the costs of attending college and the availability of funds from the federal government to pay for a college education. If the cost of education continues to increase at a pace that exceeds income and savings growth and the availability of federal funds does not significantly increase, we expect more students and families to borrow privately. We believe the credit market dislocation of 2008 and 2009 and the elimination of FFELP were largely responsible for lenders exiting the Private Education Loan business. For Academic Year (AY) 2011-2012, Private Education Loans were primarily originated by Sallie Mae, six of the country s largest banks and numerous credit unions.

Table of Contents

College Enrollment Levels

College enrollment increased by approximately 15 percent from 2007 through 2010 and enrollment is projected to increase 13 percent from 2011 to 2021.

Historical and Projected Enrollment

(in millions)

Source: ED, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall Enrollment Survey (IPEDS-EF:90 99), IPEDS Spring 2001 through Spring 2011; Enrollment component; and Enrollment in Degree-Granting Institutions Model, 1980 2010.

Note: Total enrollment in all degree-granting institutions; middle alternative projections for 2010 onward.

Costs of Attending College

Tuition and fees at four-year public institutions and four-year private institutions have increased at a compound annual growth rate of 7.8 percent and 4.9 percent, respectively, since AY 2002-2003. The consumer price index experienced 2.4 percent compound annual growth rate for the same period.

Cost of Attendance[1]

Cumulative % Increase from AY 2002-2003

Source: The College Board *Trends in College Pricing 2012*. © 2012 The College Board. www.collegeboard.org

(1) Cost of attendance is in current dollars and includes tuition, fees and on-campus room and board.

Availability of Federal and Private Funds

There has been a substantial increase in borrowing from federal loan programs in recent years. In the AY ended June 30, 2012, according to the College Board, borrowing from federal loan programs totaled $105.3 billion, an increase of 180 percent since AY ended June 30, 2002. The College Board also reported that, over the same time period, federal grants increased 263 percent to $49 billion. Borrowing from Private Education Loan programs increased 7 percent in AY 2011-12 to an estimated $6.4 billion; an increase of 28 percent above AY 2001-2002 levels. We believe the drop in borrowing from Private Education Loan programs from the peak of $21 billion in AY 2007-2008 has been caused in large measure by increases in federal loan limits and the availability of federal funds, as well as the strengthening of Private Education Loan underwriting standards.

Students and their families can borrow money directly from the federal government to pay for all or part of college education costs under the Direct Student Loan Program (DSLP). The loans can be used to cover the total cost of attendance. Currently, a dependent undergraduate student can borrow from $5,500 to $7,500 annually, depending on their class level. An independent undergraduate student can borrow from $9,500 to $12,500 annually, depending on their class level. Graduate students and parents of undergraduate students can borrow up to the full cost of attendance. All federal education loans allow deferment of loan payments while the student is in school. Rising enrollment levels, college costs and borrowing limits have caused federal student loan programs to grow at a 10-year annual growth rate of 11 percent. The number of borrowers using DSLP is further expected to increase three percent per year over the next three years.

Private Education Loans in Context

Private Education Loans help students and families fill the gap between their own resources, financial aid, federal education loans, and the total cost of college. Historically, Private Education Loans have not replaced federal aid and education loans. However, the interplay between federal and Private Education Loans, their respective terms and conditions and interest rate structures has changed significantly over time. Most notably, over time, federal education lending has expanded to include loans to graduate students and parents of undergraduate students sufficient to cover the full cost of college and graduate school attendance. We believe the evolution of our Private Education Loan products should allow us to effectively compete on interest rates and terms with these particular federal education loan offerings.

On July 20, 2012, the Consumer Financial Protection Bureau (the CFPB) and ED released their joint report on the Private Student Loan[(1)] industry (the Report) as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). While the Report criticized past practices in the private education loan market, most notably in the timeframe prior to the 2008 global financial crisis, it also recognized the important role Private Education Loans play in funding higher education as well as significant improvements in recent years in the quality of underwriting, extensive protections provided by federal consumer protection laws and detailed, required disclosures related to these loans. The Report compares federal education loans, which may be obtained without regard to the borrowers creditworthiness and provide numerous adjustments for borrowers who have difficulty making repayments, with underwritten Private Education Loans whose terms and conditions, such as default status, are often specified by applicable consumer banking laws and regulations. We remain committed to offer responsible Private Education Loan products to families and students. Since 2009, we have

- voluntarily required school certification of both the need for, and the amount of, all of our Private Education Loans;
- introduced our Smart Option Student Loan product to emphasize payments while in school and to shorten repayment terms based on loan amounts and class level;
- obtained cosigners on an average of 90 percent of all Private Education Loans originated; and
- offered through our rate reduction program, temporary relief to assist customers having difficulty making payments on their Private Education Loans.

In addition, we provide many repayment options reduced monthly payments, interest-only payments, extended repayment schedules, temporary interest rate reductions and, if appropriate, forbearance all scaled to a customer s individual circumstances and ability. These programs, much like the adjustments available to customers under federal student loans, must be used wisely given their potential to significantly increase the overall costs of education financing to customers.

[(1)] The Report addresses Private Student Loans as defined in Section 140 of the Truth in Lending Act (15 USC§1650). Our Private Education Loans made for higher education purposes are within the Report s scope.

Table of Contents

Our Approach to Advising Students and Families Considering Private Education Loans

Students and their families use multiple sources of funding to pay for their college education, including savings, current income, grants, scholarships, federal education loans and Private Education Loans.

We advise students and their families to follow a three-step process to paying for college. In recent years, we have increased our focus on business-to-consumer and business-to-business activities that align with each of these three steps and our future plans revolve largely around continuing to develop these types of activities.

Step 1: Use scholarships, grants, savings and income.

Sallie Mae makes available to consumers at no charge an extensive online database of scholarships which includes information about more than 3 million scholarships with an aggregate value in excess of $16 billion.

Our Upromise consumer savings network helps families jumpstart their save-for-college plan by providing financial rewards on everyday purchases. Traditional savings products, like High Yield Savings Accounts, Money Market Accounts and CDs, are available through the Bank. In addition, our Upromise Investments Inc. subsidiary is the largest administrator of direct-to-consumer 529 college-savings plans.

We also provide services to families who prefer to pay some or all of their college expenses using current income. Sallie Mae s Campus Solutions business administers interest-free tuition payment plans on behalf of higher education institutions. In addition, we process tuition refunds on behalf of colleges and universities.

Step 2: Pursue federal government loan options.

Sallie Mae encourages consumers to explore federal government loan options. Our free online tool, the Education Investment Planner, helps families estimate the full cost of a college degree and build a customized plan to pay for the full cost of a college degree. The Education Investment Planner takes families through a series of questions, prompting users to model various funding sources including 529 college-savings plans, parent and student savings and income, scholarships, federal and state grants, institutional aid, and if necessary, federal and private student loans. The Education Investment Planner also estimates monthly payments on education loans and helps project how much a graduate would need to earn to keep payments manageable.

Step 3: Consider affordable Private Education Loans to fill the gap.

We offer Private Education Loan products to bridge the gap between family resources, federal loans, grants, student aid and scholarships, and the cost of a college education. While we actively maintain our presence in school marketing channels, we also continue to develop and evolve our marketing efforts through various other direct and indirect marketing channels, such as direct mailings, Internet channels and marketing alliances with various banks and financial institutions.

We regularly review the terms of our Private Education Loan products to explore ways to minimize finance charges and incorporate additional consumer protections. Our Private Education Loans can include important protections for the family, including tuition insurance, and death and disability loan forgiveness. Through our Smart Option Student Loan product, our customers now have a choice of making monthly payments of interest while in school, paying $25 per month per loan while in school, or deferring all payments until after they leave school. In-school interest payments allow a typical customer to save thousands of dollars over the life of the loan. The result: customers are reminded of the obligation to repay, develop the habit of making payments, and graduate with less debt.

We provide Private Education Loan customers clear, consistent, and easy-to-compare information about our Private Education Loans. These disclosures inform customers of the potential life-of-loan costs and provide multiple reminders of the availability of federal loans. When a customer is approved for the loan, we send a

Table of Contents

disclosure that provides very specific information about the loan s terms with instructions on how to accept the terms of the loan. When a customer accepts the terms of the loan, we send a disclosure that confirms the loan information and also notifies the customer of a right-to-cancel period.

Additionally, we provide information to customers during the application process to allow them to compare the full cost of different repayment plans. We also provide a 60-day loan cancellation period within which customers have the ability to repay their loans after disbursement with no interest or fees should a customer change his or her mind.

Our Approach to Assisting Students and Families in Repaying their Education Loans

In 2012, Sallie Mae serviced loans for approximately 3.2 million Private Education Loan customers, as well as approximately 10 million federal education loan customers who received loans through either the DSLP or the previously existing FFELP program. We receive approximately five million customer contacts every month (calls, written communications, and customer requests) in our call and servicing centers or through SallieMae.com and process nearly 70 million customer payments on an annual basis.

We understand managing repayment of education loans is critical for students to achieve their educational goals, recognize their full earning potential, and develop a strong credit profile. As previously described, the first step to helping customers repay their Private Education Loans is making sure they have access to the information and products to understand, plan and pay for the full cost of attaining a college degree. Our underwriting focuses on the customer s ability, stability, and willingness to repay the loan.

The second step is making sure our customers maintain a full appreciation of their loan terms and repayment responsibilities throughout the life of their education loans, not just at origination.

Our Smart Option Student Loan product promotes in-school repayment. By making in-school payments, customers stay informed on loans, learn to establish good repayment patterns, and graduate with less debt.

Before, during, and after leaving school we also provide clear, concise, and frequent market-leading communications designed to help customers successfully understand, manage, and reduce the costs of Private Education Loans. We use a variety of tools, including letters, emails, videos, text messages, monthly statements and 24/7 secure online account access and information on our website, SallieMae.com. Each communication channel provides customer support.

Another important tool we provide our customers is our Office of Consumer Advocate (OCA). Established over 10 years ago, OCA provides specialized customer assistance and positive resolutions to escalated concerns. OCA now also serves the additional role of addressing all of the customer inquiries we receive via the student loan complaint portal the CFPB established in 2012. In fiscal year 2012, OCA received 1,382 inquiries from our customers through the newly established CFPB portal, representing approximately 0.04 percent of our Private Education Loan customers. As of January 31, 2013, 99 percent of those inquiries have been successfully reviewed and closed.

The third step is providing the right incentives and programs to reward and encourage repayment and aid those individuals and families who may be struggling to meet their financial obligations. We work with each individual to understand their financial situations and identify alternative payment arrangements.

Sallie Mae provides the opportunity for customers to qualify for borrower benefits in the form of reduced interest charges for actions such as signing up for automatic withdrawal or achieving a sufficient history of consecutive on-time payments. These benefits exist to encourage better customer payment behavior.

We have instituted a twelve-month rate reduction program to assist customers struggling with repaying their Private Education Loans. We offer this program when there is a possibility to keep a customer current in their monthly payments by a temporary reduction in the interest rate and, in some cases, modification of term. Most participants successfully complete the program and return to current payments.

We recognize that, in some cases, loan modifications and other efforts may be insufficient. That is why Sallie Mae continues to support bankruptcy reform that would permit the discharge of education loans both private and federal after a required period of good faith attempts to repay and that is prospective so as not to rewrite existing contracts. Any reform should recognize education loans have unique characteristics and benefits as compared to other consumer loan classes. We do not believe bankruptcy reform structured along these lines would be detrimental to our business model or future prospects.

Business Segments

We have three primary operating business segments Consumer Lending, Business Services and FFELP Loans. A fourth segment Other, primarily consists of the financial results of our holding company, including activities related to the repurchase of debt, the corporate liquidity portfolio and all overhead, as well as the results from smaller wind-down and discontinued operations within this segment.

A summary of financial information for each of our business segments for each of the last three fiscal years is included in Note 16 Segment Reporting to the consolidated financial statements.

Consumer Lending Segment

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers resources. We will continue to offer loan products to parents and graduate students where we believe we are competitive with similar federal education loan products. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, consisting primarily of late fees. Operating expenses for this segment include costs incurred to acquire and to service our loans.

Managed growth of our Private Education Loan portfolio is central not only to our strategy for growing the Consumer Lending segment but also for the future of Sallie Mae as a whole. In 2012 we originated $3.3 billion of Private Education Loans, an increase of 22 percent and 45 percent from the years ended December 31, 2011 and 2010, respectively. As of December 31, 2012, 2011 and 2010, we had $36.9 billion, $36.3 billion, and $35.7 of Private Education Loans outstanding, respectively. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segment Earnings Summary Core Earnings Basis Consumer Lending Segment for a full discussion of our Consumer Lending business and related loan portfolio.

Private Education Loans bear the full credit risk of the customer and cosigner. We manage this risk by underwriting and pricing based upon customized credit scoring criteria and the addition of qualified cosigners. For the year ended December 31, 2012, our annual charge-off rate for Private Education Loans (as a percentage of loans in repayment) was 3.4 percent, as compared with 3.7 percent for the prior year.

Since the beginning of 2006, virtually all of our Private Education Loans have been originated and funded by the Bank, a Utah industrial bank subsidiary regulated by the UDFI and the FDIC. At December 31, 2012, the Bank had total assets of $9.1 billion including $5.5 billion in Private Education Loans. As of the same date, the Bank had total deposits of $7.8 billion. The Bank relies on both retail and brokered deposits to fund its assets and periodically sells originated Private Education Loans to affiliates for inclusion in securitization trusts or collection. The Bank is also a key component of our Campus Solutions, Upromise Rewards and college-savings product businesses. Sallie Mae and its affiliates provide services and technology support to the Bank through various service agreements.

Our ability to obtain deposit funding and offer competitive interest rates on deposits will become more important to sustain the continuing growth of our Private Education Loan portfolio. Our ability to obtain such funding is also dependent in part on the capital level of the Bank and compliance with other regulatory requirements applicable to the Bank. At the time of this filing, there are no restrictions on our ability to obtain

Table of Contents

deposit funding or the interest rates we charge other than those restrictions generally applicable to all equally situated banks. At the time of this filing, however, the Bank continues to be the subject of a cease and desist order for previously identified weaknesses in its compliance function. While the issues addressed in the order have largely been remediated, the order has not yet been lifted. Our failure to comply with various laws and regulations, the terms of the cease and desist order, or to timely address issues raised during any examination could result in limitations on our ability to obtain deposit funding in the Bank.

We face competition for Private Education Loans from a group of the nation s larger banks and local credit unions.

Business Services Segment

FFELP - Related Revenues

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio and from performing servicing, default aversion and contingency collections work on behalf of Guarantors of FFELP Loans and other institutions. With the elimination of FFELP in July 2010, these FFELP-related revenue sources will continue to decline.

Servicing revenues from the FFELP Loans we own and manage represent intercompany charges to the FFELP Loans segment at rates paid to us by the trusts which own the loans. These fees are legally the first payment priority of the trusts and exceed the actual cost of servicing the loans. Intercompany loan servicing revenues declined to $670 million in 2012 from $739 million in 2011. Intercompany loan servicing revenues will decline as the FFELP portfolio amortizes. Prepayments of FFELP Loans could further accelerate the rate of decline.

In 2012, we earned account maintenance and default aversion fees on FFELP Loans serviced for Guarantors of $41 million, down from $46 million in 2010. These fees will continue to decline as the portfolio amortizes. Prepayments of FFELP Loans could further accelerate the rate of decline.

In 2012, contingency collection revenue from Guarantor clients totaled $264 million, compared to $246 million the prior year. We anticipate these revenues will begin to decline steadily in 2013.

In 2012, our FFELP-related revenues accounted for 76 percent of total Business Services segment revenues, as compared with 76 percent and 78 percent, respectively, for the previous two years. Total Business Services segment revenues were $1.3 billion for the year ended December 31, 2012, down from $1.4 billion for the prior year. Over the next several years our objective is to grow or acquire additional sources of services revenue. The total amounts of these combined FFELP-related revenues, as well as the margins we earn from them, are significant. Our ability to offset these increasing FFELP-related revenue declines is less certain.

The end of the FFELP program will likely cause owners of FFELP Loan portfolios as well as Guarantors of those loans to seek to further reduce their FFELP servicing costs or sell those portfolios. Given the volume of FFELP Loans we service for our affiliates and third parties, we are uniquely situated to adapt to the increasing levels of education loan-specific disclosure, compliance, servicing and collection standards which other financial institutions and servicers may not find economical to continue to support. Acquiring additional FFELP servicing volume as others sell FFELP portfolios, exit existing FFELP servicing businesses or seek to find lower cost providers for those services is a key component of our current Business Services growth strategy, notwithstanding the end of the FFELP program.

We will also continue to pursue acquisitions of both complementary and diversified service businesses that can expand demand for our services in and beyond the education loan markets. We considered several such opportunities in 2012 but chose not to pursue those based on relative valuations of the companies and questions regarding their near-term returns on investment as compared to other uses for our capital resources.

ED Collection and Servicing Contracts

Since 1997, we have provided collection services on defaulted student loans to ED. The current contract runs through December 31, 2013, with one six-month renewal option by ED. There are 21 other collection providers, of which we compete with 16 providers for account allocation based on quarterly performance metrics. The remaining five providers are small businesses who are ensured a particular allocation of business. As a consistent top performer, our share of allocated accounts has ranged from six percent to eight percent for this contract period. In addition, we were ranked first in the last quarterly performance metric and have been ranked first in the long-term performance metric, which is based on the past seven quarterly performance metrics, since the commencement of this contract.

In the second quarter of 2009, ED named Sallie Mae as one of four servicers awarded a servicing contract (the ED Servicing Contract) to service all newly disbursed federal loans owned by ED. The ED Servicing Contract covers, among other things, all new Direct Loans disbursed by, or sold to, ED since the contract award date and may extend to Direct Loans originated prior to that date. The contract spans five years with one, five-year renewal at the option of ED. We compete for Direct Loan servicing volume from ED with the three other servicing companies with whom we share the contract. New account allocations for the upcoming contract year are awarded annually based on each company s performance on five different metrics over the most recently ended contract year: defaulted borrower count, defaulted borrower dollar amount, a survey of borrowers, a survey of schools and a survey of ED personnel (the ED Scorecard). Pursuant to the contract terms related to annual volume allocation of new loans, the maximum any servicer could be awarded is 40 percent of net new borrowers in that contract year. Our share of new loans serviced for ED under the ED Servicing Contract decreased to 15 percent in 2012 from 26 percent in the prior contract year as a result of our decrease in our relative standing, as compared to other servicing companies, on the ED Scorecard. We are servicing approximately 4.3 million accounts under the ED Servicing Contract as of December 31, 2012 and generated $84 million of revenue under the contracts for the year ended December 31, 2012.

To date, the ED Servicing Contract has not contributed meaningful net income; however, the opportunity to significantly and profitably expand the services we can provide under the DSLP, directly to ED or otherwise, remains an important component of our Business Services growth strategy. In fiscal 2013, ED is projected to originate more than $121 billion in new federal education loans and spend more than $1.0 billion in servicing and contingency fees.

We have generated significant volumes of work and consistently delivered high levels of objectively measurable performance under both the ED Servicing Contract and the ED collections contract. However, the contract structure has not permitted us to scale the work we are doing to achieve our initial profitability expectations.

The ED Servicing Contract is currently scheduled to expire in June 2014. We expect ED will decide whether to exercise its five-year renewal option well before this date. Whether or not the option is exercised, ED will retain significant discretion in how new DSLP loan servicing volume is allocated under the contract and the amounts paid for those services. ED need not exercise its renewal option with all existing servicers. While we are confident in our performance approach, there can be no assurances our profitability will improve or that we will be selected to continue under the ED Servicing Contract beyond 2014.

Other

Upromise generates revenue by providing program management services for 529 college-savings plans with assets of $44.7 billion in 31 college-savings plans in 16 states at December 31, 2012. We also generate transaction fees through our Upromise consumer savings network; through December 31, 2012, members have earned approximately $730 million in rewards by purchasing products at hundreds of online retailers, booking travel, purchasing a home, dining out, buying gas and groceries, using the Upromise World MasterCard, or completing other qualified transactions. We earn a fee for the marketing and administrative services we provide to companies that participate in the Upromise savings network. We compete for 529 college-savings plan business with a large array of banks, financial services and other processing companies. We also compete with other loyalty shopping services and companies.

Table of Contents

Our Campus Solutions business offers a suite of solutions designed to help campus business offices increase their services to students and families. The product suite includes electronic billing, collection, payment and refund services plus full tuition payment plan administration. In 2012, we generated servicing revenue from over 1,000 campuses.

FFELP Loans Segment

Our FFELP Loans segment consists of our FFELP Loan portfolio and the underlying debt and capital funding the loans. FFELP Loans are insured or guaranteed by state or not-for-profit agencies and are also protected by contractual rights to recovery from the United States pursuant to guaranty agreements among ED and these agencies. These guarantees generally cover at least 97 percent of a FFELP Loan s principal and accrued interest for loans disbursed. In the case of death, disability or bankruptcy of the borrower, these guarantees cover 100 percent of the loan s principal and accrued interest. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segment Earnings Summary Core Earnings Basis FFELP Loans Segment for a full discussion of our FFELP Loans segment.

As a result of the long-term funding used in the FFELP Loan portfolio and the insurance and guarantees provided on these loans, the net interest margin recorded in the FFELP Loans segment is relatively stable and the capital we choose to retain with respect to the segment is modest. In addition to the net interest margin, we earn fee income largely from late fees on the loans. For more discussion of the FFELP and related credit support mechanisms, see Appendix A Federal Family Education Loan Program.

Our FFELP Loan portfolio will amortize over approximately 20 years. Our goal is to maximize the cash flow generated by the portfolio. We will seek to acquire other third-party FFELP Loan portfolios to add net interest income and servicing revenue.

The Higher Education Act (the HEA) continues to regulate every aspect of the FFELP, including ongoing communications with borrowers and default aversion requirements. Failure to service a FFELP Loan properly could jeopardize the insurance and guarantees and federal support on these loans. The insurance and guarantees on our existing loans were not affected by the July 2010 termination of the FFELP program.

Other Segment

The Other segment consists primarily of the financial results related to activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment. Overhead expenses include costs related to executive management, the board of directors, accounting, finance, legal, human resources, stock-based compensation expense and certain information technology costs related to infrastructure and operations.

Supervision and Regulation

The Dodd Frank Act

The Dodd-Frank Act was adopted to reform and strengthen regulation and supervision of the U.S. financial services industry. The Dodd-Frank Act contains comprehensive provisions to govern the practices and oversight of financial institutions (including large non-bank financial institutions) and other participants in the financial markets. It imposes significant regulations, additional requirements and oversight on almost every aspect of the U.S. financial services industry, including increased capital and liquidity requirements, limits on leverage and enhanced supervisory authority. Some of these provisions are applicable to us and to our various businesses. Most of the Dodd-Frank Act s provisions have become effective but many remain subject to formal implementation by regulatory agencies through final rulemaking, leaving considerable uncertainty as to their ultimate scope and effect. Nonetheless, we believe our operational expenses will increase as we address new or additional compliance requirements arising from the implementation of various provisions of the Dodd-Frank Act.

Table of Contents

The Consumer Financial Protection Act (the CFPA), a part of the Dodd-Frank Act, established the CFPB, which has broad authority to write regulations under federal consumer financial protection laws and to directly or indirectly enforce those laws and examine financial institutions for compliance. It is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. It has authority to prevent unfair, deceptive or abusive practices by issuing regulations that define the same or by using its enforcement authority without first issuing regulations. The CFPB has been active in its supervision, examination and enforcement of financial services companies, most notably bringing enforcement actions imposing fines and mandating large refunds to customers of several large banking institutions for practices relating to the sale of additional products associated with the extension of consumer credit.

The Dodd-Frank Act also authorizes state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act s general prohibition against unfair, deceptive and abusive practices.

Regulatory Outlook

The number and scope of regulatory and enforcement actions in 2012, as well as the amounts of fines and penalties levied against banking institutions, were significant. The types and numbers of class and shareholder derivative actions arising from allegations of violations of consumer protection and regulatory provisions also continued to increase. A number of prominent themes appear to be emerging from these actions:

The number and configuration of regulators bringing actions often adds to the complexity, cost and unpredictability of timing for resolution of particular regulatory issues.

The regulatory compliance and risk control structures of financial institutions subject to enforcement actions are frequently cited, regardless of whether past practices have been changed, and enforcement orders have often included detailed demands for increased compliance, audit and board supervision, as well as the use of third-party consultants to recommend further changes or monitor remediation efforts.

Issues first identified with respect to one consumer product class or distribution channel are often applied to other product classes or channels, as has been most notably the case in the home mortgage industry.

As noted in more detail below, in coming years we expect the regulators overseeing several of our businesses will increase in number or change and consumer protection regulations and standards will evolve to become more detailed in scope. We expect this evolution will significantly add to our compliance, marketing, servicing and operating costs. While our current operations and compliance processes may or may not satisfy heightened, evolving regulatory standards, they cannot provide assurance past practices or products will not be the focus of examinations, inquiries or lawsuits. Prior to 2009, one or more of our current or then-existing subsidiaries were involved in the origination and sale of home mortgages, automobile loans, boat/RV/manufactured housing loans, construction loans, and other personal loans.

In 2012 we made significant progress in better coordinating and formalizing our existing risk management practices. In 2013 we expect to fully implement these efforts. For a further discussion of these efforts, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management.

Listed below are some of the most significant recent and pending regulatory changes that have the potential to affect one or more of our businesses in coming years.

Education Loans and Students Rights. The CFPB has now assumed regulatory oversight of the Private Education Loan industry. Its July 2012 Report on the industry provided many insights on the evolution of the industry and the CFPB s continuing concerns. While we do not believe the CFPB s primary recommendations to Congress in the Report are problematic to our business at present, any future efforts by Congress or the CFPB to impose further conditions or alter the terms on which Private Education Loans may be issued, interest charged or,

Table of Contents

principal collected so as to be more in conformance with federal education loan programs could significantly and materially affect the way in which we choose to do business and the profitability of our business. The CFPB s focus on the concerns of students extends beyond the terms and conditions of Private Education Loans and includes the following:

The Dodd-Frank Act created a Private Education Loan Ombudsman within the CFPB to receive and attempt to informally resolve inquiries about Private Education Loans. The Private Education Loan Ombudsman reports to Congress annually on the trends and issues that it identifies through this process. On October 16, 2012, the Ombudsman submitted its first report based on 2,900 inquiries, finding that borrowers tended to report problems with their loan servicing and repayment options. The report draws conclusions about problems in education loan servicing and suggests Congress consider further steps to provide loan modifications or refinancing opportunities for troubled borrowers. Most of the inquiries that we have received from customers via the CFPB process are made by borrowers facing difficulty in repayment due to unemployment and underemployment due to the faltering economy.

The CFPB is also particularly focused on interactions between prospective students and the financial aid offices of colleges and universities, and the quality and accuracy of the information students are being provided through financial aid offices. The CFPB announced on January 31, 2013 that it is seeking information on the financial products and services offered to students through colleges and universities, including products marketed through campus affinity relationships, such as financial aid disbursement accounts, student banking, prepaid cards and credit cards. The deadline for submission of information to the CFPB is March 18, 2013. It is likely this inquiry, much like prior inquiries with respect to credit cards, and other financial products, will lead to the issuance of a report and recommendations or proposed regulatory changes related to the issuance and utilization of these products. If so, several of our businesses could be affected.

The CFPB announced on February 21, 2013 that it is seeking information on options available to borrowers having difficulty repaying their loans. The deadline for submission of information to the CFPB is April 8, 2013. For a discussion on our approach to helping customers, see Item 1 Business Our Approach to Assisting Students and Families in Repaying their Education Loans.

Debt Collection Supervision. On October 24, 2012, the CFPB issued its final debt collection larger participant rule and examination procedures that will allow the agency to federally supervise larger consumer debt collectors. The rule defines larger participants as third-party debt collectors, debt buyers, and collection attorneys with more than $10 million in annual receipts resulting from consumer debt collection. Under the rule, our collection subsidiaries are considered larger participants and will be subject to supervision. The rule became effective January 2, 2013. The issuance of the CFPB s rules will not preempt the various and varied levels of state consumer and collection regulations to which the activities of our subsidiaries are currently subject. We also utilize third-party debt collectors to collect certain defaulted and charged-off education loans. We will continue to be responsible for oversight of their procedures and controls.

Evolving Regulation of the Bank. As of December 31, 2012, the Bank had assets of $9.1 billion. We expect its assets to exceed $10 billion by the third or fourth quarter of 2013. Based on current estimates, we expect the Bank will eventually be designated as a large bank under the Dodd-Frank Act and be subject to additional regulatory requirements. For example, once the Bank has four consecutive quarters with assets of at least $10 billion, the CFPB will become the Bank s primary compliance supervisor. The UDFI and FDIC will remain the prudential regulatory authorities with respect to the Bank s financial strength. However, once the Bank s average assets over any four quarter period are at least $10 billion, it will subsequently become subject to annual stress testing requirements. Furthermore, the Dodd-Frank Act imposed a moratorium on the further creation of, and strictly limited the transfer of, industrial banks such as the Bank. This moratorium will expire in the summer of 2013. At this time we do not expect significant changes with regard to the form or regulation of industrial banks or their exclusion from federal bank holding company regulation, but we cannot predict the nature or actions that Congress or federal banking authorities might choose to take with regard to the industrial bank exclusion.

Regulation of Systemically Important Non-Bank Financial Companies. As directed by the Dodd-Frank Act, on April 3, 2012, the Financial Stability Oversight Council (FSOC) approved the final rule and interpretive guidance it will use for designating non-bank financial companies as systemically important to the financial stability of the United States and subject to supervision by the Board of Governors of the Federal Reserve System (the FRB) under enhanced prudential supervision and regulatory standards. To be subject to FRB enhanced supervision, a non-bank financial company s material financial distress, its nature, scope, size, scale, concentration, interconnectedness, or mix of activities, must pose a threat to the financial stability of the United States. For a further discussion of the risks and implications of SLM Corporation being designated a Systematically Important Financial Institution (SIFI), see Item 1A Risk Factors Legal, Regulatory and Compliance.

The FSOC s process for determining if a non-bank financial company s distress could pose a threat to the financial stability of the United States focuses on three criteria: the size, substitutability and interconnectedness of the particular company. In the final rule, the FSOC provided guidance on the process they would use for determining the SIFI designation. In Stage 1 of the process, the FSOC uses quantitative criteria to determine which non-bank financial companies would be subject to a Stage 2 review, during which the FSOC conducts a quantitative and qualitative review of publicly available information to determine whether there is a likelihood a company could be a SIFI and meriting further review of the company s nonpublic information. Under Stage 3 of the process, the FSOC notifies the company and works with it to review additional information that may not be available publicly and determines whether to make an official designation.

In the last quarter of 2012, the FSOC advanced several large non-bank financial companies to Stage 3 of the process. SLM Corporation was not one of these companies. At the same time, the FSOC affirmatively decided not to advance other Stage 2 non-bank financial companies to Stage 3 of the process.

While we have no way of knowing the qualitative judgments the FSOC will use in the future to determine if SLM Corporation merits SIFI designation, and no assurances can be given, we continue to believe it is unlikely the FSOC will determine SLM Corporation poses a threat to the financial stability of the United States. While SLM Corporation meets certain criteria in Stage 1 of the FSOC s rule, we see no changes that would warrant the FSOC to consider us for SIFI designation due to the nature of the majority of financial assets on our balance sheet, the minimal interconnectivity between our businesses and the financial economy of the United States or the numerous sophisticated competitors who can provide substitute services to those we provide.

Oversight of Derivatives. The Dodd-Frank Act created a comprehensive new regulatory framework for derivatives transactions, to be implemented by the Commodity Futures Trading Commission (the CFTC) and the SEC. This new framework, among other things, subjects certain swap participants to new capital and margin requirements, recordkeeping and business conduct standards and imposes registration and regulation of swap dealers and major swap participants. The scope of potential exemptions remains to be further defined through agency rulemakings. Moreover, while we may or may not qualify for exemptions, many of our derivatives counterparties are likely to be subject to the new capital, margin and business conduct requirements.

Other Significant Sources of Regulation

Many aspects of our businesses are subject to regulation by federal and state regulation and administrative oversight. Some of the most significant of these are described below.

We are subject to the HEA and, from time to time, our student loan operations are reviewed by ED and Guarantors. As a servicer of federal student loans, we are subject to certain ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our Guarantor servicing operations, we must comply with, on behalf of our Guarantor clients, certain ED regulations that govern Guarantor activities as well as agreements for reimbursement between ED and our Guarantor clients.

As a third-party service provider to financial institutions, we are also subject to examination by the Federal Financial Institutions Examination Council (FFIEC). The Bank is subject to Utah banking regulations as well

Table of Contents

as regulations issued by the FDIC, and undergoes periodic regulatory examinations by the FDIC and the UDFI. SLM Corporation is also subject to regulation and periodic examination by these entities as to the nature and extent of services and financial strength it provides to the Bank.

Our originating or servicing of federal and Private Education Loans also subjects us to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our business include:

- various laws governing unfair, deceptive or abusive acts or practices;
- the Truth-In-Lending Act;
- the Fair Credit Reporting Act;
- the Equal Credit Opportunity Act;
- the Servicemembers Civil Relief Act;
- the Telephone Consumer Protection Act; and
- the Gramm-Leach-Bliley Act.

Our Business Services segment s debt collection and receivables management activities are subject to federal and state consumer protection, privacy and related laws and regulations, including supervision by the CFPB of larger consumer debt collectors as discussed above. Some of the more significant federal statutes are the Fair Debt Collection Practices Act and additional provisions of the acts listed above, as well as the HEA and the various laws and regulations that govern government contractors.

These activities are also subject to state laws and regulations similar to the federal laws and regulations listed above.

Our Upromise 529 college-savings activities are subject to regulation by the Municipal Securities Rulemaking Board, the Financial Industry Regulatory Authority and the SEC, as well as various state regulatory authorities.

Company History

We were formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise (GSE), with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, we terminated the federal charter, incorporated SLM Corporation as a business corporation in the State of Delaware, and dissolved the GSE. SLM Corporation is now a publicly-traded holding company operating through its various subsidiaries. Our principal executive offices are located at 300 Continental Drive, Newark, Delaware 19713, and our telephone number is (302) 283-8000.

We established the Bank in 2005 as an industrial bank chartered under the laws of the State of Utah. It is located in Salt Lake City, Utah. Under its banking charter, the Bank may make consumer loans and may accept FDIC-insured deposits, including NOW accounts. It is a depository institution subject to regulatory oversight and examination by both the FDIC and the UDFI. Applicable federal and state regulations relate to a broad range of banking activities and practices, including minimum capital standards, maintenance of reserves and the terms on which a bank may engage in transactions with its affiliates. In addition, the FDIC has regulatory authority under the Financial Institutions Supervisory Act to prohibit the Bank from engaging in any unsafe or unsound practice.

On August 22, 2006, we acquired Upromise Inc. and its subsidiaries, Upromise Investments, Inc. (UII) and Upromise Investment Advisors, LLC (UIA). UII is registered with the SEC as a broker-dealer pursuant to the Securities and Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority and the Municipal Securities Rulemaking Board . UIA is registered with the SEC as an investment advisor pursuant to the provisions of the Investment Advisers Act of 1940, as amended. In 2012, we formed Upromise Investments Recordkeeping Services, LLC, which is registered with the SEC as a transfer agent pursuant to the Securities and Exchange Act of 1934, as amended.

Table of Contents

Item 1A. Risk Factors

Our business activities involve a variety of risks. Below we describe the significant risk factors affecting our business. The risks described below are not the only risks facing us other risks also could impact our business.

Economic Environment

Economic conditions could have a material adverse effect on our business, results of operations, financial condition and stock price.

Our business is always influenced by economic conditions. Economic growth in the United States remains slow and uneven. High unemployment rates and decreasing college graduation rates are two of the most significant macroeconomic factors that could increase loan delinquencies, defaults and forbearance, or otherwise negatively affect performance of our existing education loan portfolio. Since 2009, the unemployment rate has been higher than historical norms. In 2008, the unemployment rate was 5.8 percent, reaching a high of 9.6 percent in 2010 and declining to 8.1 percent in 2012. Forbearance programs may have the effect of delaying default emergence as customers are granted a temporary waiver from having to make payments on their loans. If the type and amount of federal funds available to pay for a college education or refinance existing education loans increases, the volume of our new loan originations and the repayment rates of our existing loans could be materially and adversely effected.

Further deterioration in the economy could result in a decrease in demand for consumer credit and credit quality could adversely be affected. Higher credit-related losses and weaker credit quality could negatively affect our business, financial condition and results of operations and limit funding options, including capital markets activity, which could also adversely impact our liquidity position.

Funding and Liquidity

Our business can be affected by the cost and availability of funding in the capital markets. The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. These factors may increase the price of or decrease our ability to obtain liquidity necessary to maintain and grow our business.

The capital markets could experience periods of significant volatility. This volatility can dramatically and adversely affect our financing costs when compared to historical norms. Additional factors that could make financing more expensive or unavailable include, but are not limited to, financial losses, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions. If financing becomes more difficult, expensive or unavailable, our business, financial condition and results of operations could be materially and adversely affected.

During 2012, we funded Private Education Loan originations through term-brokered and retail deposits raised by the Bank. Assets funded in this manner result in re-financing risk because the average term of the deposits is shorter than the expected term of some of the assets. There is no assurance that this or other sources of funding, such as the term asset-backed securities market, will be available at a level and cost that makes new Private Education Loan originations possible or profitable, nor is there any assurance that the loans can be re-financed at profitable margins. For additional discussion on regulatory and compliance risks relating to the Bank, see below at Item 1A Risk Factors Legal, Regulatory and Compliance. If we were unable to obtain funds from which to make new Private Education Loans, our business, financial condition and results of operations would be materially and adversely affected.

Table of Contents

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. This mismatch exposes us to risk in the form of basis risk and repricing risk. Moreover, it may not always be possible to hedge all of our exposure to such basis risks. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

Adverse market conditions or an inability to effectively manage our liquidity risk could negatively impact our ability to meet our liquidity and funding needs, which could materially and adversely impact our business operations and our overall financial condition.

We must effectively manage the liquidity risk to which we are exposed. We require liquidity to meet cash requirements such as day-to-day operating expenses, extensions of credit on our Private Education Loans, required payments of principal and interest on our borrowings, and distributions to our shareholders. Our primary sources of liquidity and funding are from fees we collect for servicing education loans, payments made on FFELP and Private Education Loans that we hold, proceeds and distributions from securitization transactions and trusts that we undertake and offerings of debt and equity securities. We may maintain too much liquidity, which can be costly, or we may be too illiquid, which could result in financial distress during times of financial stress or capital market disruptions.

Higher than expected prepayments of education loans could reduce servicing revenues we receive or reduce or delay payments we receive as the holder of the residual interests of securitization trusts holding education loans. While some fluctuation in prepayment levels is to be expected, extraordinary or extended increases in prepayment levels could materially adversely affect our liquidity, income and the value of those residual interest assets.

Education loans may be voluntarily prepaid by borrowers or, in the case of FFELP Loans, may also be consolidated with the borrowers other education loans through refinancing into the DSLP. FFELP Loans may also be repaid after default by the guarantors of FFELP Loans. Prepayment rates and levels are subject to many factors which are beyond our control, including repayment through loan consolidation programs. When education loans contained within a securitization trust are prepaid the fees we earn as servicer decrease and the value of any residual interest we own in the securitization trust may decline. If we experience significantly higher than expected prepayments, our liquidity, income and future value of assets could be materially and adversely affected.

Operations

A failure of our operating systems or infrastructure or a breach or violation of law by one of the many third-party vendors we rely on to deliver services and information, including confidential customer information, to our customers could disrupt our business, result in disclosure of confidential customer information, damage our reputation, cause significant losses and provide our competitors with an opportunity to enhance their position at our expense. We may also be exposed to litigation and regulatory risk for failure to provide proper oversight to these third-party vendors.

A failure of operating systems or infrastructure could disrupt our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal and regulatory standards and our product specifications, which change to reflect our business needs and new or revised regulatory requirements. As processing demands change and our loan portfolios grow in both volume and differing terms and conditions, developing and maintaining our operating systems and infrastructure becomes increasingly challenging and there is no assurance that we can adequately or efficiently develop, maintain or acquire access to such systems.

Table of Contents

Our loan originations and conversions and the servicing, financial, accounting, data processing or other operating systems and facilities that support them may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our clients, result in financial loss or liability to our clients, disrupt our business, result in regulatory action or cause reputational damage. Despite the plans and facilities we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, Internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could adversely affect our business, financial condition and results of operations.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our computer systems and networks. Although we take protective measures, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. Our technologies, systems, networks and those of third parties may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers confidential, proprietary and other information, or otherwise disrupt our or our customers or other third parties business operations. Moreover, information security risks for large financial institutions such as Sallie Mae have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties.

If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through, our computer systems and networks, could be jeopardized or could cause interruptions or malfunctions in our operations that could result in significant losses or reputational damage. We also routinely transmit and receive personal, confidential and proprietary information, some through third parties. We have put in place secure transmission capability, and work to ensure third parties follow similar procedures. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm. In the event personal, confidential or other information is jeopardized, intercepted, misused or mishandled, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to fines, penalties, litigation costs and settlements and financial losses that are either not insured against or not fully covered through any insurance maintained by us. If one or more of such events occur, our business, financial condition or results of operations could be significantly and adversely affected.

We increasingly depend on third parties for a wide array of services, systems and information technology applications. Third-party vendors are significantly involved in aspects of our software and systems development, the timely transmission of information across our data communication network, and for other telecommunications, processing, remittance and technology-related services in connection with our banking and payment services businesses. We also utilize third-party debt collectors significantly in the collection of defaulted Private Education Loans. If a service provider fails to provide the services we require or expect, or fails to meet applicable contractual or regulatory requirements, such as service levels or compliance with applicable laws, the failure could negatively impact our business by adversely affecting our ability to process customers transactions in a timely and accurate manner, otherwise hampering our ability to serve our customers, or subjecting us to litigation and regulatory risk for matters as diverse as poor vendor oversight or improper release or protection of personal information. Such a failure could adversely affect the perception of the reliability of our networks and services, and the quality of our brands, and could materially adversely affect our revenues and/or our results of operations.

Table of Contents

Federal funding constraints and spending policy changes triggered by associated federal spending deadlines may result in disruption of federal payments for services we provide to the government, which could materially and adversely affect our business strategy or future business prospects.

We receive payments from the federal government on our FFELP Loan portfolio and for other services we provide to them, including servicing Direct Loans, default aversion and contingency collections. Funding to pay for these services may be affected by various factors, including the following:

Debt Limit: The federal government is expected to reach the statutory borrowing limit by the end of the first half of 2013 and, once the limit is reached, the federal government will not be able to borrow to meet its payment obligations.

2013 Appropriations: Congress and the Administration must address the expiration at the end of March 2013 of funding for federal government operations.

Sequestration: In August 2011, Congress passed the Budget Control Act of 2011, which committed the federal government to significantly reduce the federal deficit over ten years by $1 trillion relative to the fiscal year 2012 Administration budget submission. Under this Act, as amended, substantial automatic spending cuts, known as sequestration, are scheduled to be implemented on March 1, 2013.

President s budget: The President s fiscal 2014 budget is expected to be released in March 2013. Previous budgets have included a number of education lending-related initiatives, including proposed reductions in payments by ED to service providers assisting students with the rehabilitation of defaulted FFELP loans. If proposals such as these are enacted, they could be detrimental to our business.

It is possible that the Administration and Congress could engage in a prolonged debate linking the federal deficit, debt ceiling and other budget issues resulting in a similar debate that occurred around the Budget Control Act of 2011. If U.S. lawmakers now or in the future fail to reach agreement on these issues, the federal government could stop or delay payment on its obligations, including those on services we provide. We cannot predict how or what programs will be impacted by any actions that Congress or the federal government may take. Further, legislation to address the federal deficit and spending could include proposals that would adversely affect our FFELP and Direct Loan-related servicing businesses. A protracted reduction, suspension or cancellation of the demand for the services we provide, or proposed changes to the terms or pricing of services provided under existing contracts we have with the federal government, could have a material adverse effect on our revenues, cash flows, profitability and business outlook, and, as a result, could materially adversely affect our business, financial condition and results of operations.

We continue to undertake numerous cost-cutting initiatives to realign and restructure our business in light of significant legislative changes in the past several years and the amortization of the FFELP Loan portfolios we service. Our business, results of operations and financial condition could be adversely affected if we do not effectively align our cost structure with our current business operations, regulatory compliance obligations and future business prospects.

In response to significant legislative changes in the past several years, including the end of FFELP, we have undertaken and continue to undertake cost-cutting initiatives, including workforce reductions, servicing center closures, restructuring and transfers of business functions to new locations, enhancements to our web-based customer services, adoption of new procurement strategies and investments in operational efficiencies. Our business and financial condition could be adversely affected by these cost-cutting initiatives if cost reductions taken are so dramatic as to cause disruptions in our business, reductions in the quality of the services we provide or cause us to fail to comply with applicable regulatory standards. We may be unable to successfully execute on certain growth and other business strategies or achieve certain business goals or objectives if cost reductions are too dramatic. Alternatively, we may not be able to achieve our desired cost savings. In either case our business, results of operations and financial condition could be adversely affected.

Table of Contents

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported assets, liabilities, income and expenses.

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. A description of our critical accounting estimates and assumptions may be found in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and in Note 2 Significant Accounting Policies. If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could materially and adversely affect our business, financial condition and results of operations.

Acquisitions or strategic investments that we pursue may not be successful and could disrupt our business, harm our financial condition or reduce our earnings.

We may consider or undertake strategic acquisitions of, or material investments in, businesses, products, or portfolios of loans. We may not be able to identify suitable opportunities and, if not, some of our strategies could fail. We may not be able to obtain necessary financing on satisfactory terms. We may not be able obtain necessary regulatory approvals or complete the transactions on appropriate terms. If we pay the purchase price of any acquisition or investment in cash, it may have an adverse effect on our financial condition; if the purchase price is paid with our stock, it could be dilutive to our shareholders. We may assume liabilities, including unrecorded liabilities that are not discovered at the time of the transaction, and the repayment of those liabilities may have an adverse effect on our financial condition.

We may not be able to successfully integrate personnel, operations, businesses, products, or technologies of an acquisition. There may be additional risks if we enter into a line of business in which we have limited experience or the business operates in a legal, regulatory or competitive environment with which we are not familiar. We may not have or be able to maintain the expertise needed to manage the new business. Acquisitions and investments also may not perform to our expectations for various reasons, including the loss of key personnel, customers or vendors. If we fail to integrate acquisitions or investments or realize the expected benefits, we may lose the return on these acquisitions or investments or incur additional transaction costs, and our business and financial condition may be harmed as a result.

Competition

We operate in a competitive environment. Our product offerings are primarily concentrated in loan and savings products for higher education.

We compete in the private credit lending business with banks and other consumer lending institutions, many with strong consumer brand name recognition and greater financial resources. We compete based on our products, origination capability and customer service. To the extent our competitors compete aggressively or more effectively, we could lose market share to them or subject our existing loans to refinancing risk. Our product offerings may not prove to be profitable and may result in higher than expected losses.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the marketplace. This concentration also creates risks in our business, particularly in light of our concentrations as a Private Education Loan lender and as a servicer for the FFELP and DSLP. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, if the cost of attendance of higher education decreases, if public resistance to higher education costs increases, or if the demand for higher education loans decreases, our consumer lending business could be negatively affected. In addition, the federal government, through the DSLP, poses significant competition to our private credit loan products. If loan limits under the DSLP increase, DSLP loans could be more widely available to students and their families and DSLP loans could increase, resulting in further decreases in the size of the Private Education Loan market and demand for our Private Education Loan products.

Credit and Counterparty

Unexpected and sharp changes in the overall economic environment may negatively impact the performance of our loan and credit portfolios.

Unexpected changes in the overall economic environment, including unemployment, may result in the credit performance of our loan portfolio being materially different from what we expect. Our earnings are critically dependent on the expected future creditworthiness of our student loan customers. We maintain a reserve for credit losses based on expected future charge-offs which considers many factors, including levels of past due loans and forbearances and expected economic conditions. However, management s determination of the appropriate reserve level may under- or over-estimate future losses. If the credit quality of our customer base materially decreases, if a market risk changes significantly, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations could suffer.

In addition to the credit risk associated with our education loan customers, we are also subject to the creditworthiness of other third parties, including counterparties to our derivative transactions. For example, we have exposure to the financial condition of various lending, investment and derivative counterparties. If any of our counterparties is unable to perform its obligations, we could, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, we might not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment, and thus be exposed to a greater level of interest rate and/or foreign currency exchange rate risk which could lead to additional losses. Our counterparty exposure is more fully discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Counterparty Exposure. If our counterparties are unable to perform their obligations, our business, financial condition and results of operations could suffer.

Legal, Regulatory and Compliance

Delays and continuing uncertainties surrounding the ultimate scope and implementation by regulators of various provisions of the Dodd-Frank Act make us unable to assess the risks and implications that implementation and enforcement of the law or related regulations applicable to our business could have on our profitability, results of operations, financial condition, cash flows or future business prospects.

The Dodd-Frank Act contains comprehensive provisions to govern the practices and oversight of financial institutions (including large non-bank financial institutions) and other participants in the financial markets. It imposes significant regulations on almost every aspect of the U.S. financial services industry, including increased capital and liquidity requirements, limits on leverage and enhanced supervisory authority, and on our various businesses. Many of the Dodd-Frank Act s provisions have become effective but many remain subject to formal implementation by regulatory agencies through final rulemaking. The CFPB and other financial regulators have introduced and continue to introduce new regulations and guidance, even as they impose enforcement actions against financial institutions and financial service providers which often contain additional cautions and guidance which must be taken into consideration. Due to the uncertainty of these pending regulations, guidance and actions, we are unable to predict the nature, extent or impact of any further changes or additions to statutes, regulations or practices. Consequently, we are also not able to estimate their ultimate impact on our financial results, business operations or strategies. We continue to believe our costs of compliance with these evolving laws and regulations, as well as any guidance from enforcement actions, will likely continue to increase, as will the risk of penalties and fines from any enforcement actions that may be imposed on our businesses. Consequently, our profitability, results of operations, financial condition, cash flows or future business prospects could be materially and adversely affected as a result.

The CFPB is now exercising the full authority provided to it by the Dodd-Frank Act although much uncertainty remains about how this authority will be implemented or utilized. A number of our businesses will likely be subject to new rules and regulations not yet proposed or finalized and we may face complaints and challenges to our practices from the CFPB or state regulatory counterparts.

In July 2011, responsibility for many consumer financial protection functions formerly assigned to the federal banking and other agencies were transferred to the CFPB. The CFPB now has broad authority with respect to many of the businesses in which we engage. It has authority to write regulations under federal consumer financial protection laws, and to directly or indirectly enforce those laws and examine financial institutions for compliance. Moreover, the CFPB has examination and enforcement authority with respect to certain federal consumer financial laws for some providers of consumer financial products and services, including the Bank. It is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. The CFPB has authority to prevent unfair, deceptive or abusive acts or practices and to ensure that all consumers have access to fair, transparent and competitive markets for consumer financial products and services. The review of products and practices to prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB and banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain, but it has resulted in, and could continue to result in, changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

The Dodd-Frank Act authorizes state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act s general prohibition against unfair, deceptive or abusive practices, and makes it more difficult than in the past for federal financial regulators to declare state laws that differ from federal standards preempted. To the extent states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB, our compliance costs could increase and reduce our ability to offer the same products and services to consumers nationwide and we may be subject to a higher risk of state enforcement actions.

The scope and profitability of our businesses remain subject to risks arising from legislative and administrative actions. We cannot estimate the timing, method of implementation or likelihood of passage of any of the Congressional or administrative proposals that may affect our businesses, nor anticipate their ultimate content. However, the adoption and implementation of any such proposals, individually or in combination, could significantly increase our costs, affect our ability to service and collect loans, significantly alter whether or not we remain in certain businesses and the form in which we do so and materially and adversely impact our business, financial condition and results of operations.

Private Education Loans

The CFPB s July 2012 Report on this industry provided a number of recommendations including mandatory school certification that loan amounts not exceed student need, reconsideration by Congress of federal Bankruptcy Code s treatment of Private Education Loans and determine if more and better information is needed to inform consumer decision-making and lender underwriting. In the future Congress or the Administration may act on these recommendations or choose to take actions beyond or unrelated to the CFPB s recommendations to further regulate the Private Education Loan market or dictate the terms and conditions applicable to Private Education Loans. The taking of any such actions may adversely impact the profitability and growth of our business and/or significantly alter the costs and manner in which we choose to conduct this business.

FFELP Loans and FFELP-Related Services

Despite the end of FFELP, Congress, ED and the Administration still exercise significant authority over the servicing and administration of existing FFELP Loans. Because of the ongoing uncertainty around efforts to reduce the federal budget deficit, the timing, method and manner of implementation of various education lending initiatives has become less predictable. For example, in early 2012 the Administration by executive authority implemented a Special Direct Consolidation Loan Initiative, which had initially been included in the Administration s 2011 budget not passed by Congress. This initiative provided a temporary incentive to certain borrowers to consolidate their FFELP Loans into the DSLP program by providing interest rate reductions on FFELP loans eligible for consolidation. This program ended on June 30, 2012. Approximately $5 billion of our loans were consolidated to ED in 2012 under this initiative. The President s fiscal 2014 budget is expected to be released in March. Previous budgets included a number of education lending-related initiatives, including a proposed reduction in payments by ED to service providers assisting students with the rehabilitation of defaulted FFELP Loans. If proposals such as these are included in the 2014 budget and passed by Congress, they have the potential to reallocate federal funding and appropriations in ways that could be detrimental to our businesses.

For additional information on the potential implications of Congressional and Administration actions with respect to federal budget funding generally, see Item 1A Risk Factors Operations Federal funding constraints and spending policy changes triggered by associated federal spending deadlines may result in disruption of federal payments for services we provide to the government, which could materially and adversely affect our business strategy or future business prospects.

Consumer Banking

Banks chartered as industrial banks under various state laws have long been statutorily exempt from the requirements of the Bank Holding Company Act of 1956, as amended (the BHCA). Our Bank is an industrial bank chartered under the laws of the state of Utah, regulated by the UDFI and the FDIC, and whose deposits are insured by the FDIC. Various federal banking authorities, including the FRB and the FDIC, as well as members of Congress, have frequently objected to the continuation of the statutory exemption of industrial banks from the BHCA and the FDIC has, from time to time, voluntarily placed moratoriums on accepting new applications for federal deposit insurance by industrial banks. The Dodd-Frank Act statutorily placed a moratorium on the approval of new applications for federal deposit insurance and on certain changes in control of existing industrial banks. This moratorium will expire in July 2013. We have no way of knowing whether this statutory moratorium will be further extended legislatively by Congress or administratively by the FDIC or whether its expiration will lead to reconsideration and revisions to the manner in which industrial banks are regulated. If the industrial bank exemption to the BHCA were to be repealed, the costs of SLM Corporation becoming and remaining compliant with the provisions of the BHCA, including the new minimum capital requirements imposed on us at the consolidated level, would be material. If the BHCA were determined to be applicable to SLM Corporation it would become subject to the same prudential and regulatory standards described below applicable to bank holding companies with $50 billion or more in consolidated assets. Being subjected to these requirements would have a material impact on our business, results of operations and financial condition.

The FSOC could designate SLM Corporation as a systemically important non-bank financial company to be supervised by the FRB. Designation of SLM Corporation as a so-called SIFI would impose significant additional statutorily defined monitoring and compliance regimes on our business and could significantly increase the levels of risk-based capital and highly liquid assets we are required to hold. Required implementation of some or all of the measures currently proposed by the FRB to be applicable to SIFIs would have a material impact on our business, results of operations and financial condition.

As directed by the Dodd-Frank Act, on April 3, 2012, FSOC approved the final rule and interpretive guidance regarding the designation of non-bank financial companies as SIFIs. If designated as a SIFI, a non-bank financial company will be supervised by the FRB and be subject to enhanced prudential supervision and regulatory standards. The new rule sets forth a three-stage determination process for designating non-bank SIFIs. In Stage 1, FSOC would apply a set of uniform quantitative criteria to determine the non-bank financial companies that will be subject to further evaluation. Based on its financial condition as of December 31, 2012, SLM Corporation would meet the criteria in Stage 1 and would be subject to further evaluation by FSOC in the SIFI determination process. Because Stages 2 and 3 involve qualitative judgment by FSOC, we cannot predict

Table of Contents

whether SLM Corporation will be designated as a SIFI under the rule. For a further discussion of our belief as to the limited risk SLM Corporation poses to the financial stability of the United States, see Item 1 Business Supervision and Regulation Regulatory Outlook Regulation of Systemically Important Non-Bank Financial Companies.

In December 2011, the FRB proposed enhanced prudential supervisory and regulatory standards that would require bank holding companies with $50 billion or more in consolidated assets, as well as SIFIs, to, among other things:

- Have a minimum Tier 1 common risk-based capital ratio of 5 percent and under stressed conditions pursuant to the FRB s capital plan rule, meet the bank regulatory capital and leverage requirements applicable to bank holding companies, subject to any case-by-case exceptions as the FRB might approve;
- Comply with formal regulatory liquidity standards and hold highly liquid assets on hand sufficient to survive a projected 30-day liquidity stress event;
- Be subject to new liquidity risk management and governance requirements, approval of liquidity risk models, and implementation of liquidity monitoring and compliance regimes;
- Employ a chief risk officer to report directly to the chief executive officer and maintain a designated risk committee of the Board of Directors;
- Be subject to periodic company and FRB-run supervisory stress tests; and
- Periodically report to the FDIC and FRB on plans for rapid and orderly resolution of company affairs in the event of a material financial distress or failure.

We are not currently subject to consolidated capital requirements though we maintain significantly higher capital levels against our Private Education Loans. Unless an exception were made to recognize the unique, federally insured nature of FFELP Loans, if we were designated as a SIFI or a bank holding company with $50 billion or more in consolidated assets, our capital requirements would significantly increase. While we maintain our own contingency funding plans and conduct our own internal periodic stress tests, we have never been subject to an FRB supervised stress test nor have we developed a plan for orderly resolution of the scope and magnitude currently being demanded of large bank holding companies. Complying with these measures and implementing any or all of these monitoring and compliance requirements could significantly increase our cost of doing business and the levels of capital and liquidity we are required to hold and, consequently, have a material and adverse impact on our business, results of operations and financial condition.

Our businesses are regulated by various state and federal laws and regulations, and our failure to comply with these laws and regulations may result in significant costs, sanctions, litigation or the loss of insurance and guarantees on affected FFELP Loans.

Our businesses are subject to numerous state and federal laws and regulations and our failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions. In addition, changes to such laws and regulations could adversely impact our business and results of operations if we are not able to adequately mitigate the impact of such changes.

Our consumer lending and debt collection businesses are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection. In addition, in October 2012, the CFPB issued its final debt collection larger participation rule and examination procedures that will allow the CFPB to federally supervise larger consumer debt collectors for the first time, including our collection subsidiaries. Some state attorneys general continue to be active in this area of consumer protection regulation. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators as well as frequent litigation from private plaintiffs.

Table of Contents

The Bank is subject to state and FDIC regulation, oversight and regular examination, including by the CFPB. The FDIC and state regulators have the authority to impose fines, penalties or other limitations on the Bank s operations should they conclude that its operations are not compliant with applicable laws and regulations. At the time of this filing, the Bank is subject to a cease and desist order for weaknesses in its compliance function. While we believe the issues addressed in the order have largely been remediated, the order has not yet been lifted. Our failure to comply with various laws and regulations or with the terms of the cease and desist order or to have issues raised during an examination could result in litigation expenses, fines, business sanctions, and limitations on our ability to fund our Private Education Loans, which are currently funded by deposits raised by the Bank, or restrictions on the operations of the Bank. The imposition of fines, penalties or other limitations on the Bank s business could materially and adversely impact our business, financial condition and results of operations.

Loans serviced under the FFELP are subject to the HEA and related regulations. Our servicing operations are designed and monitored to comply with the HEA, related regulations and program guidance; however, ED could determine that we are not in compliance for a variety of reasons, including that we misinterpreted ED guidance or incorrectly applied the HEA and its related regulations or policies. Failure to comply could result in fines, the loss of the insurance and related federal guarantees on affected FFELP Loans, expenses required to cure servicing deficiencies, suspension or termination of our right to participate as a servicer, negative publicity and potential legal claims. A summary of the FFELP may be found in Appendix A Federal Family Education Loan Program. The imposition of significant fines, the loss of the insurance and related federal guarantees on a material number of FFELP Loans, the incurrence of additional expenses and/or the loss of our ability to participate as a FFELP servicer could individually or in the aggregate have a material, negative impact on our business, financial condition or results of operations.

Our ability to continue to grow our businesses related to contracting with state and federal governments is partly reliant on our ability to remain compliant with the laws and regulations applicable to those contracts.

We are subject to a variety of laws and regulations related to our government contracting businesses, including our contracts with ED. In addition, these government contracts are subject to termination rights, audits and investigations. If we were found in noncompliance with the contract provisions or applicable laws or regulations, or the government exercised its termination or other rights for that or other reasons, our reputation could be negatively affected, and our ability to compete for new contracts could be diminished. If this were to occur, the future prospects, revenues and results of operations of this portion of our business could be negatively affected.

Our framework for managing risks may not be effective in mitigating our risk of loss.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, monitor, control and report the types of risk to which we are subject. We seek to monitor and control our risk exposure through a framework of policies, procedures, limits and reporting requirements. Management of risks in some cases depends upon the use of analytical and/or forecasting models. If the models that we use to mitigate these risks are inadequate, we may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and our financial condition and results of operations could be materially adversely affected.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

The following table lists the principal facilities owned by us as of December 31, 2012:

Location	Function	Business Segment(s)	Approximate Square Feet
Fishers, IN	Loan Servicing and Data Center	Consumer Lending; Business Services; FFELP Loans	450,000
Newark, DE	Headquarters	Consumer Lending; Business Services; FFELP Loans; Other	160,000
Wilkes-Barre, PA	Loan Servicing Center	Consumer Lending; Business Services; FFELP Loans	133,000
Indianapolis, IN	Loan Servicing Center	Business Services	100,000
Big Flats, NY	GRC Collections Center	Business Services	60,000
Arcade, NY[1]	Pioneer Credit Recovery Collections Center	Business Services	46,000
Perry, NY	Pioneer Credit Recovery Collections Center	Business Services	45,000

(1) In 2005, we entered into a ten-year lease with the Wyoming County Industrial Development Authority. This property reverts back to us in March 2015.

The following table lists the principal facilities leased by us as of December 31, 2012:

Location	Function	Business Segment(s)	Approximate Square Feet
Reston, VA	Administrative Offices	Consumer Lending; Business Services; FFELP Loans; Other	90,000
Newark, DE	Sallie Mae Operations Center	Consumer Lending; Business Services; Other	86,000
Niles, IL[1]	N/A	N/A	84,000
Newton, MA	Upromise	Business Services	78,000
Cincinnati, OH	GRC Headquarters and Collections Center	Business Services	59,000
Muncie, IN	Collections Center	Consumer Lending; Business Services	54,000
Moorestown, NJ	Pioneer Credit Recovery Collections Center	Business Services	30,000
Kansas City, MO	Upromise	Business Services	21,000
Whitewater, WI[2]	N/A	N/A	16,000
Salt Lake City, UT	Sallie Mae Bank	Consumer Lending	11,000

(1) Space vacated in 2011. Lease expires July 2013.

(2) Space vacated in 2010 and space is partially subleased. Lease expires June 2014.

None of the facilities that we own is encumbered by a mortgage. We believe that our headquarters, loan servicing centers, data center, back-up facility and data management and collections centers are generally adequate to meet our long-term student loan and business goals. Our headquarters are currently in owned space at 300 Continental Drive, Newark, Delaware, 19713.

Table of Contents

Item 3. Legal Proceedings
Investor Litigation

In Re SLM Corporation ERISA Litigation. On May 8, 2008, a class action complaint was filed in U.S. District Court for the Southern District of New York against the Company, certain current and former officers, retirement plan fiduciaries, and the Board of Directors of the Company, formerly in the U.S. District Court for the Southern District of New York. The complaint alleged breaches of fiduciary duties and prohibited transactions in violation of the Employee Retirement Income Security Act arising out of alleged false and misleading public statements regarding our business made during the 401(K) Class Period and investments in our common stock by plan participants in the 401(K) Plans. The class consists of participants in or beneficiaries of the Sallie Mae 401(K) Retirement Savings Plan and Sallie Mae 401(k) Savings Plan (together, the 401K Plans) between January 18, 2007 and the present whose accounts included investments in our common stock (401K Class Period). On September 24, 2010, the District Court dismissed the complaint. The Plaintiffs appealed to the U.S. Court of Appeals for the Second Circuit; however, on December 26, 2012, the Second Circuit affirmed the District Court s dismissal of the complaint.

Lending and Collection Litigation and Investigations

Mark A. Arthur et al. v. Sallie Mae, Inc. On February 2, 2010, a class action lawsuit was filed by a borrower in U.S. District Court for the Western District of Washington alleging that we contacted consumers on their cellular telephones via autodialer without their consent in violation of the Telephone Consumer Protection Act, 47 U.S.C. § 227 et seq. (TCPA). On October 7, 2011, we entered into an amended settlement agreement under which the Company agreed to a settlement fund of $24.15 million. On December 5, 2012, the U.S. Court of Appeals for the Ninth Circuit dismissed an appeal filed by two individual objectors. We have denied vigorously all claims asserted against us, but agreed to settle to avoid the burden, expense, risk and uncertainty of continued litigation.

We and our subsidiaries and affiliates also are 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 our reports to credit bureaus. In addition, our collections subsidiaries are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that those subsidiaries have violated a federal or state law in the process of collecting their accounts. We believe that these claims, lawsuits and other actions will not have a material adverse effect on our business, financial condition or results of operations. Finally, from time to time, we and our subsidiaries and affiliates receive information and document requests from state attorneys general, legislative committees and administrative agencies concerning certain business practices. Our practice has been and continues to be to cooperate with these bodies and to be responsive to any such requests.

Item 4. Mine Safety Disclosures
N/A

Table of Contents

PART II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the NASDAQ Global Select Market under the symbol SLM since December 12, 2011. Previously, our common stock was listed and traded on the New York Stock Exchange. As of January 31, 2013, there were 453,341,352 shares of our common stock outstanding and 451 holders of record. The following table sets forth the high and low sales prices for our common stock for each full quarterly period within the two most recent fiscal years.

Common Stock Prices

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2012	High	$ 16.89	$ 15.96	$ 16.94	$ 17.99
	Low	13.11	12.85	15.07	15.75
2011	High	$ 15.60	$ 17.11	$ 17.11	$ 14.53
	Low	12.61	14.40	11.60	10.91

We paid quarterly cash dividends on our common stock of $.10 per share for the last three quarters of 2011, and $.125 per share for the four quarters of 2012.

Issuer Purchases of Equity Securities

The following table provides information relating to our purchase of shares of our common stock in the three months ended December 31, 2012.

(In millions, except per share data)	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs[2]
Period:				
October 1 October 31, 2012	5.8	$ 17.06	5.4	$ 79
November 1 November 30, 2012	4.8	17.57	4.5	
December 1 December 31, 2012	.1	17.00		
Total fourth quarter	10.7	$ 17.29	9.9	

(1) The total number of shares purchased includes: (i) shares purchased under the stock repurchase program discussed below and (ii) shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercise of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.

(2) On January 26, 2012, our board of directors authorized us to purchase up to $500 million of shares of our common stock. An additional $400 million of purchases was authorized on May 24, 2012.

Table of Contents

Stock Performance

The following graph compares the yearly change in our cumulative total shareholder return on our common stock to that of Standard & Poor s 500 Stock Index and Standard & Poor s Financials Index. The graph assumes a base investment of $100 at December 31, 2007 and reinvestment of dividends through December 31, 2012.

Five Year Cumulative Total Shareholder Return

Company/Index	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
SLM Corporation	$ 100.0	$ 44.2	$ 56.0	$ 62.5	$ 67.9	$ 89.7
S&P 500 Financials	100.0	44.7	52.4	58.8	48.8	62.9
S&P Index	100.0	63.0	79.7	91.7	93.6	108.6

Source: Bloomberg Total Return Analysis

Table of Contents

Item 6. Selected Financial Data

Selected Financial Data 2008-2012

(Dollars in millions, except per share amounts)

The following table sets forth our selected financial and other operating information prepared in accordance with GAAP. The selected financial data in the table is derived from our consolidated financial statements. The data should be read in conjunction with the consolidated financial statements, related notes, and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

	2012	2011	2010	2009	2008
Operating Data:					
Net interest income	$ 3,208	$ 3,529	$ 3,479	$ 1,723	$ 1,365
Net income (loss) attributable to SLM Corporation:					
Continuing operations, net of tax	$ 938	$ 600	$ 597	$ 544	$ 2
Discontinued operations, net of tax	1	33	(67)	(220)	(215)
Net income (loss) attributable to SLM Corporation	$ 939	$ 633	$ 530	$ 324	$ (213)
Basic earnings (loss) per common share attributable to SLM Corporation:					
Continuing operations	$ 1.93	$ 1.13	$ 1.08	$ .85	$ (.23)
Discontinued operations		.06	(.14)	(.47)	(.46)
Total	$ 1.93	$ 1.19	$ .94	$ .38	$ (.69)
Diluted earnings (loss) per common share attributable to SLM Corporation:					
Continuing operations	$ 1.90	$ 1.12	$ 1.08	$ .85	$ (.23)
Discontinued operations		.06	(.14)	(.47)	(.46)
Total	$ 1.90	$ 1.18	$ .94	$ .38	$ (.69)
Dividends per common share attributable to SLM Corporation common shareholders	$ .50	$ .30	$	$	$
Return on common stockholders equity	21%	14%	13%	5%	(9)%
Net interest margin	1.78	1.85	1.82	1.05	.93
Return on assets	.52	.33	.28	.20	(.14)
Dividend payout ratio	26	25			
Average equity/average assets	2.69	2.54	2.47	2.96	3.45
Balance Sheet Data:					
Student loans, net	$ 162,546	$ 174,420	$ 184,305	$ 143,807	$ 144,802
Total assets	181,260	193,345	205,307	169,985	168,768
Total borrowings	172,257	183,966	197,159	161,443	160,158
Total SLM Corporation stockholders equity	5,060	5,243	5,012	5,279	4,999
Book value per common share	9.92	9.20	8.44	8.05	7.03
Other Data:					
Off-balance sheet securitized student loans, net	$	$	$	$ 32,638	$ 35,591

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis also contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in Forward-Looking and Cautionary Statements and Item 1A Risk Factors in this Annual Report on Form 10-K.

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

Overview

Our primary business is to originate, service and collect loans we make to students and their families to finance the cost of education. The core of our marketing strategy is to generate student loan originations by promoting our products on campus through the financial aid office and through direct marketing to students and their families. We also provide servicing, loan default aversion and defaulted loan collection services for loans owned by other institutions, including ED, as well as providing processing capabilities to educational institutions, 529 college-savings plan program management services and a consumer savings network.

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

We monitor and assess our ongoing operations and results based on the following four reportable segments:

(1) Consumer Lending, (2) Business Services, (3) FFELP Loans and (4) Other.

Consumer Lending Segment

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

Business Services Segment

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio. We also provide servicing, loan default aversion and defaulted loan collection services for loans on behalf of Guarantors of FFELP Loans and other institutions, including ED, as well as processing capabilities to educational institutions and 529 college-savings plan programs. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

FFELP Loans Segment

Our FFELP Loans segment consists of our $125.6 billion FFELP Loan portfolio and underlying debt and capital funding these loans. Even though FFELP Loans are no longer originated we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

Table of Contents

Other

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

Key Financial Measures

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

Net Interest Income

The most significant portion of our earnings is generated by the spread earned between the interest income we receive on assets in our student loan portfolios and the interest expense on debt funding these loans. We report these earnings as net interest income. Net interest income in our Consumer Lending and FFELP Loans segments are driven by significantly different factors.

Consumer Lending Segment

Net interest income in this segment is determined by the balance of Private Education Loans outstanding, Private Education Loan asset yields (determined by interest rates we establish based upon the credit of the customer and any cosigner) and the level of price competition in the Private Education Loan market less our cost of funds. As of December 31, 2012, we had $36.9 billion of Private Education Loans outstanding. In 2012, we originated $3.3 billion of Private Education Loans, up 22 percent from $2.7 billion in the prior year. The majority of our Private Education Loans earn variable rate interest and are funded primarily with variable rate liabilities. The Consumer Lending segment s Core Earnings net interest margin was 4.13 percent in 2012 compared with 4.09 percent in 2011. Our cost of funds can be influenced by a number of factors including the quality of the loans in our portfolio, our corporate credit rating, general economic conditions, investor demand for Private Education Loan asset-backed securities (ABS) and corporate unsecured debt and competition in the deposit market. At December 31, 2012, 52 percent of our Private Education Loan portfolio was funded to term with non-recourse, long-term securitization debt.

FFELP Loans Segment

Net interest income will be the primary source of cash flow generated by this segment over the next 20 years as this portfolio amortizes. Interest earned on our FFELP Loans is indexed to one-month LIBOR rates and our cost of funds is primarily indexed to three-month LIBOR, creating the possibility of repricing risk related to these assets. The FFELP Loans segment s Core Earnings net interest margin was 0.84 percent in 2012 compared with 0.98 percent in 2011.

The major source of variability in net interest income is expected to be Floor Income we earn on certain FFELP Loans. Pursuant to the terms of the FFELP, certain FFELP Loans continue to earn interest at the stated fixed rate of interest as underlying debt costs decrease. We refer to this additional spread income as Floor Income. Floor Income can be volatile. We frequently hedge this volatility by selling Floor Income Contracts which lock in the value of the Floor Income over the term of the contract.

At December 31, 2012, 82 percent of our FFELP Loan portfolio was funded to term with non-recourse, long-term securitization debt.

Provisions for Loan Losses

Management estimates and maintains an allowance for loan losses at a level sufficient to cover charge-offs expected over the next two years, plus an additional allowance to cover life-of-loan expected losses for loans classified as a troubled debt restructuring (TDR). The provision for loan losses increases the related allowance for loan losses. Generally, the allowance for loan losses rises when charge-offs are expected to increase and falls when charge-offs are expected to decline. Our loss exposure and resulting provision for losses is small for FFELP Loans because we generally bear a maximum of three percent loss exposure on them. We bear the full credit exposure on our Private Education Loans. Our provision for losses in our FFELP Loans segment was $72 million in 2012 compared with $86 million in 2011. Losses in our Consumer Lending segment are determined by risk characteristics such as school type, loan status (in-school, grace, forbearance, repayment and delinquency), loan seasoning (number of months in active repayment), underwriting criteria (e.g., credit scores), a cosigner and the current economic environment. Our provision for loan losses in our Consumer Lending segment was $1.0 billion in 2012 compared with $1.2 billion in 2011.

Charge-Offs and Delinquencies

When we conclude a loan is uncollectible, the unrecoverable portion of the loan is charged against the allowance for loan losses in the applicable segment. Charge-off data provides relevant information with respect to the performance of our loan portfolios. Management focuses on delinquencies as well as the progression of loans from early to late stage delinquency. The Consumer Lending segment s charge-off rate was 3.37 percent of loans in repayment in 2012 compared with 3.72 percent of loans in repayment in 2011. Delinquencies are a very important indicator of the potential future credit performance. Private Education Loan delinquencies as a percentage of Private Education Loans in repayment decreased from 10.1 percent at December 31, 2011 to 9.3 percent at December 31, 2012.

Servicing and Contingency Revenues

We earn servicing revenues from servicing student loans, Campus Solutions, and from account asset servicing related to 529 college-savings plans. We earn contingency revenue related to default aversion and contingency collections work we perform primarily on federal loans. The fees we recognize are primarily driven by our success in collecting or rehabilitating defaulted loans, the number of transactions processed and the underlying volume of loans we are servicing on behalf of others.

Other Income / (Loss)

In managing our loan portfolios and funding sources we periodically engage in sales of loans and the repurchase of our outstanding debt. In each case, depending on market conditions, we may incur gains or losses from these transactions that affect our results from operations.

Operating Expenses

The operating expenses reported for our Consumer Lending and Business Services segments are those that are directly attributable to the generation of revenues by those segments. The operating expenses for the FFELP Loans segment primarily represent an intercompany servicing charge from the Business Services segment and do not reflect our actual underlying costs incurred to service the loans. We have included corporate overhead expenses and certain information technology costs (together referred to as Overhead) in our Other segment rather than allocate those expenses by segment. Overhead expenses include executive management, the board of directors, accounting, finance, legal, human resources, stock-based compensation expense and certain information technology and infrastructure costs.

Table of Contents

Core Earnings

We report financial results on a GAAP basis and also present certain Core Earnings performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these Core Earnings measures to monitor our business performance. Core Earnings is the basis in which we prepare our segment disclosures as required by GAAP under ASC 280 Segment Reporting (see Note 16 Segment Reporting). For a full explanation of the contents and limitations of Core Earnings, see Core Earnings Definition and Limitations of this Item 7.

2012 Summary of Results

We operate in a challenging economic environment marked by high unemployment and uncertainty which adds uncertainty to Private Education Loan collectibility. On July 1, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA) eliminated FFELP Loan originations, a major source of our net income. All federal loans to students are now made through the DSLP.

Our 2012 accomplishments are discussed below.

GAAP 2012 net income was $939 million ($1.90 diluted earnings per share), versus net income of $633 million ($1.18 diluted earnings per share) in the prior year. The changes in GAAP net income are driven by the same Core Earnings items discussed below as well as changes in mark-to-market unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in Core Earnings results. In 2012 and 2011, GAAP results included losses of $194 million and $540 million, respectively, resulting from derivative accounting treatment which is excluded from Core Earnings results.

Core Earnings for the year were $1.06 billion compared with $977 million in 2011. Core Earnings were up due to an $81 million increase in debt repurchase gains, a $215 million lower loan loss provision and a $104 million reduction in operating expenses, offset in part by a $246 million decrease in net interest income.

During 2012, we raised $2.7 billion of unsecured debt and issued $9.7 billion of FFELP ABS and $4.2 billion of Private Education Loan ABS. We also repurchased $711 million of debt and realized Core Earnings gains of $145 million in 2012, compared with $894 million and $64 million, respectively, in 2011.

2012 Management Objectives

In 2012 we set out five major goals to create shareholder value. They were: (1) prudently grow Consumer Lending segment assets and revenue; (2) sustain Business Services segment revenue; (3) maximize cash flows from FFELP Loans; (4) reduce our operating expenses; and (5) improve our financial strength. We believe we achieved each of these objectives in 2012. The following describes our performance relative to each of our 2012 goals.

Prudently Grow Consumer Lending Segment Assets and Revenues

We continued to pursue managed growth in our Private Education Loan portfolio in 2012, exceeding our target with $3.3 billion in new originations for the year compared with $2.7 billion in 2011, a 22 percent increase. The average FICO score of our 2012 originations was 748 and 90 percent of the originated loans were cosigned. We have reduced our Private Education Loan charge-off rate and provision for loan losses in the three years since 2009. For the year ended December 31, 2012 compared with the year ended December 31, 2009, Core Earnings charge-off rates (as a percentage of loans in repayment) and Core Earnings provision for loan losses declined by 43 percent and 28 percent, respectively.

Core Earnings net interest margin increased from 4.09 percent to 4.13 percent. Charge-offs decreased to 3.37 percent of loans in repayment from 3.72 percent in 2011. Provision for loan losses decreased to $1.01 billion from $1.18 billion in 2011.

Table of Contents

Sustain Business Services Segment Revenue

Our Business Services segment generates the majority of its net income from servicing and collecting on our FFELP Loan portfolio and FFELP Loans for others. As a result of the elimination of FFELP in 2010, these revenues are in decline. In 2012 we worked to offset these declines through two primary means pursuing additional growth and expansion of our non-FFELP-related servicing and collection businesses and seeking to increase the FFELP-related loan servicing and collection work we do for third parties. In 2012 we also targeted significant growth in the total assets under management in our 529 college-savings plans. For the year ended December 31, 2012, our Business Services segment revenue was down 5 percent from the year-ago period primarily due to the amortization of our FFELP Loan portfolio. While we considered several servicing acquisitions beyond the education loan market we chose not to pursue them. Nonetheless, in 2012 we did achieve meaningful growth in a number of Business Services activities:

- We are currently servicing approximately 4.3 million accounts under the ED Servicing Contract as of December 31, 2012 compared to 3.6 million accounts at December 31, 2011. Market share under the ED Servicing Contract is set annually based on the performance rankings of the four servicing companies that are parties to the contracts. For the current contract year ending August 15, 2013, our allocation of new customer loans awarded under the ED Servicing Contract is 15 percent. We are not pleased with our overall 2012 performance ranking and must remain focused on improving our performance relative to other servicers to increase our allocation for the next contract year. We plan to make these improvements by maintaining our focus on remaining a top performer in helping borrowers repay their loans and enhancing our customer experience, as further discussed below in our 2013 Management Objectives.

- We provide collection services on defaulted student loans to ED. There are 21 other collection providers, of which we compete with 16 other providers for account allocation based on quarterly performance metrics. As a consistent top performer, first in the last quarterly performance metric, our share of allocated accounts has ranged from six percent to eight percent.

Maximize Cash Flows from FFELP Loans

In 2012 we continued to purchase FFELP Loan portfolios from others. As cash flows from our existing FFELP Loans decline it becomes increasingly important that we reduce operating and overhead costs attributable to this segment. During 2012, we purchased $3.7 billion of FFELP Loans. We expect to make additional purchases during 2013. These acquisitions partially offset the approximately $5.2 billion of loans that were consolidated to ED in 2012 as part of their Special Direct Consolidation Loan Initiative (SDCL). See Business Segment Earnings Summary Core Earnings Basis FFELP Loans Segment for further discussion regarding the effect of the Special Direct Consolidation Loan Initiative.

Reduce Operating Expenses

In 2012 we remained focused on reducing operating expenses and achieved our 2012 cost-reduction goals. Our 2012 operating expenses were $996 million, a reduction from the $1.1 billion incurred in 2011.

Improve Our Financial Strength

It was management s objective for 2012 to provide increased shareholder distributions while at the same time ending 2012 with a balance sheet and capital position as strong as or stronger than those with which we ended in 2011. We increased our regular quarterly common stock dividends to $0.125 per share in 2012, up from $0.10 per share for the last three quarters of 2011. During the year ended December 31, 2012, we repurchased 58 million shares of common stock, fully utilizing all $900 million of existing share repurchase authorizations. We did so while achieving $2.16 diluted Core Earnings per common share and maintaining our strong balance sheet and capital positions.

In 2012 we issued $9.7 billion in FFELP ABS, $4.2 billion in Private Education Loan ABS and $2.7 billion of unsecured bonds, while reducing our total debt to $169 billion at December 31, 2012, compared to $181 billion at December 31, 2011.

2013 Outlook

In 2013, we expect to continue the operating strength we demonstrated in 2012. We plan to increase 2013 Core Earnings, including in our Consumer Lending segment primarily through increasing loan originations, improving Private Education Loan portfolio performance and reducing our unit costs. Credit losses within our Private Education Loan portfolio are primarily driven by the quality of loan originations and the general economic environment. We believe Private Education Loan charge-offs and provision for loan losses will continue their downward trend. The fourth-quarter 2012 repayment cohort, at $1.7 billion, had better FICO scores and higher cosigner rates than in previous years which should result in lower future losses. The underlying portfolio has continued to improve with 65 percent of the loans cosigned, less than 9 percent non-traditional and 79 percent of our customers currently in repayment greater than 12 months for which a scheduled monthly payment was due. In addition, the loans originated in 2012 had an average FICO score of 748 and were 90 percent cosigned; these statistics are our highest ever for an annual loan origination cohort.

We expect to remain an active participant in the capital markets in 2013. Our term ABS activity will feature multiple transactions backed by both FFELP collateral, primarily reducing the ED Conduit Program Facility (see Note 6, Borrowings), as well as Private Education Loan collateral. Recent transactions in all of the above mentioned categories have been met with strong demand and provide term financing which is a key component of our business model.

2013 Management Objectives

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

Prudently Grow Consumer Lending Segment Assets and Revenues

We will continue to pursue managed growth in our Private Education Loan portfolio in 2013 by leveraging our Sallie Mae and Upromise brand while sustaining the credit quality of, and percentage of cosigners for, new originations. We are currently targeting at least $4 billion in new loan originations for 2013, compared with $3.3 billion in 2012. We will also continue to help our customers manage their borrowings and succeed in its payoff, which we expect will result in lower charge-offs and provision for loan losses.

Maximize Cash Flows from FFELP Loans

In 2013, we will continue to purchase additional FFELP Loan portfolios. In February 2013, we sold our ownership interest in one of our FFELP Consolidation Loan securitization trusts. We will continue to explore alternative transactions and structures that can increase our ability to maximize the value of our ownership interests in these trusts and allow us to diversify our holdings while maintaining servicing fee income. We must also continue to reduce operating and overhead costs attributable to the maintenance and management of this segment.

Reduce Operating Expenses While Improving Efficiency and Customer Experience

For 2013, we will reduce unit costs, and balance our Private Education Loan growth and the challenge of increased regulatory oversight. We also plan to improve efficiency and customer experience by replacing certain of our legacy systems and making enhancements to our self-service platform (such as an improved mobile interface) and call centers (including improved call segmentation that routes an in-bound customer call directly to the appropriate agent who can answer the customer s inquiry).

Maintain Our Financial Strength

In January 2013, we announced an increase in our quarterly common stock dividend to $0.15 per share and a new $400 million common share repurchase program. It is management s objective for 2013 to provide these shareholder distributions while ending 2013 with capital and reserve positions as strong as those with which we ended 2012. We also plan to continue to issue FFELP ABS primarily to refinance our remaining FFELP loans in ED s Conduit Program prior to the Conduit Program s January 19, 2014 maturity date.

Expand Bank Capabilities

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

Results of Operations

We present the results of operations first on a consolidated basis in accordance with GAAP. As discussed earlier, we have four business segments, Consumer Lending, Business Services, FFELP Loans and Other. Since these segments operate in distinct business environments, the discussion following the Consolidated Earnings Summary is presented on a segment basis and is shown on a Core Earnings basis. See Item 1 Business Business Segments for further discussion on the components of each segment.

Table of Contents

GAAP Consolidated Statements of Income

(Dollars in millions, except per share amounts)	Years Ended December 31, 2012	2011	2010	Increase (Decrease) 2012 vs. 2011 $	%	2011 vs. 2010 $	%
Interest income							
FFELP Loans	$ 3,251	$ 3,461	$ 3,345	$ (210)	(6)%	$ 116	3%
Private Education Loans	2,481	2,429	2,353	52	2	76	3
Other loans	16	21	30	(5)	(24)	(9)	(30)
Cash and investments	21	19	26	2	11	(7)	(27)
Total interest income	5,769	5,930	5,754	(161)	(3)	176	3
Total interest expense	2,561	2,401	2,275	160	7	126	6
Net interest income	3,208	3,529	3,479	(321)	(9)	50	1
Less: provisions for loan losses	1,080	1,295	1,419	(215)	(17)	(124)	(9)
Net interest income after provisions for loan losses	2,128	2,234	2,060	(106)	(5)	174	8
Other income (loss):							
Gains (losses) on loans and investments, net		(35)	325	35	(100)	(360)	(111)
Losses on derivative and hedging activities, net	(628)	(959)	(361)	331	(35)	(598)	166
Servicing revenue	376	381	405	(5)	(1)	(24)	(6)
Contingency revenue	356	333	330	23	7	3	1
Gains on debt repurchases	145	38	317	107	282	(279)	(88)
Other income	92	68	6	24	35	62	1,033
Total other income (loss)	341	(174)	1,022	515	(296)	(1,196)	(117)
Expenses:							
Operating expenses	996	1,100	1,208	(104)	(9)	(108)	(9)
Goodwill and acquired intangible assets impairment and amortization expense	28	24	699	4	17	(675)	(97)
Restructuring expenses	12	9	85	3	33	(76)	(89)
Total expenses	1,036	1,133	1,992	(97)	(9)	(859)	(43)
Income from continuing operations, before income tax expense	1,433	927	1,090	506	55	(163)	(15)
Income tax expense	497	328	493	169	52	(165)	(33)
Net income from continuing operations	936	599	597	337	56	2	
Income (loss) from discontinued operations, net of tax expense (benefit)	1	33	(67)	(32)	(97)	100	149
Net income	937	632	530	305	48	102	19
Less: net loss attributable to noncontrolling interest	(2)	(1)		(1)	100	(1)	(100)
Net income attributable to SLM Corporation	939	633	530	306	48	103	19
Preferred stock dividends	20	18	72	2	11	(54)	(75)
Net income attributable to SLM Corporation common stock	$ 919	$ 615	$ 458	$ 304	49%	$ 157	34%
Basic earnings (loss) per common share attributable to SLM Corporation:							
Continuing operations	$ 1.93	$ 1.13	$ 1.08	$ .80	71%	$ .05	5%
Discontinued operations		.06	(.14)	(.06)	(100)	.20	143

Total	$	1.93	$	1.19	$	.94	$	.74	62%	$	.25	27%
Diluted earnings (loss) per common share attributable to SLM Corporation:												
Continuing operations	$	1.90	$	1.12	$	1.08	$	.78	71%	$	.04	4%
Discontinued operations				.06		(.14)		(.06)	(100)		.20	143
Total	$	1.90	$	1.18	$	.94	$	.72	61%	$	.24	26%
Dividends per common share	$	.50	$	.30	$		$	.20	67%	$	.30	100%

37

Table of Contents

Consolidated Earnings Summary GAAP-basis

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

For the years ended December 31, 2012 and 2011, net income was $939 million, or $1.90 diluted earnings per common share, and $633 million, or $1.18 diluted earnings per common share, respectively. The increase in net income was primarily due to a $331 million decrease in net losses on derivative and hedging activities, a $215 million decrease in provisions for loan losses, a $104 million decrease in operating expenses and a $107 million increase in gains on debt repurchases, which more than offset the $321 million decline in net interest income.

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

Net interest income declined by $321 million primarily due to an $11 billion reduction in average FFELP Loans outstanding, higher cost of funds, which were partly due to refinancing debt into longer term liabilities, as well as the impact from the acceleration of $50 million of non-cash loan premium amortization in the second-quarter 2012 related to SDCL (see FFELP Loans Segment for further discussion). The decline in FFELP Loans outstanding was driven by normal loan amortization as well as loans that were consolidated under SDCL.

Provisions for loan losses decreased by $215 million primarily as a result of overall improvements in the credit quality and delinquency trends of the Private Education Loan portfolio. In second-quarter 2012, we increased our focus on encouraging our customers to enter repayment plans in lieu of additional forbearance usage to better help customers manage their overall payment obligations. This change was expected to, and resulted in, an increase in charge-offs in fourth-quarter 2012 which are expected to decline in 2013. See Consumer Lending Segment Private Education Loan Provision for Loan Losses and Charge-offs for a further discussion of this change and impact.

We did not incur any losses on loans and investments in the current year. In 2011, we recorded $26 million of impairment on certain investments in aircraft leveraged leases and a $9 million mark-to-market loss related to classifying our entire $12 million portfolio of non-U.S. dollar-denominated student loans as held-for-sale.

Net losses on derivative and hedging activities decreased by $331 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Gains on debt repurchases increased $107 million. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Operating expenses decreased $104 million primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

Net income from discontinued operations decreased $32 million due to the sale of our Purchased Paper Non-Mortgage portfolio in 2011.

In addition, we repurchased 58.0 million shares and 19.1 million shares of our common stock during the years ended December 31, 2012 and 2011, respectively, as part of our common share repurchase program. Primarily as a result of these repurchases, our average outstanding diluted shares decreased by 40 million common shares.

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010

For the years ended December 31, 2011 and 2010, net income was $633 million, or $1.18 diluted earnings per common share, and $530 million, or $.94 diluted earnings per common share, respectively. The increase in net income for the year ended December 31, 2011 as compared with the prior year period was primarily due to $660 million of goodwill and intangible asset impairment charges, which were partially non-tax deductible, recorded in the year-ago period, a $124 million decrease in the provisions for loan losses, a $100 million increase in income from discontinued operations and $108 million of lower operating expenses. These improvements were partially offset by a $598 million increase in net losses on derivative and hedging activities, a $279 million decrease in gains on debt repurchases and a $360 million decrease in net gains on loans and investments.

The primary contributors to each component of net income for 2011 compared with 2010 are as follows:

Net interest income increased by $50 million primarily from incremental net interest income earned on $25 billion of securitized FFELP loans acquired on December 31, 2010.

Provisions for loan losses decreased by $124 million, as a result of overall improvements in credit quality and delinquency and charge-off trends.

Gains on loans and investments, net, declined $360 million as a result of a $321 million gain recognized in the fourth quarter of 2010 from the sale of FFELP Loans to ED as part of the ED s Loan Purchase Commitment Program (the Purchase Program) which ended in 2010 (see also Note 6, Borrowings). Also, in 2011 we recorded $26 million of impairment on certain aircraft leases and a $9 million mark-to-market loss related to classifying our entire $12 million portfolio of non-U.S. dollar-denominated student loans as held-for-sale.

Net losses on derivatives and hedging activities increased by $598 million primarily due to interest rate and foreign currency fluctuations, affecting the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during the period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivatives and hedging activities may vary significantly in future periods.

Servicing revenue decreased by $24 million primarily due to the end of FFELP in 2010, thereby eliminating Guarantor issuance fees we earn on new FFELP Loans. Outstanding FFELP Loans on which we earn additional fees also declined.

Gains on debt repurchases decreased $279 million as we repurchased less debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Other income increased by $62 million primarily as a result of a $25 million gain from the termination and replacement of a credit card affiliation contract and $27 million from an increase in foreign currency translation gains. The foreign currency translation gains relate to a portion of our foreign currency denominated debt that does not receive hedge accounting treatment. These gains were partially offset by losses on derivative and hedging activities, net line item in the consolidated statements of income related to the derivatives used to economically hedge these debt investments.

Operating expenses decreased $108 million primarily as a result of our on-going cost savings initiative.

Goodwill and acquired intangible assets impairment and amortization expense declined $675 million compared with the prior year primarily due to the $660 million impairment recognized in the third quarter of 2010 in response to the passage of the HCERA, which resulted in the elimination of the FFELP and significantly reduced the future earnings for several of our reporting units.

Restructuring expenses decreased $76 million primarily as a result of the substantial completion of our plan for restructuring initiated in response to legislation ending FFELP in 2010.

The effective tax rates for the years ended December 31, 2011 and 2010 were 35 percent and 45 percent, respectively. The improvement in the effective tax rate was primarily driven by the impact of non-tax deductible goodwill impairments recorded in 2010.

Net income from discontinued operations for the year ended December 31, 2011 was $33 million compared with a net loss from discontinued operations of $67 million for the year ended December 31,

Table of Contents

2010. The change was primarily driven by a $23 million after-tax gain realized from the sale of our Purchased Paper Non-Mortgage portfolio in the third quarter of 2011 compared to $52 million of after-tax impairments recognized in 2010.

Core Earnings Definition and Limitations

We prepare financial statements in accordance with GAAP. However, we also evaluate our business segments on a basis that differs from GAAP. We refer to this different basis of presentation as Core Earnings. We provide this Core Earnings basis of presentation on a consolidated basis for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our Core Earnings basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide Core Earnings disclosure in the notes to our consolidated financial statements for our business segments. For additional information, see Note 16 Segment Reporting.

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

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

Specific adjustments that management makes to GAAP results to derive our Core Earnings basis of presentation are described in detail in the section entitled Core Earnings Definition and Limitations Differences between Core Earnings and GAAP of this Item 7.

The following tables show Core Earnings for each business segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP and reported in Note 16 Segment Reporting.

Table of Contents

	Year Ended December 31, 2012									
								Adjustments		
(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
Interest income:										
Student loans	$ 2,481	$	$ 2,744	$	$	$ 5,225	$ 858	$ (351)	$ 507	$ 5,732
Other loans				16		16				16
Cash and investments	7	10	11	3	(10)	21				21
Total interest income	2,488	10	2,755	19	(10)	5,262	858	(351)	507	5,769
Total interest expense	825		1,591	38	(10)	2,444	115	2[4]	117	2,561
Net interest income (loss)	1,663	10	1,164	(19)		2,818	743	(353)	390	3,208
Less: provisions for loan losses	1,008		72			1,080				1,080
Net interest income (loss) after provisions for loan losses	655	10	1,092	(19)		1,738	743	(353)	390	2,128
Servicing revenue	46	910	90		(670)	376				376
Contingency revenue		356				356				356
Gains on debt repurchases				145		145				145
Other income (loss)		33		15		48	(743)	159[5]	(584)	(536)
Total other income (loss)	46	1,299	90	160	(670)	925	(743)	159	(584)	341
Expenses:										
Direct operating expenses	265	462	702	7	(670)	766				766
Overhead expenses				230		230				230
Operating expenses	265	462	702	237	(670)	996				996
Goodwill and acquired intangible assets impairment and amortization								28	28	28
Restructuring expenses	2	6		4		12				12
Total expenses	267	468	702	241	(670)	1,008		28	28	1,036
Income (loss) from continuing operations, before income tax expense (benefit)	434	841	480	(100)		1,655		(222)	(222)	1,433
Income tax expense (benefit)[3]	156	303	173	(36)		596		(99)	(99)	497
Net income (loss) from continuing operations	278	538	307	(64)		1,059		(123)	(123)	936
Income from discontinued operations, net of tax expense				1		1				1
Net income (loss)	278	538	307	(63)		1,060		(123)	(123)	937
Less: net loss attributable to noncontrolling interest		(2)				(2)				(2)
Net income (loss) attributable to SLM Corporation	$ 278	$ 540	$ 307	$ (63)	$	$ 1,062	$	$ (123)	$ (123)	$ 939

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

(2) Core Earnings adjustments to GAAP:

	Year Ended December 31, 2012		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 390	$	$ 390
Total other loss	(584)		(584)
Goodwill and acquired intangible assets impairment and amortization		28	28
Total Core Earnings adjustments to GAAP	$ (194)	$ (28)	(222)
Income tax benefit			(99)
Net loss			$ (123)

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

(4) Represents a portion of the $42 million of other derivative accounting adjustments.

(5) Represents the $115 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $42 million of other derivative accounting adjustments.

41

Table of Contents

	Year Ended December 31, 2011									
(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Adjustments Reclassifications	Adjustments Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
Interest income:										
Student loans	$ 2,429	$	$ 2,914	$	$	$ 5,343	$ 902	$ (355)	$ 547	$ 5,890
Other loans				21		21				21
Cash and investments	9	11	5	5	(11)	19				19
Total interest income	2,438	11	2,919	26	(11)	5,383	902	(355)	547	5,930
Total interest expense	804		1,472	54	(11)	2,319	71	11[4]	82	2,401
Net interest income	1,634	11	1,447	(28)		3,064	831	(366)	465	3,529
Less: provisions for loan losses	1,179		86	30		1,295				1,295
Net interest income after provisions for loan losses	455	11	1,361	(58)		1,769	831	(366)	465	2,234
Servicing revenue	64	970	85	1	(739)	381				381
Contingency revenue		333				333				333
Gains on debt repurchases				64		64	(26)		(26)	38
Other income (loss)	(9)	70	1	(9)		53	(805)	(174)[5]	(979)	(926)
Total other income (loss)	55	1,373	86	56	(739)	831	(831)	(174)	(1,005)	(174)
Expenses:										
Direct operating expenses	304	482	760	12	(739)	819				819
Overhead expenses				281		281				281
Operating expenses	304	482	760	293	(739)	1,100				1,100
Goodwill and acquired intangible assets impairment and amortization								24	24	24
Restructuring expenses	3	3	1	2		9				9
Total expenses	307	485	761	295	(739)	1,109		24	24	1,133
Income (loss) from continuing operations, before income tax expense (benefit)	203	899	686	(297)		1,491		(564)	(564)	927
Income tax expense (benefit)[3]	75	330	252	(109)		548		(220)	(220)	328
Net income (loss) from continuing operations	128	569	434	(188)		943		(344)	(344)	599
Income from discontinued operations, net of tax expense				33		33				33
Net income (loss)	128	569	434	(155)		976		(344)	(344)	632
Less: loss attributable to noncontrolling interest		(1)				(1)				(1)
Net income (loss) attributable to SLM Corporation	$ 128	$ 570	$ 434	$ (155)	$	$ 977	$	$ (344)	$ (344)	$ 633

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

(2) Core Earnings adjustments to GAAP:

	Year Ended December 31, 2011		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 465	$	$ 465
Total other loss	(1,005)		(1,005)
Goodwill and acquired intangible assets impairment and amortization		24	24
Total Core Earnings adjustments to GAAP	$ (540)	$ (24)	(564)
Income tax benefit			(220)
Net loss			$ (344)

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

(4) Represents a portion of the $(32) million of other derivative accounting adjustments.

(5) Represents the $(153) million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the $(32) million of other derivative accounting adjustments.

42

Table of Contents

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Reclassifications	Adjustments Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
	Year Ended December 31, 2010									
Interest income:										
Student loans	$ 2,353	$	$ 2,766	$	$	$ 5,119	$ 888	$ (309)	$ 579	$ 5,698
Other loans				30		30				30
Cash and investments	14	17	9	3	(17)	26				26
Total interest income	2,367	17	2,775	33	(17)	5,175	888	(309)	579	5,754
Total interest expense	758		1,407	45	(17)	2,193	69	13[4]	82	2,275
Net interest income	1,609	17	1,368	(12)		2,982	819	(322)	497	3,479
Less: provisions for loan losses	1,298		98	23		1,419				1,419
Net interest income after provisions for loan losses	311	17	1,270	(35)		1,563	819	(322)	497	2,060
Servicing revenue	72	912	68	1	(648)	405				405
Contingency revenue		330				330				330
Gains on debt repurchases				317		317				317
Other income (loss)		51	320	13		384	(819)	405[5]	(414)	(30)
Total other income (loss)	72	1,293	388	331	(648)	1,436	(819)	405	(414)	1,022
Expenses:										
Direct operating expenses	350	500	736	12	(648)	950				950
Overhead expenses				258		258				258
Operating expenses	350	500	736	270	(648)	1,208				1,208
Goodwill and acquired intangible assets impairment and amortization								699	699	699
Restructuring expenses	12	7	54	12		85				85
Total expenses	362	507	790	282	(648)	1,293		699	699	1,992
Income (loss) from continuing operations, before income tax expense (benefit)	21	803	868	14		1,706		(616)	(616)	1,090
Income tax expense (benefit)[3]	8	288	311	4		611		(118)	(118)	493
Net income (loss) from continuing operations	13	515	557	10		1,095		(498)	(498)	597
Loss from discontinued operations, net of tax benefit				(67)		(67)				(67)
Net income (loss)	$ 13	$ 515	$ 557	$ (57)	$	$ 1,028	$	$ (498)	$ (498)	$ 530

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

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired	Total
	Year Ended December 31, 2010		

		Intangibles	
Net interest income after provisions for loan losses	$ 497	$	$ 497
Total other loss	(414)		(414)
Goodwill and acquired intangible assets impairment and amortization		699	699
Total Core Earnings adjustments to GAAP	$ 83	$ (699)	(616)
Income tax benefit			(118)
Net loss			$ (498)

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

(4) Represents a portion of the $(54) million of other derivative accounting adjustments.

(5) Represents the $454 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $(54) million of other derivative accounting adjustments.

Table of Contents

Differences between Core Earnings and GAAP

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

(Dollars in millions)	Years Ended December 31, 2012	2011	2010
Core Earnings adjustments to GAAP:			
Net impact of derivative accounting	$ (194)	$ (540)	$ 83
Net impact of goodwill and acquired intangible assets	(28)	(24)	(699)
Net income tax effect	99	220	118
Total Core Earnings adjustments to GAAP	$ (123)	$ (344)	$ (498)

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

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

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

Table of Contents

the net premiums received on the Floor Income Contracts for Core Earnings is reflected in student loan interest income. Under GAAP accounting, the premiums received on the Floor Income Contracts are recorded as revenue in the gains (losses) on derivative and hedging activities, net line item by the end of the contracts lives.

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

The table below quantifies the adjustments for derivative accounting on our net income.

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Core Earnings derivative adjustments:			
Gains (losses) on derivative and hedging activities, net, included in other income[(1)]	$ (628)	$ (959)	$ (361)
Plus: Realized losses on derivative and hedging activities, net[(1)]	743	806	815
Unrealized gains (losses) on derivative and hedging activities, net[(2)]	115	(153)	454
Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings	(351)	(355)	(309)
Other derivative accounting adjustments[(3)]	42	(32)	(62)
Total net impact derivative accounting[(4)]	$ (194)	$ (540)	$ 83

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

(2) Unrealized gains (losses) on derivative and hedging activities, net comprises the following unrealized mark-to-market gains (losses):

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Floor Income Contracts	$ 412	$ (267)	$ 156
Basis swaps	(66)	104	341
Foreign currency hedges	(199)	(32)	(83)
Other	(32)	42	40
Total unrealized gains (losses) on derivative and hedging activities, net	$ 115	$ (153)	$ 454

(3)

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

(4) Negative amounts are subtracted from Core Earnings net income to arrive at GAAP net income and positive amounts are added to Core Earnings to arrive at GAAP net income.

Table of Contents

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

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

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Reclassification of realized gains (losses) on derivative and hedging activities:			
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (858)	$ (902)	$ (888)
Net settlement income on interest rate swaps reclassified to net interest income	115	71	69
Foreign exchange derivative gains/(losses) reclassified to other income			
Net realized gains (losses) on terminated derivative contracts reclassified to other income		25	4
Total reclassifications of realized losses on derivative and hedging activities	$ (743)	$ (806)	$ (815)

Cumulative Impact of Derivative Accounting under GAAP compared to Core Earnings

As of December 31, 2012, derivative accounting has reduced GAAP equity by approximately $1.1 billion as a result of cumulative net unrealized net losses (after tax) recognized under GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these unrealized net losses related to derivative accounting.

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Beginning impact of derivative accounting on GAAP equity	$ (977)	$ (676)	$ (737)
Net impact of net unrealized gains/(losses) under derivative accounting[1]	(103)	(301)	61
Ending impact of derivative accounting on GAAP equity	$ (1,080)	$ (977)	$ (676)

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

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Total pre-tax net impact of derivative accounting recognized in net income[a]	$ (194)	$ (540)	$ 83
Tax impact of derivative accounting adjustment recognized in net income	82	208	(27)
Change in unrealized gains on derivatives, net of tax recognized in Other Comprehensive Income	9	31	5
Net impact of net unrealized gains (losses) under derivative accounting	$ (103)	$ (301)	$ 61

(a) See Core Earnings derivative adjustments table above.

Table of Contents

Net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods and are presented net of tax. As of December 31, 2012, the remaining amortization term of the net floor premiums was approximately 3.5 years for existing contracts. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

	December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Unamortized net Floor premiums (net of tax)	$ (551)	$ (772)	$ (363)

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

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Core Earnings goodwill and acquired intangible asset adjustments[1]			
Goodwill and intangible impairment of acquired intangible assets	$ (9)	$	$ (660)
Amortization of acquired intangible assets	(19)	(24)	(39)
Total Core Earnings goodwill and acquired intangible asset adjustments[1]	$ (28)	$ (24)	$ (699)

(1) Negative amounts are subtracted from Core Earnings to arrive at GAAP net income and positive amounts are added to Core Earnings to arrive at GAAP net income.

47

Table of Contents

Business Segment Earnings Summary Core Earnings Basis

Consumer Lending Segment

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

(Dollars in millions)	Years Ended December 31, 2012	2011	2010	% Increase (Decrease) 2012 vs. 2011	2011 vs. 2010
Core Earnings interest income:					
Private Education Loans	$ 2,481	$ 2,429	$ 2,353	2%	3%
Cash and investments	7	9	14	(22)	(36)
Total Core Earnings interest income	2,488	2,438	2,367	2	3
Total Core Earnings interest expense	825	804	758	3	6
Net Core Earnings interest income	1,663	1,634	1,609	2	2
Less: provision for loan losses	1,008	1,179	1,298	(15)	(9)
Net Core Earnings interest income after provision for loan losses	655	455	311	44	46
Servicing revenue	46	64	72	(28)	(11)
Other income (loss)		(9)		(100)	(100)
Total income	46	55	72	(16)	(24)
Direct operating expenses	265	304	350	(13)	(13)
Restructuring expenses	2	3	12	(33)	(75)
Total expenses	267	307	362	(13)	(15)
Income before income tax expense	434	203	21	114	867
Income tax expense	156	75	8	108	838
Core Earnings	$ 278	$ 128	$ 13	117%	885%

Core Earnings were $278 million in 2012, compared with $128 million in 2011 and $13 million in 2010. This increase was primarily the result of lower provision for loan losses and operating expenses as well as an increase in net interest income.

2012 highlights compared with 2011 included:

Loan originations increased to $3.3 billion, up 22 percent from $2.7 billion.

The portfolio, net of loan loss allowance, totaled $36.9 billion at December 31, 2012, compared with $36.3 billion at December 31, 2011.

Net interest margin, before loan loss provision, improved to 4.13 percent, up from 4.09 percent.

Provision for Private Education Loan losses decreased to 1.0 billion from 1.2 billion.

Delinquencies of 90 days or more (as a percentage of loans in repayment) improved to 4.6 percent, compared with 4.9 percent.

Loans in forbearance decreased to 3.5 percent of loans in repayment and forbearance, down from 4.4 percent.

The annual charge-off rate (as a percentage of loans in repayment) improved to 3.37 percent, compared with 3.72 percent.

Table of Contents

Consumer Lending Net Interest Margin

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

	Years Ended December 31, 2012	2011	2010
Core Earnings basis Private Education Loan yield	6.36%	6.34%	6.15%
Discount amortization	.22	.23	.29
Core Earnings basis Private Education Loan net yield	6.58	6.57	6.44
Core Earnings basis Private Education Loan cost of funds	(2.04)	(1.99)	(1.79)
Core Earnings basis Private Education Loan spread	4.54	4.58	4.65
Core Earnings basis other asset spread impact	(.41)	(.49)	(.80)
Core Earnings basis Consumer Lending net interest margin[1]	4.13%	4.09%	3.85%
Core Earnings basis Consumer Lending net interest margin[1]	4.13%	4.09%	3.85%
Adjustment for GAAP accounting treatment[2]	(.10)	(.08)	.02
GAAP-basis Consumer Lending net interest margin[1]	4.03%	4.01%	3.87%

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

(Dollars in millions)	Years Ended December 31, 2012	2011	2010
Private Education Loans	$ 37,691	$ 36,955	$ 36,534
Other interest-earning assets	2,572	3,015	5,204
Total Consumer Lending Core Earnings basis interest-earning assets	$ 40,263	$ 39,970	$ 41,738

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

The change in the Core Earnings basis Consumer Lending net interest margin compared to prior-year periods is primarily due to spread impacts from changes in the average balances of our other interest-earning assets. These assets consist primarily of securitization trust restricted cash and cash held at Sallie Mae Bank (the Bank). Our other interest-earning asset portfolio yields a negative net interest margin and, as a result, when its relative weighting changes compared to the Private Education Loan portfolio, the overall net interest margin is impacted.

Private Education Loans Provision for Loan Losses and Charge-Offs

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

	Years Ended December 31,		
(Dollars in millions)	**2012**	**2011**	**2010**
Private Education Loan provision for loan losses	$ 1,008	$ 1,179	$ 1,298
Private Education Loan charge-offs	$ 1,037	$ 1,072	$ 1,291

In establishing the allowance for Private Education Loan losses as of December 31, 2012, we considered several factors with respect to our Private Education Loan portfolio. In particular, as compared with the year-ago periods, we continue to see improving credit quality and continuing positive delinquency and charge-off trends in connection with this portfolio. Improving credit quality is seen in higher FICO scores and cosigner rates as well

Table of Contents

as a more seasoned portfolio. Total loans delinquent (as a percentage of loans in repayment) has decreased to 9.3 percent from 10.1 percent in the year-ago period. Loans greater than 90 days delinquent (as a percentage of loans in repayment) has decreased to 4.6 percent from 4.9 percent in the year-ago period. Loans in forbearance (as a percentage of loans in repayment and forbearance) decreased to 3.5 percent from 4.4 percent in the year-ago period. The charge-off rate declined from 3.7 percent in 2011 to 3.4 percent in 2012.

Apart from these overall improvements, Private Education Loans that have defaulted between 2008 and 2011 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. Our allowance for loan losses takes into account these potential recovery uncertainties.

The $171 million decline in the Private Education Loan provision for loan losses for the year ended December 31, 2012 compared with the prior year reflects the improving credit quality and performance trends discussed above.

For a more detailed discussion of our policy for determining the collectability of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Critical Accounting Policies and Estimates Allowance for Loan Losses.

Servicing Revenue and Other Income Consumer Lending Segment

Servicing revenue for our Consumer Lending segment primarily includes late fees. For the years ended December 31, 2012, 2011 and 2010, servicing revenue for our Consumer Lending segment totaled $46 million, $64 million and $72 million, respectively. Included in other income for the year ended December 31, 2011 was a $9 million mark-to-market loss related to classifying our entire $12 million portfolio of non-U.S. dollar-denominated student loans as held-for-sale.

Operating Expenses Consumer Lending Segment

Operating expenses for our Consumer Lending segment include costs incurred to originate Private Education Loans and to service and collect on our Private Education Loan portfolio. For the years ended December 31, 2012, 2011 and 2010, operating expenses for our Consumer Lending segment totaled $265 million, $304 million and $350 million, respectively. The decrease in operating expenses over the past two years was primarily the result of our cost-cutting initiatives. Operating expenses, excluding restructuring-related asset impairments, were 70 basis points, 82 basis points and 96 basis points of average Private Education Loans in the years ended December 31, 2012, 2011, and 2010, respectively.

Table of Contents

Business Services Segment

The following tables include Core Earnings results for our Business Services segment.

(Dollars in millions)	Years Ended December 31, 2012	2011	2010	% Increase (Decrease) 2012 vs. 2011	2011 vs. 2010
Net interest income after provision	$ 10	$ 11	$ 17	(9)%	(35)%
Servicing revenue:					
Intercompany loan servicing	670	739	648	(9)	14
Third-party loan servicing	98	82	77	20	6
Guarantor servicing	44	52	93	(15)	(44)
Other servicing	98	97	94	1	3
Total servicing revenue	910	970	912	(6)	6
Contingency revenue	356	333	330	7	1
Other Business Services revenue	33	70	51	(53)	37
Total other income	1,299	1,373	1,293	(5)	6
Direct operating expenses	462	482	500	(4)	(4)
Restructuring expenses	6	3	7	100	(57)
Total expenses	468	485	507	(4)	(4)
Income from continuing operations, before income tax expense	841	899	803	(6)	12
Income tax expense	303	330	288	(8)	15
Core Earnings	538	569	515	(5)	10
Less: net loss attributable to noncontrolling interest	(2)	(1)		100	(100)
Core Earnings attributable to SLM Corporation	$ 540	$ 570	$ 515	(5)%	11%

Core Earnings were $540 million for the year ended December 31, 2012, compared with $570 million and $515 million in 2011 and 2010, respectively. The decrease in 2012 was primarily due to a $25 million gain recognized in 2011 related to the termination and replacement of the credit card affiliation contract and the lower balance of FFELP Loans serviced. The increase in 2011 compared with 2010 was primarily the result of the acquisition of FFELP Loans from other lenders, including $25 billion acquired in the fourth quarter of 2010.

Our Business Services segment earns intercompany loan servicing fees from servicing the FFELP Loans in our FFELP Loans segment. The average balance of this portfolio was $134 billion, $141 billion and $128 billion for the years ended December 31, 2012, 2011 and 2010, respectively. The decline in intercompany loan servicing revenue from the year-ago period is primarily the result of a lower outstanding principal balance in the underlying portfolio and the increase in 2011 compared with 2010 was due to the FFELP Loan acquisitions described above.

We are servicing approximately 4.3 million accounts under the ED Servicing Contract as of December 31, 2012, compared with 3.6 million accounts serviced at December 31, 2011. Third-party loan servicing fees in the years ended December 31, 2012, 2011 and 2010 included $84 million, $63 million and $44 million, respectively, of servicing revenue related to the ED Servicing Contract. The increase in the third-party loan servicing fees was driven by the increase in the number of accounts serviced as well as an increase in ancillary servicing fees earned.

Guarantor Servicing revenue declined compared with the year-ago periods primarily due to the declining balance of FFELP Loans outstanding for which we earn fees.

Other servicing revenue includes account asset servicing revenue and Campus Solutions revenue. Account asset servicing revenue represents fees earned on program management, transfer and servicing agent services and

Table of Contents

administration services for our various 529 college-savings plans. Assets under administration in our 529 college-savings plans totaled $44.7 billion as of December 31, 2012, a 19 percent increase from 2011. Campus Solutions revenue is earned from our Campus Solutions business whose services include comprehensive transaction processing solutions and associated technology that we provide to college financial aid offices and students to streamline the financial aid process.

Our contingency revenue consists of fees we receive for the collections of delinquent debt on behalf of clients performed on a contingent basis. Contingency revenue increased $23 million compared with 2011 as a result of the higher volume of collections.

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

		December 31,	
(Dollars in millions)	**2012**	**2011**	**2010**
Contingency:			
Student loans	$ 13,511	$ 11,553	$ 10,362
Other	2,089	2,017	1,730
Total	$ 15,600	$ 13,570	$ 12,092

Other Business Services revenue is primarily transaction fees that are earned in conjunction with our rewards program from participating companies based on member purchase activity, either online or in stores, depending on the contractual arrangement with the participating company. In 2011, we terminated our credit card affiliation program with a third-party bank and concurrently entered into an affiliation program with a new bank. In terminating the old program, we recognized a $25 million gain which primarily represented prior cash advances we received that were previously recorded as deferred revenue.

Revenues related to services performed on FFELP Loans accounted for 76 percent, 76 percent and 78 percent of total segment revenues for the years ended December 31, 2012, 2011 and 2010, respectively.

Operating Expenses Business Services Segment

For the years ended December 31, 2012, 2011 and 2010, operating expenses for the Business Services segment totaled $462 million, $482 million and $500 million, respectively. The decrease in operating expenses over the past two years was primarily the result of our cost-cutting initiatives.

Table of Contents

FFELP Loans Segment

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

(Dollars in millions)	Years Ended December 31, 2012	2011	2010	% Increase (Decrease) 2012 vs. 2011	2011 vs. 2010
Core Earnings interest income:					
FFELP Loans	$ 2,744	$ 2,914	$ 2,766	(6)%	5%
Cash and investments	11	5	9	120	(44)
Total Core Earnings interest income	2,755	2,919	2,775	(6)	5
Total Core Earnings interest expense	1,591	1,472	1,407	8	5
Net Core Earnings interest income	1,164	1,447	1,368	(20)	6
Less: provision for loan losses	72	86	98	(16)	(12)
Net Core Earnings interest income after provision for loan losses	1,092	1,361	1,270	(20)	7
Servicing revenue	90	85	68	6	25
Other income		1	320	(100)	(100)
Total other income	90	86	388	5	(78)
Direct operating expenses	702	760	736	(8)	3
Restructuring expenses		1	54	(100)	(98)
Total expenses	702	761	790	(8)	(4)
Income from continuing operations, before income tax expense	480	686	868	(30)	(21)
Income tax expense	173	252	311	(31)	(19)
Core Earnings	$ 307	$ 434	$ 557	(29)%	(22)%

Core Earnings from the FFELP Loans segment were $307 million in 2012, compared with $434 million and $557 million in 2011 and 2010, respectively. The decrease in 2012 compared with 2011 is primarily due to the declining balance of FFELP Loans and lower net interest margin as a result of an increase in the cost of funds. The decrease in 2011 compared with 2010 is primarily due to the $321 million gain from the sale of loans in 2010 that did not occur in 2011, which was partially offset by an increase in net interest margin as a result of an increase in Floor Income due to lower interest rates. Key financial measures include:

- Net interest margin of .84 percent in the year ended December 31, 2012 compared with .98 percent and .93 percent for the years ended December 31, 2011 and 2010, respectively. (See FFELP Loans Net Interest Margin for further discussion.)

- The provision for loan losses continued to decline over the past two years as a result of improved credit performance.

Table of Contents

FFELP Loans Net Interest Margin

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

	Years Ended December 31,		
	2012	2011	2010
Core Earnings basis FFELP Loan yield	2.66%	2.59%	2.57%
Hedged Floor Income	.26	.25	.23
Unhedged Floor Income	.11	.12	.02
Consolidation Loan Rebate Fees	(.67)	(.65)	(.59)
Repayment Borrower Benefits	(.13)	(.12)	(.10)
Premium amortization	(.15)	(.15)	(.18)
Core Earnings basis FFELP Loan net yield	2.08	2.04	1.95
Core Earnings basis FFELP Loan cost of funds	(1.13)	(.98)	(.93)
Core Earnings basis FFELP Loan spread	.95	1.06	1.02
Core Earnings basis FFELP other asset spread impact	(.11)	(.08)	(.09)
Core Earnings basis FFELP Loans net interest margin[1]	.84%	.98%	.93%
Core Earnings basis FFELP Loans net interest margin[1]	.84%	.98%	.93%
Adjustment for GAAP accounting treatment[2]	.31	.34	.33
GAAP-basis FFELP Loans net interest margin	1.15%	1.32%	1.26%

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

	Years Ended December 31,		
(Dollars in millions)	2012	2011	2010
FFELP Loans	$ 132,124	$ 143,109	$ 142,043
Other interest-earning assets	6,619	5,194	5,562
Total FFELP Core Earnings basis interest-earning assets	$ 138,743	$ 148,303	$ 147,605

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

The decrease in the Core Earnings basis FFELP Loans net interest margin of 14 basis points for the year ended December 31, 2012 compared with the year-ago period was primarily the result of funding costs related to new unsecured and ABS debt issuances over the last year being higher than the funding costs of the debt that has matured or has been repurchased during that same period. In addition, there were increased spread impacts from increases in the average balance of our other interest-earning assets. These assets are primarily securitization trust restricted cash. Our other interest-earning asset portfolio yields a negative net interest margin and as a result, when its relative weighting increases, the overall net interest margin declines.

The increase in the Core Earnings basis FFELP Loans net interest margin of 5 basis points for 2011 compared with 2010 was primarily the result of an increase in Floor Income due to lower interest rates.

During the fourth-quarter 2011, the Administration announced SDCL. The initiative provided an incentive to borrowers who have at least one student loan owned by ED and at least one held by a FFELP lender to consolidate the FFELP lender s loans into the Direct Loan Program by providing a 0.25 percentage point interest rate reduction on the FFELP Loans that are eligible for consolidation. The program was available from January 17, 2012 through June 30, 2012. As a result of the SDCL initiative, borrowers consolidated approximately $5.2 billion of our FFELP Loans to ED. The consolidation of these loans resulted in the acceleration of $42 million of non-cash loan premium

Table of Contents

amortization and $8 million of non-cash debt discount amortization during 2012. This combined $50 million acceleration of non-cash amortization related to this activity reduced the FFELP Loans net interest margin by 4 basis points for the year ended December 31, 2012.

On December 23, 2011, the President signed the Consolidated Appropriations Act of 2012 into law. This law includes changes that permit FFELP lenders or beneficial holders to change the index on which the Special Allowance Payments (SAP) are calculated for FFELP Loans first disbursed on or after January 1, 2000. We elected to use the one-month LIBOR rate rather than the CP rate commencing on April 1, 2012 in connection with our entire $128 billion of CP indexed loans. This change will help us to better match loan yields with our financing costs. This election did not materially affect our results for the year ended December 31, 2012.

On December 31, 2010, we acquired $26.1 billion of securitized federal student loans and related assets from the Student Loan Corporation (SLC), a subsidiary of Citibank, N.A., for approximately $1.1 billion.

As of December 31, 2012, our FFELP Loan portfolio totaled approximately $125.6 billion, comprised of $44.3 billion of FFELP Stafford and $81.3 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios is 4.9 years and 9.9 years, respectively, assuming a Constant Prepayment Rate (CPR) of 4 percent and 3 percent, respectively.

Floor Income

The following table analyzes the ability of the FFELP Loans in our portfolio to earn Floor Income after December 31, 2012 and 2011, based on interest rates as of those dates.

(Dollars in billions)	December 31, 2012 Fixed Borrower Rate	December 31, 2012 Variable Borrower Rate	December 31, 2012 Total	December 31, 2011 Fixed Borrower Rate	December 31, 2011 Variable Borrower Rate	December 31, 2011 Total
Student loans eligible to earn Floor Income	$ 108.6	$ 15.1	$ 123.7	$ 118.3	$ 17.7	$ 136.0
Less: post-March 31, 2006 disbursed loans required to rebate Floor Income	(57.3)	(1.0)	(58.3)	(62.7)	(1.2)	(63.9)
Less: economically hedged Floor Income Contracts	(35.2)		(35.2)	(41.5)		(41.5)
Student loans eligible to earn Floor Income	$ 16.1	$ 14.1	$ 30.2	$ 14.1	$ 16.5	$ 30.6
Student loans earning Floor Income	$ 16.0	$ 2.0	$ 18.0	$ 14.1	$ 2.3	$ 16.4

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

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

(Dollars in billions)	Years Ended December 31, 2013	2014	2015	2016
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged	$ 32.6	$ 28.3	$ 27.2	$ 10.4

Table of Contents

FFELP Loans Provision for Loan Losses and Charge-Offs

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

	Years Ended December 31,		
(Dollars in millions)	2012	2011	2010
FFELP Loan provision for loan losses	$ 72	$ 86	$ 98
FFELP Loan charge-offs	$ 92	$ 78	$ 87

Servicing Revenue and Other Income FFELP Loans Segment

The following table summarizes the components of Core Earnings other income for our FFELP Loans segment.

	Years Ended December 31,		
(Dollars in millions)	2012	2011	2010
Servicing revenue	$ 90	$ 85	$ 68
Gains on loans and investments, net			325
Other		1	(5)
Total other income, net	$ 90	$ 86	$ 388

Servicing revenue for our FFELP Loans segment primarily consists of customer late fees.

The gains on loans and investments in 2010 related primarily to the sale of $20.4 billion of FFELP Loans to ED as part of the ED Purchase Program.

Operating Expenses FFELP Loans Segment

Operating expenses for our FFELP Loans segment primarily include the contractual rates we pay to service loans in term asset-backed securitization trusts or a similar rate if a loan is not in a term financing facility (which is presented as an intercompany charge from the Business Services segment who services the loans), the fees we pay for third-party loan servicing and costs incurred to acquire loans. The intercompany revenue charged from the Business Services segment and included in those amounts was $670 million, $739 million and $648 million for the years ended December 31, 2012, 2011 and 2010, respectively. These amounts exceed the actual cost of servicing the loans.

2012 versus 2011

The decrease in operating expenses from the prior year was primarily the result of the reduction in the average outstanding balance of our FFELP Loans portfolio. Operating expenses, excluding restructuring-related asset impairments, were 53 basis points of average FFELP Loans for the years ended December 31, 2012 and 2011, respectively.

2011 versus 2010

The increase in operating expenses from the prior year was primarily the result of the increase in servicing costs related to the $25 billion loan portfolio acquisition on December 31, 2010. Operating expenses, excluding restructuring-related asset impairments, were 53 basis points and 51 basis points of average FFELP Loans in the years ended December 31, 2011 and 2010, respectively.

Other Segment

The Other segment primarily consists of the financial results related to the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment. These are the Purchased Paper businesses and mortgage and other loan businesses. The Other segment includes our remaining businesses that do not pertain directly to the primary segments identified

Table of Contents

above. Overhead expenses include costs related to executive management, the board of directors, accounting, finance, legal, human resources, stock-based compensation expense and certain information technology costs related to infrastructure and operations.

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

(Dollars in millions)	2012	Years Ended December 31, 2011	2010	% Increase (Decrease) 2012 vs. 2011	2011 vs. 2010
Net interest loss after provision	$ (19)	$ (58)	$ (35)	(67)%	66%
Gains on debt repurchases	145	64	317	127	(80)
Other	15	(8)	14	288	(157)
Total income	160	56	331	186	(83)
Direct operating expenses	7	13	12	(46)	8
Overhead expenses:					
Corporate overhead	121	163	128	(26)	27
Unallocated information technology costs	109	117	130	(7)	(10)
Total overhead expenses	230	280	258	(18)	9
Total operating expenses	237	293	270	(19)	9
Restructuring expenses	4	2	12	100	(83)
Total expenses	241	295	282	(18)	5
Income (loss) from continuing operations, before income tax expense (benefit)	(100)	(297)	14	(66)	(2,221)
Income tax expense (benefit)	(36)	(109)	4	(67)	(2,825)
Net income (loss) from continuing operations	(64)	(188)	10	(66)	(1,980)
Income (loss) from discontinued operations, net of tax expense (benefit)	1	33	(67)	(97)	149
Core Earnings net loss	$ (63)	$ (155)	$ (57)	(59)%	172%

Net Interest Income (Loss) after Provision for Loan Losses

Net interest income (loss) after provision for loan losses includes net interest income related to our corporate liquidity portfolio as well as net interest income and provision expense related to our mortgage and consumer loan portfolios. The improvement compared with the prior-year periods was primarily the result of our not recording any provision for loan losses related to our mortgage and consumer loan portfolios in 2012. Each quarter we perform an analysis regarding the adequacy of the loan loss allowance for these portfolios and we determined that no additional allowance for loan losses was required related to this $137 million portfolio.

Gains on Debt Repurchases

We repurchased $711 million, $894 million and $4.9 billion face amount of our ABS and senior unsecured notes in 2012, 2011 and 2010, respectively.

Other Income

The year ended December 31, 2011 includes $26 million of impairment on certain investments in aircraft leveraged leases. As of December 31, 2012, our total remaining investment in airline leases is $39 million.

Purchased Paper Business

Our Purchased Paper businesses are presented as discontinued operations for the current and prior periods (see Consolidated Earnings Summary GAAP-basis for a further discussion). We sold our Purchased Paper Non-Mortgage business, resulting in a $23 million after-tax gain, in 2011.

Table of Contents

Overhead

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

2012 versus 2011

The decrease in overhead for the year ended December 31, 2012 compared with the year-ago period was primarily the result of the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

2011 versus 2010

The increase in overhead from 2010 to 2011 was primarily the result of a change in the terms of our stock-based compensation plans, additional expense related to the termination of our defined benefit pension plan, and restructuring-related consulting expenses incurred in the first half of 2011. In the first quarter of 2011, we changed our stock-based compensation plans so that retirement eligible employees would not forfeit unvested stock-based compensation upon their retirement. This change had the effect of accelerating $11 million of future stock-based compensation expenses associated with these unvested stock grants into the current period for those retirement-eligible employees. We also recognized $16 million of additional expense in 2011 related to the termination of our defined benefit pension plan due to changes in estimates related to the employee termination benefits as well as changes in interest rates.

Financial Condition

This section provides additional information regarding the changes related to our loan portfolio assets and related liabilities as well as credit performance indicators related to our loan portfolio. Certain of these disclosures will show both GAAP-basis as well as Core Earnings basis disclosures. Because certain trusts were not consolidated prior to the adoption of the new consolidation accounting guidance on January 1, 2010, these trusts were treated as off-balance sheet for GAAP purposes but we considered them on-balance sheet for Core Earnings purposes. Subsequent to the adoption of the new consolidation accounting guidance on January 1, 2010, this difference no longer exists because all of our trusts are treated as on-balance sheet for GAAP purposes. Below and elsewhere in the document, Core Earnings basis disclosures include all historically (pre-January 1, 2010) off-balance sheet trusts as though they were on-balance sheet. We believe that providing Core Earnings basis disclosures is meaningful because when we evaluate the performance and risk characteristics of the Company we have always considered the effect of any off-balance sheet trusts as though they were on-balance sheet.

Table of Contents

Average Balance Sheets GAAP

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

	Years Ended December 31,					
	2012		2011		2010	
(Dollars in millions)	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Loans	$ 132,124	2.46%	$ 143,109	2.42%	$ 142,043	2.36%
Private Education Loans	37,691	6.58	36,955	6.57	36,534	6.44
Other loans	172	9.41	233	9.16	323	9.20
Cash and investments	10,331	.20	10,636	.18	12,729	.20
Total interest-earning assets	180,318	3.20%	190,933	3.11%	191,629	3.00%
Non-interest-earning assets	4,732		5,308		5,931	
Total assets	$ 185,050		$ 196,241		$ 197,560	
Average Liabilities and Equity						
Short-term borrowings	$ 24,831	.88%	$ 31,413	.89%	$ 38,634	.86%
Long-term borrowings	151,397	1.55	156,151	1.36	150,768	1.29
Total interest-bearing liabilities	176,228	1.45%	187,564	1.28%	189,402	1.20%
Non-interest-bearing liabilities	3,837		3,679		3,280	
Equity	4,985		4,998		4,878	
Total liabilities and equity	$ 185,050		$ 196,241		$ 197,560	
Net interest margin		1.78%		1.85%		1.82%

Rate/Volume Analysis GAAP

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

	Increase	Change Due To[1]	
(Dollars in millions)	(Decrease)	Rate	Volume
2012 vs. 2011			
Interest income	$ (161)	$ 175	$ (336)
Interest expense	160	312	(152)
Net interest income	$ (321)	$ (130)	$ (191)
2011 vs. 2010			
Interest income	$ 176	$ 197	$ (21)
Interest expense	126	149	(23)
Net interest income	$ 50	$ 63	$ (13)

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

Table of Contents

Summary of our Student Loan Portfolio

Ending Student Loan Balances, net

	December 31, 2012				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total student loan portfolio:					
In-school[1]	$ 1,506	$	$ 1,506	$ 2,194	$ 3,700
Grace, repayment and other[2]	42,189	80,640	122,829	36,360	159,189
Total, gross	43,695	80,640	124,335	38,554	162,889
Unamortized premium/(discount)	691	745	1,436	(796)	640
Receivable for partially charged-off loans				1,347	1,347
Allowance for loan losses	(97)	(62)	(159)	(2,171)	(2,330)
Total student loan portfolio	$ 44,289	$ 81,323	$ 125,612	$ 36,934	$ 162,546
% of total FFELP	35%	65%	100%		
% of total	27%	50%	77%	23%	100%

	December 31, 2011				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total student loan portfolio:					
In-school[1]	$ 3,100	$	$ 3,100	$ 2,263	$ 5,363
Grace, repayment and other[2]	46,618	86,925	133,543	35,830	169,373
Total, gross	49,718	86,925	136,643	38,093	174,736
Unamortized premium/(discount)	839	835	1,674	(873)	801
Receivable for partially charged-off loans				1,241	1,241
Allowance for loan losses	(117)	(70)	(187)	(2,171)	(2,358)
Total student loan portfolio	$ 50,440	$ 87,690	$ 138,130	$ 36,290	$ 174,420
% of total FFELP	37%	63%	100%		
% of total	29%	50%	79%	21%	100%

(1) Loans for customers still attending school and are not yet required to make payments on the loan.

(2) Includes loans in deferment or forbearance.

	December 31, 2010				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total student loan portfolio	$ 56,252	$ 92,397	$ 148,649	$ 35,656	$ 184,305

(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
			December 31, 2009		
Total GAAP basis, net	$ 52,675	$ 68,379	$ 121,054	$ 22,753	$ 143,807
Total off-balance sheet, net	5,499	14,797	20,296	12,342	32,638
Total Core Earnings basis	$ 58,174	$ 83,176	$ 141,350	$ 35,095	$ 176,445

(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
			December 31, 2008		
Total GAAP basis, net	$ 52,476	$ 71,744	$ 124,220	$ 20,582	$ 144,802
Total off-balance sheet, net	7,143	15,531	22,674	12,917	35,591
Total Core Earnings basis	$ 59,619	$ 87,275	$ 146,894	$ 33,499	$ 180,393

Table of Contents

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

	Year Ended December 31, 2012				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total	$ 47,629	$ 84,495	$ 132,124	$ 37,691	$ 169,815
% of FFELP	36%	64%	100%		
% of total	28%	50%	78%	22%	100%

	Year Ended December 31, 2011				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total	$ 53,163	$ 89,946	$ 143,109	$ 36,955	$ 180,064
% of FFELP	37%	63%	100%		
% of total	29%	50%	79%	21%	100%

	Year Ended December 31, 2010				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total[1]	$ 61,034	$ 81,009	$ 142,043	$ 36,534	$ 178,577
% of FFELP	43%	57%	100%		
% of total	34%	46%	80%	20%	100%

[1] On January 1, 2010, upon the adoption of the new consolidation accounting guidance, all off-balance sheet loans were consolidated on-balance sheet.

Table of Contents

Student Loan Activity

	Year Ended December 31, 2012				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Beginning balance	$ 50,440	$ 87,690	$ 138,130	$ 36,290	$ 174,420
Acquisitions and originations	2,764	903	3,667	3,386	7,053
Capitalized interest and premium/discount amortization	1,373	1,443	2,816	1,029	3,845
Consolidations to third parties	(5,049)	(2,803)	(7,852)	(73)	(7,925)
Sales	(530)		(530)		(530)
Repayments and other	(4,709)	(5,910)	(10,619)	(3,698)	(14,317)
Ending balance	$ 44,289	$ 81,323	$ 125,612	$ 36,934	$ 162,546

	Year Ended December 31, 2011				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Beginning balance	$ 56,252	$ 92,397	$ 148,649	$ 35,656	$ 184,305
Acquisitions and originations	814	802	1,616	2,942	4,558
Capitalized interest and premium/discount amortization	1,506	1,535	3,041	1,269	4,310
Consolidations to third parties	(2,741)	(1,058)	(3,799)	(69)	(3,868)
Sales	(754)		(754)		(754)
Repayments and other	(4,637)	(5,986)	(10,623)	(3,508)	(14,131)
Ending balance	$ 50,440	$ 87,690	$ 138,130	$ 36,290	$ 174,420

	Year Ended December 31, 2010				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Beginning balance	$ 52,675	$ 68,379	$ 121,054	$ 22,753	$ 143,807
Consolidation of off-balance sheet loans(1)	5,500	14,797	20,297	12,341	32,638
Beginning balance total portfolio	58,175	83,176	141,351	35,094	176,445
Acquisitions and originations	14,349	76	14,425	2,434	16,859
Capitalized interest and premium/discount amortization	1,324	1,357	2,681	1,462	4,143
Consolidations to third parties	(2,092)	(793)	(2,885)	(46)	(2,931)
Loan acquisition on December 31, 2010	11,237	13,652	24,889		24,889
Sales	(21,054)	(71)	(21,125)		(21,125)
Repayments and other	(5,687)	(5,000)	(10,687)	(3,288)	(13,975)
Ending balance	$ 56,252	$ 92,397	$ 148,649	$ 35,656	$ 184,305

(1) On January 1, 2010, upon adoption of the new consolidation accounting guidance, all off-balance sheet loans are included in the GAAP-basis.

Table of Contents

Student Loan Allowance for Loan Losses Activity

	GAAP Basis								
	December 31, 2012			December 31, 2011			December 31, 2010		
(Dollars in millions)	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**
GAAP Basis:									
Beginning balance	$ 187	$ 2,171	$ 2,358	$ 189	$ 2,022	$ 2,211	$ 161	$ 1,443	$ 1,604
Less:									
Charge-offs(1)	(92)	(1,037)	(1,129)	(78)	(1,072)	(1,150)	(87)	(1,291)	(1,378)
Student loan sales	(8)		(8)	(10)		(10)	(8)		(8)
Plus:									
Provision for loan losses	72	1,008	1,080	86	1,179	1,265	98	1,298	1,396
Reclassification of interest reserve(2)		29	29		42	42		48	48
Consolidation of securitization trusts(3)							25	524	549
Ending balance	$ 159	$ 2,171	$ 2,330	$ 187	$ 2,171	$ 2,358	$ 189	$ 2,022	$ 2,211

	Off-Balance Sheet								
	December 31, 2012			December 31, 2011			December 31, 2010		
(Dollars in millions)	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**
Off-Balance Sheet:									
Beginning balance	$	$	$	$	$	$	$ 25	$ 524	$ 549
Less:									
Charge-offs(1)									
Student loan sales									
Plus:									
Provision for loan losses									
Reclassification of interest reserve(2)									
Consolidation of securitization trusts(3)							(25)	(524)	(549)
Ending balance	$	$	$	$	$	$	$	$	$

	Core Earnings Basis								
	December 31, 2012			December 31, 2011			December 31, 2010		
(Dollars in millions)	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**	**FFELP Loans**	**Private Education Loans**	**Total Portfolio**
Core Earnings Basis:									
Beginning balance	$ 187	$ 2,171	$ 2,358	$ 189	$ 2,022	$ 2,211	$ 186	$ 1,967	$ 2,153
Less:									
Charge-offs(1)	(92)	(1,037)	(1,129)	(78)	(1,072)	(1,150)	(87)	(1,291)	(1,378)
Student loan sales	(8)		(8)	(10)		(10)	(8)		(8)
Plus:									
Provision for loan losses	72	1,008	1,080	86	1,179	1,265	98	1,298	1,396
Reclassification of interest reserve(2)		29	29		42	42		48	48

Ending balance	$ 159	$ 2,171	$ 2,330	$ 187	$ 2,171	$ 2,358	$ 189	$ 2,022	$ 2,211
Percent of total	7%	93%	100%	8%	92%	100%	9%	91%	100%
Troubled debt restructuring[4]	$	$ 7,294	$ 7,294	$	$ 5,429	$ 5,429	$	$ 439	$ 439

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

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

(3) On January 1, 2010, upon the adoption of the new consolidation accounting guidance, all off-balance sheet loans were consolidated on-balance sheet.

(4) Represents the recorded investment of loans classified as troubled debt restructuring.

Table of Contents

	GAAP Basis					
	December 31, 2009			December 31, 2008		
(Dollars in millions)	FFELP Loans	Private Education Loans	Total Portfolio	FFELP Loans	Private Education Loans	Total Portfolio
GAAP Basis:						
Beginning balance	$ 138	$ 1,308	$ 1,446	$ 89	$ 1,004	$ 1,093
Less:						
Charge-offs[1]	(79)	(876)	(955)	(58)	(320)	(378)
Student loan sales	(4)		(4)	1		1
Plus:						
Provision for loan losses	106	967	1,073	106	586	692
Reclassification of interest reserve[2]		44	44		38	38
Ending balance	$ 161	$ 1,443	$ 1,604	$ 138	$ 1,308	$ 1,446

	Off-Balance Sheet					
	December 31, 2009			December 31, 2008		
(Dollars in millions)	FFELP Loans	Private Education Loans	Total Portfolio	FFELP Loans	Private Education Loans	Total Portfolio
Off-Balance Sheet:						
Beginning balance	$ 27	$ 505	$ 532	$ 29	$ 362	$ 391
Less:						
Charge-offs[1]	(15)	(423)	(438)	(21)	(153)	(174)
Student loan sales				(2)		(2)
Plus:						
Provision for loan losses	13	432	445	21	288	309
Reclassification of interest reserve[2]		10	10		8	8
Ending balance	$ 25	$ 524	$ 549	$ 27	$ 505	$ 532

	Core Earnings Basis					
	December 31, 2009			December 31, 2008		
(Dollars in millions)	FFELP Loans	Private Education Loans	Total Portfolio	FFELP Loans	Private Education Loans	Total Portfolio
Core Earnings Basis:						
Balance at beginning of period	$ 165	$ 1,813	$ 1,978	$ 118	$ 1,366	$ 1,484
Less:						
Charge-offs[1]	(94)	(1,299)	(1,393)	(79)	(473)	(552)
Student loan sales	(4)		(4)	(1)		(1)
Plus:						
Provision for loan losses	119	1,399	1,518	127	874	1,001
Reclassification of interest reserve[2]		54	54		46	46
Total Core Earnings basis	$ 186	$ 1,967	$ 2,153	$ 165	$ 1,813	$ 1,978
Percent of total	9%	91%	100%	8%	92%	100%
Troubled debt restructuring[3]	$	$ 223	$ 223	$	$	$

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

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

(3) Represents the recorded investment of loans identified as troubled debt restructuring.

Table of Contents

Private Education Loan Originations

The following table summarizes our Private Education Loan originations.

(Dollars in millions)	Years Ended December 31, 2012	2011	2010
Smart Option interest only[1]	$ 941	$ 881	$ 1,315
Smart Option fixed pay[1]	1,005	1,118	594
Smart Option deferred[1]	1,319	579	
Other	80	159	398
Total Private Education Loan originations	$ 3,345	$ 2,737	$ 2,307

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

Table of Contents

Consumer Lending Portfolio Performance

Private Education Loan Delinquencies and Forbearance

The tables below present our Private Education Loan delinquency trends.

	Private Education Loan Delinquencies December 31,					
	2012		2011		2010	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 5,904		$ 6,522		$ 8,340	
Loans in forbearance[2]	1,136		1,386		1,340	
Loans in repayment and percentage of each status:						
Loans current	28,575	90.7%	27,122	89.9%	24,888	89.4%
Loans delinquent 31-60 days[3]	1,012	3.2	1,076	3.6	1,011	3.6
Loans delinquent 61-90 days[3]	481	1.5	520	1.6	471	1.7
Loans delinquent greater than 90 days[3]	1,446	4.6	1,467	4.9	1,482	5.3
Total Private Education Loans in repayment	31,514	100%	30,185	100%	27,852	100%
Total Private Education Loans, gross	38,554		38,093		37,532	
Private Education Loan unamortized discount	(796)		(873)		(894)	
Total Private Education Loans	37,758		37,220		36,638	
Private Education Loan receivable for partially charged-off loans	1,347		1,241		1,040	
Private Education Loan allowance for losses	(2,171)		(2,171)		(2,022)	
Private Education Loans, net	$ 36,934		$ 36,290		$ 35,656	
Percentage of Private Education Loans in repayment		81.7%		79.2%		74.2%
Delinquencies as a percentage of Private Education Loans in repayment		9.3%		10.1%		10.6%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.5%		4.4%		4.6%
Loans in repayment greater than 12 months as a percentage of loans in repayment[4]		78.5%		72.4%		64.3%

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

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

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

(4) Based on number of months in an active repayment status for which a scheduled monthly payment was due.

Table of Contents

Allowance for Private Education Loan Losses

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

	Years Ended December 31,		
(Dollars in millions)	2012	2011	2010
Allowance at beginning of period	$ 2,171	$ 2,022	$ 1,443
Consolidation of securitization trusts[1]			524
Allowance at beginning of period total portfolio	2,171	2,022	1,967
Provision for Private Education Loan losses	1,008	1,179	1,298
Charge-offs[2]	(1,037)	(1,072)	(1,291)
Reclassification of interest reserve[3]	29	42	48
Allowance at end of period	$ 2,171	$ 2,171	$ 2,022
Charge-offs as a percentage of average loans in repayment	3.37%	3.72%	5.04%
Charge-offs as a percentage of average loans in repayment and forbearance	3.24%	3.55%	4.79%
Allowance as a percentage of the ending total loans	5.44%	5.52%	5.24%
Allowance as a percentage of ending loans in repayment	6.89%	7.19%	7.26%
Average coverage of charge-offs	2.1	2.0	1.6
Ending total loans[4]	$ 39,901	$ 39,334	$ 38,572
Average loans in repayment	$ 30,750	$ 28,790	$ 25,596
Ending loans in repayment	$ 31,514	$ 30,185	$ 27,852

(1) On January 1, 2010, upon the adoption of the new consolidation accounting guidance, all off-balance sheet loans were consolidated on-balance sheet.

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

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

(4) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

Table of Contents

The following tables provide the detail for our traditional and non-traditional Core Earnings basis Private Education Loans for the respective years ended.

(Dollars in millions)	December 31, 2012 Traditional	December 31, 2012 Non-Traditional	December 31, 2012 Total	December 31, 2011 Traditional	December 31, 2011 Non-Traditional	December 31, 2011 Total	December 31, 2010 Traditional	December 31, 2010 Non-Traditional	December 31, 2010 Total
Ending total loans[1]	$ 36,144	$ 3,757	$ 39,901	$ 35,233	$ 4,101	$ 39,334	$ 34,177	$ 4,395	$ 38,572
Ending loans in repayment	28,930	2,584	31,514	27,467	2,718	30,185	25,043	2,809	27,852
Private Education Loan allowance for loan losses	1,637	534	2,171	1,542	629	2,171	1,231	791	2,022
Charge-offs as a percentage of average loans in repayment	2.7%	10.9%	3.4%	2.8%	12.3%	3.7%	3.6%	16.8%	5.0%
Allowance as a percentage of ending total loans	4.5%	14.2%	5.4%	4.4%	15.3%	5.5%	3.6%	18.0%	5.2%
Allowance as a percentage of ending loans in repayment	5.7%	20.7%	6.9%	5.6%	23.1%	7.2%	4.9%	28.2%	7.3%
Average coverage of charge-offs	2.2	1.9	2.1	2.1	1.9	2.0	1.5	1.7	1.6
Delinquencies as a percentage of Private Education Loans in repayment	8.1%	23.4%	9.3%	8.6%	26.0%	10.1%	8.8%	27.4%	10.6%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	3.9%	12.6%	4.6%	4.0%	13.6%	4.9%	4.2%	15.0%	5.3%
Loans in forbearance as a percentage of loans in repayment and forbearance	3.3%	5.1%	3.5%	4.2%	6.6%	4.4%	4.4%	6.1%	4.6%
Loans that entered repayment during the period[2]	$ 3,336	$ 194	$ 3,530	$ 4,886	$ 345	$ 5,231	$ 6,451	$ 553	$ 7,004
Percentage of Private Education Loans with a cosigner	68%	30%	65%	65%	29%	62%	63%	28%	59%
Average FICO at origination	728	624	720	726	624	717	725	623	715

(1) Ending total loans represent gross Private Education Loans, plus the receivable for partially charged-off loans.

(2) Includes loans that are required to make a payment for the first time.

Table of Contents

(Dollars in millions)	December 31, 2009 Traditional	Non-Traditional	Total	December 31, 2008 Traditional	Non-Traditional	Total
Ending total loans[1]	$ 33,223	$ 4,747	$ 37,970	$ 31,101	$ 5,107	$ 36,208
Ending loans in repayment	21,453	2,913	24,366	17,715	2,997	20,712
Private Education Loan allowance for loan losses	1,056	911	1,967	859	954	1,813
Charge-offs as a percentage of average loans in repayment	3.6%	21.4%	6.0%	1.4%	11.1%	2.9%
Allowance as a percentage of ending total loans	3.2%	19.2%	5.2%	2.8%	18.7%	5.0%
Allowance as a percentage of ending loans in repayment	4.9%	31.3%	8.1%	4.8%	31.8%	8.8%
Average coverage of charge-offs	1.6	1.5	1.5	4.2	3.5	3.8
Delinquencies as a percentage of Private Education Loans in repayment	9.5%	31.4%	12.1%	7.1%	28.9%	10.2%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	4.6%	17.5%	6.1%	2.6%	12.7%	4.0%
Loans in forbearance as a percentage of loans in repayment and forbearance	5.3%	7.1%	5.5%	6.7%	9.0%	7.0%
Loans that entered repayment during the period[2]	$ 6,430	$ 851	$ 7,281	$ 6,181	$ 1,092	$ 7,273
Percentage of Private Education Loans with a cosigner	61%	28%	57%	59%	26%	55%
Average FICO at origination	725	623	713	723	622	710

(1) Ending total loans represent gross Private Education Loans, plus the receivable for partially charged-off loans.

(2) Includes loans that are required to make a payment for the first time.

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

Receivable for Partially Charged-Off Private Education Loans

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2011 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. Differences in actual future recoveries on these defaulted loans could affect our receivable for partially charged-off Private Education Loans. There was $198 million and $148 million in allowance for Private Education Loan losses at December 31, 2012 and 2011, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans (see Consumer Lending Segment Private Education Loans Provision for Loan Losses and Charge-Offs for a further discussion).

69

Table of Contents

The following table summarizes the activity in the receivable for partially charged-off loans.

(Dollars in millions)	2012	Years Ended December 31, 2011	2010
Receivable at beginning of period	$ 1,241	$ 1,040	$ 499
Expected future recoveries of current period defaults[1]	351	391	459
Recoveries[2]	(189)	(155)	(104)
Charge-offs[3]	(56)	(35)	(43)
Consolidation of securitization trusts[4]			229
Receivable at end of period	1,347	1,241	1,040
Allowance for estimated recovery shortfalls[5]	(198)	(148)	
Net receivable at end of period	$ 1,149	$ 1,093	$ 1,040

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

(2) Current period cash collections.

(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the Allowance for Private Education Loan Losses table.

(4) On January 1, 2010, upon the adoption of the new consolidation accounting guidance, all off-balance loans were consolidated on-balance sheet.

(5) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the $2.2 billion overall allowance for Private Education Loan losses as of December 31, 2012 and 2011.

Use of Forbearance as a Private Education Loan Collection Tool

Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a customer s unique situation, including historical information and judgments. We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer s ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

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

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, 66 percent of the loans are current, paid in full, or

Table of Contents

receiving an in-school grace or deferment, and 20 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses. The number of loans in a forbearance status as a percentage of loans in repayment and forbearance decreased to 3.5 percent in 2012 compared with 4.4 percent in 2011. As of December 31, 2012, 2.3 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current as of December 31, 2012 (customers made payments on approximately 34 percent of these loans as a prerequisite to being granted forbearance).

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

	Portfolio data through December 31, 2012		
	Status distribution 36 months after being granted forbearance for the first time	**Status distribution 36 months after entering repayment (all loans)**	**Status distribution 36 months after entering repayment for loans never entering forbearance**
In-school/grace/deferment	9.7%	9.1%	5.6%
Current	50.5	59.0	66.7
Delinquent 31-60 days	3.1	2.0	.4
Delinquent 61-90 days	1.9	1.1	.2
Delinquent greater than 90 days	4.7	2.7	.3
Forbearance	4.1	3.1	
Defaulted	20.0	11.4	7.2
Paid	6.0	11.6	19.6
Total	100%	100%	100%

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At December 31, 2012, loans in forbearance status as a percentage of loans in repayment and forbearance were 5.9 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.3 percent for loans that have been in active repayment status for more than 48 months. Approximately 70 percent of our Private Education Loans in forbearance status has been in active repayment status less than 25 months.

Table of Contents

(Dollars in millions)		Monthly Scheduled Payments Due					Not Yet	
December 31, 2012		0 to 12	13 to 24	25 to 36	37 to 48	More than 48	in Repayment	Total
Loans in-school/grace/deferment		$	$	$	$	$	$ 5,904	$ 5,904
Loans in forbearance		602	195	149	83	107		1,136
Loans in repayment	current	5,591	5,366	5,405	4,403	7,810		28,575
Loans in repayment	delinquent 31-60 days	353	189	175	116	179		1,012
Loans in repayment	delinquent 61-90 days	185	95	81	49	71		481
Loans in repayment	delinquent greater than 90 days	640	292	227	129	158		1,446
Total		$ 7,371	$ 6,137	$ 6,037	$ 4,780	$ 8,325	$ 5,904	38,554
Unamortized discount								(796)
Receivable for partially charged-off loans								1,347
Allowance for loan losses								(2,171)
Total Private Education Loans, net								$ 36,934
Loans in forbearance as a percentage of loans in repayment and forbearance		8.2%	3.2%	2.5%	1.7%	1.3%	%	3.5%

(Dollars in millions)		Monthly Scheduled Payments Due					Not Yet	
December 31, 2011		0 to 12	13 to 24	25 to 36	37 to 48	More than 48	in Repayment	Total
Loans in-school/grace/deferment		$	$	$	$	$	$ 6,522	$ 6,522
Loans in forbearance		920	194	126	66	80		1,386
Loans in repayment	current	6,866	6,014	5,110	3,486	5,646		27,122
Loans in repayment	delinquent 31-60 days	506	212	158	83	117		1,076
Loans in repayment	delinquent 61-90 days	245	100	78	41	56		520
Loans in repayment	delinquent greater than 90 days	709	317	205	102	134		1,467
Total		$ 9,246	$ 6,837	$ 5,677	$ 3,778	$ 6,033	$ 6,522	38,093
Unamortized discount								(873)
Receivable for partially charged-off loans								1,241
Allowance for loan losses								(2,171)
Total Private Education Loans, net								$ 36,290
Loans in forbearance as a percentage of loans in repayment and forbearance		10.0%	2.8%	2.2%	1.8%	1.3%	%	4.4%

(Dollars in millions)		Monthly Scheduled Payments Due					Not Yet	
December 31, 2010		0 to 12	13 to 24	25 to 36	37 to 48	More than 48	in Repayment	Total
Loans in-school/grace/deferment		$	$	$	$	$	$ 8,340	$ 8,340
Loans in forbearance		980	167	92	47	54		1,340
Loans in repayment	current	8,342	5,855	4,037	2,679	3,975		24,888
Loans in repayment	delinquent 31-60 days	537	209	117	63	85		1,011
Loans in repayment	delinquent 61-90 days	258	92	55	27	39		471
Loans in repayment	delinquent greater than 90 days	815	336	156	75	100		1,482
Total		$ 10,932	$ 6,659	$ 4,457	$ 2,891	$ 4,253	$ 8,340	37,532
Unamortized discount								(894)
Receivable for partially charged-off loans								1,040
Allowance for loan losses								(2,022)

Total Private Education Loans, net							$ 35,656
Loans in forbearance as a percentage of loans in repayment and forbearance	9.0%	2.5%	2.1%	1.6%	1.3%	%	4.6%

Table of Contents

The table below stratifies the portfolio of Private Education Loans in forbearance by the cumulative number of months the customer has used forbearance as of the dates indicated. As detailed in the table below, there has been a continuing decline in the average months of forbearance used in our portfolio.

	December 31,					
	2012		2011		2010	
(Dollars in millions)	Forbearance Balance	% of Total	Forbearance Balance	% of Total	Forbearance Balance	% of Total
Cumulative number of months customer has used forbearance:						
Up to 12 months	$ 883	78%	$ 887	64%	$ 958	71%
13 to 24 months	186	16	446	32	343	26
More than 24 months	67	6	53	4	39	3
Total	$ 1,136	100%	$ 1,386	100%	$ 1,340	100%

Private Education Loan Repayment Options

Certain loan programs allow customers to select from a variety of repayment options depending on their loan type and their enrollment/loan status, which include the ability to extend their repayment term or change their monthly payment. The chart below provides the optional repayment offerings in addition to the standard level principal and interest payments as of December 31, 2012.

	Loan Program			
(Dollars in millions)	Signature and Other	Smart Option	Career Training	Total
$ in repayment	$24,261	$5,774	$1,479	$ 31,514
$ in total	$29,522	$7,493	$1,539	$ 38,554
Payment method by enrollment status:				
In-school/grace	Deferred[1]	Deferred[1], interest-only or fixed $25/month	Interest-only or fixed $25/month	
Repayment	Level principal and interest or graduated	Level principal and interest	Level principal and interest	

(1) Deferred includes loans for which no payments are required and interest charges are capitalized into the loan balance.

The graduated repayment program that is part of Signature and Other Loans includes an interest-only payment feature that may be selected at the option of the customer. Customers elect to participate in this program at the time they enter repayment following their grace period. This program is available to customers in repayment, after their grace period, who would like a temporary lower payment from the required principal and interest payment amount. Customers participating in this program pay monthly interest with no amortization of their principal balance for up to 48 payments after entering repayment (dependent on the loan product type). The maturity date of the loan is not extended when a customer participates in this program. As of December 31, 2012 and 2011, customers in repayment owing approximately $6.6 billion (21 percent of loans in repayment) and $7.2 billion (24 percent of loans in repayment), respectively, were enrolled in the interest-only program. Of these amounts, 10 percent and 11 percent were non-traditional loans as of December 31, 2012 and 2011, respectively.

Table of Contents

Accrued Interest Receivable

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

	Accrued Interest Receivable As of December 31,		
(Dollars in millions)	Total	Greater than 90 days Past Due	Allowance for Uncollectible Interest
2012	$ 904	$ 55	$ 67
2011	$ 1,018	$ 54	$ 72
2010	$ 1,271	$ 55	$ 94
2009	$ 1,165	$ 41	$ 96
2008	$ 1,135	$ 29	$ 106

FFELP Loan Portfolio Performance

FFELP Loan Delinquencies and Forbearance

The tables below present our FFELP Loan delinquency trends.

	FFELP Loan Delinquencies December 31,					
	2012		2011		2010	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[(1)]	$ 17,702		$ 22,887		$ 28,214	
Loans in forbearance[(2)]	15,902		19,575		22,028	
Loans in repayment and percentage of each status:						
Loans current	75,499	83.2%	77,093	81.9%	80,026	82.8%
Loans delinquent 31-60 days[(3)]	4,710	5.2	5,419	5.8	5,500	5.7
Loans delinquent 61-90 days[(3)]	2,788	3.1	3,438	3.7	3,178	3.3
Loans delinquent greater than 90 days[(3)]	7,734	8.5	8,231	8.6	7,992	8.2
Total FFELP Loans in repayment	90,731	100%	94,181	100%	96,696	100%
Total FFELP Loans, gross	124,335		136,643		146,938	
FFELP Loan unamortized premium	1,436		1,674		1,900	
Total FFELP Loans	125,771		138,317		148,838	
FFELP Loan allowance for losses	(159)		(187)		(189)	
FFELP Loans, net	$ 125,612		$ 138,130		$ 148,649	
Percentage of FFELP Loans in repayment		73.0%		68.9%		65.8%
Delinquencies as a percentage of FFELP Loans in repayment		16.8%		18.1%		17.2%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		14.9%		17.2%		18.6%

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

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

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

Table of Contents

Allowance for FFELP Loan Losses

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

(Dollars in millions)	Years Ended December 31, 2012	2011	2010
Allowance at beginning of period	$ 187	$ 189	$ 161
Consolidation of securitization trusts[1]			25
Allowance at beginning of period total portfolio	187	189	186
Provision for FFELP Loan losses	72	86	98
Charge-offs	(92)	(78)	(87)
Student loan sales	(8)	(10)	(8)
Allowance at end of period	$ 159	$ 187	$ 189
Charge-offs as a percentage of average loans in repayment	.10%	.08%	.11%
Charge-offs as a percentage of average loans in repayment and forbearance	.08%	.07%	.09%
Allowance as a percentage of the ending total loans, gross	.13%	.14%	.13%
Allowance as a percentage of ending loans in repayment	.18%	.20%	.20%
Allowance coverage of charge-offs	1.7	2.4	2.2
Ending total loans, gross	$ 124,335	$ 136,643	$ 146,938
Average loans in repayment	$ 91,653	$ 94,359	$ 82,255
Ending loans in repayment	$ 90,731	$ 94,181	$ 96,696

[1] On January 1, 2010, upon the adoption of the new consolidation accounting guidance, all off-balance sheet loans were consolidated on-balance sheet.

Table of Contents

Liquidity and Capital Resources

Funding and Liquidity Risk Management

The following Liquidity and Capital Resources discussion concentrates on our Consumer Lending and FFELP Loans segments. Our Business Services and Other segments require minimal capital and funding.

We define liquidity risk as the potential inability to meet our obligations when they become due without incurring unacceptable losses, such as the ability to fund liability maturities and deposit withdrawals, or invest in future asset growth and business operations at reasonable market rates, as well as the potential inability to fund Private Education Loan originations. Our three primary liquidity needs include our ongoing ability to meet our funding needs for our businesses throughout market cycles, including during periods of financial stress and to avoid any mismatch between the maturity of assets and liabilities, our ongoing ability to fund originations of Private Education Loans and servicing our indebtedness and bank deposits. To achieve these objectives we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources including the issuance of unsecured debt, the issuance of secured debt primarily through asset backed securitizations and/or other financing facilities and through deposits at the Bank.

We define liquidity as cash and high-quality liquid securities that we can use to meet our funding requirements. Our primary liquidity risk relates to our ability to fund new originations and raise replacement funding at a reasonable cost as our unsecured debt and bank deposits mature. In addition, we must continue to obtain funding at reasonable rates to meet our other business obligations and to continue to grow our business. Key risks associated with our liquidity relate to our ability to access the capital markets and bank deposits and access them at reasonable rates. This ability may be affected by our credit ratings, as well as the overall availability of funding sources in the marketplace. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions, including over-the-counter derivatives.

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change from time to time based on our financial performance, industry dynamics and other factors. Other factors that influence our credit ratings include the ratings agencies assessment of the general operating environment, our relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices. A negative change in our credit rating could have a negative effect on our liquidity because it would raise the cost and availability of funding and potentially require additional cash collateral or restrict cash currently held as collateral on existing borrowings or derivative collateral arrangements. It is our objective to improve our credit ratings so that we can continue to efficiently access the capital markets even in difficult economic and market conditions.

We expect to fund our ongoing liquidity needs, including the origination of new Private Education Loans and the repayment of $2.3 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash and investment portfolio, the issuance of additional bank deposits and unsecured debt, the predictable operating cash flows provided by earnings, the repayment of principal on unencumbered student loan assets and the distributions from our securitization trusts (including servicing fees which are priority payments within the trusts). We may also draw down on our FFELP ABCP Facilities and the facility with the Federal Home Loan Bank in Des Moines (the FHLB-DM Facility); and we may also issue term ABS.

Currently, new Private Education Loan originations are initially funded through deposits and subsequently securitized to term. We have $1.6 billion of cash at the Bank as of December 31, 2012 available to fund future originations. We no longer originate FFELP Loans and therefore no longer have liquidity requirements for new FFELP Loan originations.

We will continue to opportunistically purchase FFELP Loan portfolios from others. Additionally, we still expect to redeem all remaining FFELP Loans we currently finance in the ED Conduit Program on or before the program s anticipated January 19, 2014, maturity date (the ED Maturity Date). We plan to rely primarily on

Table of Contents

securitizing these loans to term through securitization trusts. However, existing FFELP ABCP and FHLB-DM Facility capacities, as well as additional capital markets funding sources may be needed to complete our objectives on a timely basis.

Since December 31, 2010, we have refinanced approximately $9.4 billion in principal amount of our FFELP Loans previously financed through the ED Conduit Program, most being funded to term through the use of securitization trusts. As of December 31, 2012, we have $9.5 billion in principal amount of FFELP Loans remaining in the ED Conduit Program. If we cannot obtain sufficient cost-effective funding to finance any or all of the FFELP Loans remaining in the ED Conduit Program on or before the ED Maturity Date, any remaining FFELP Loans still in the program must be put to ED at 97 percent of their principal balance which results in us forfeiting three percent of the principal amount of those loans. In addition, we will also no longer collect future servicing revenues or interest income on any loans put to ED.

Sources of Liquidity and Available Capacity

Ending Balances

(Dollars in millions)	December 31, 2012	2011
Sources of primary liquidity:		
Unrestricted cash and liquid investments:		
Holding Company and other non-bank subsidiaries	$ 2,376	$ 1,403
Sallie Mae Bank[1]	1,598	1,462
Total unrestricted cash and liquid investments	$ 3,974	$ 2,865
Unencumbered FFELP Loans	$ 1,656	$ 994

Average Balances

(Dollars in millions)	Years Ended December 31, 2012	2011	2010
Sources of primary liquidity:			
Unrestricted cash and liquid investments:			
Holding Company and other non-bank subsidiaries	$ 2,386	$ 2,474	$ 3,877
Sallie Mae Bank[1]	913	1,244	2,295
Total unrestricted cash and liquid investments	$ 3,299	$ 3,718	$ 6,172
Unencumbered FFELP Loans	$ 1,218	$ 1,399	$ 1,897

(1) This cash will be used primarily to originate or acquire student loans at the Bank. See discussion below on restrictions on the Bank to pay dividends.

Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under the FFELP ABCP Facility and FHLB-DM Facility will vary and be subject to each agreement s borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of December 31, 2012 and 2011, the maximum additional capacity under these facilities was $11.8 billion and $11.3 billion, respectively. For the years ended December 31, 2012, 2011 and 2010, the average maximum additional capacity under these facilities was $11.3 billion, $11.4 billion and $12.9 billion, respectively.

We also hold a number of other unencumbered assets, consisting primarily of Private Education Loans and other assets. Total unencumbered student loans, net, comprised $12.1 billion of our unencumbered assets of which $10.4 billion and $1.7 billion related to Private Education Loans, net and FFELP Loans, net, respectively. At December 31, 2012, we had a total of $21.2 billion of unencumbered assets inclusive of those described above as sources of primary liquidity and exclusive of goodwill and acquired intangible assets.

Table of Contents

The Bank s ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah s industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank s capital and surplus would not be impaired. While applicable Utah and FDIC regulations differ in approach as to determinations of impairment of capital and surplus, neither method of determination has historically required the Bank to obtain consent to the payment of dividends. For the years ended December 31, 2012, 2011 and 2010, the Bank paid dividends of $420 million, $100 million and $400 million, respectively.

For further discussion of our various sources of liquidity, such as the ED Conduit Program, the Bank, our continued access to the ABS market, our asset-backed financing facilities, the lending agreement we entered into with the FHLB-DM and our issuance of unsecured debt, see Note 6 Borrowings.

The following table reconciles encumbered and unencumbered assets and their net impact on total tangible equity.

	December 31,	
(Dollars in billions)	**2012**	**2011**
Net assets of consolidated variable interest entities (encumbered assets) FFELP Loans	$ 6.6	$ 7.4
Net assets of consolidated variable interest entities (encumbered assets) Private Education Loans	6.6	5.5
Tangible unencumbered assets[1]	21.2	20.2
Unsecured debt	(26.7)	(24.1)
Mark-to-market on unsecured hedged debt[2]	(1.7)	(1.9)
Other liabilities, net	(1.4)	(2.3)
Total tangible equity	$ 4.6	$ 4.8

(1) Excludes goodwill and acquired intangible assets.

(2) At December 31, 2012 and 2011, there were $1.4 billion and $1.6 billion, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.

2012 Transactions

On January 13, 2012, the FFELP ABCP Facility was amended to increase the amount available to $7.5 billion, reflecting an increase of $2.5 billion over the previously scheduled facility reduction. In addition, the amendment extends the final maturity date by one year to January 9, 2015 and increases the amount available at future step-down dates.

In 2012, we issued $9.7 billion of FFELP ABS in eight separate transactions and $4.2 billion of Private Education Loan ABS in five separate transactions.

Unsecured Financings:

January 27, 2012 issued $1.5 billion senior unsecured debt, consisting of a $750 million five-year term bond and a $750 million ten-year term bond.

June 18, 2012 issued $350 million unsecured debt with an average life of 4.5 years.

September 12, 2012	issued an $800 million senior unsecured bond, consisting of a $300 million three-year term bond and $500 million five-year term bond.

Shareholder Distributions

On January 26, 2012, we increased our quarterly dividend on our common stock to $0.125 per common share. We paid our quarterly dividend on March 16, 2012, June 15, 2012, September 12, 2012 and December 21,

Table of Contents

2012. During 2012, we repurchased 58.0 million shares for an aggregate purchase price of $900 million. In 2011, we repurchased 19.1 million shares of common stock at an aggregate price of $300 million.

On February 5, 2013, we increased our quarterly dividend on our common stock from $0.125 per common share to $0.15 per common share. The next quarterly dividend will be paid on March 15, 2013 to shareholders of record at the close of business on March 1, 2013. The Board of Directors also authorized a $400 million share repurchase program for our outstanding common stock. The program does not have an expiration date.

2013 Sale of FFELP Securitization Trust Residual Interest

We sold the Residual Interest in a FFELP Consolidation Loan securitization trust to a third party in February 2013. We will continue to service the student loans in the trust under existing agreements. The sale will remove student loan assets of $3.8 billion and related liabilities of $3.7 billion from our balance sheet. A pre-tax gain of approximately $55 million from the transaction will be recognized in the first quarter of 2013.

Counterparty Exposure

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us. Risks associated with our lending portfolio are discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Consumer Lending Portfolio Performance and FFELP Loan Portfolio Performance.

Our investment portfolio is composed of very short-term securities issued by a diversified group of highly rated issuers, limiting our counterparty exposure. Additionally, our investing activity is governed by Board approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. (ISDA) Credit Support Annexes (CSAs). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by SLM Corporation and the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our securitization trusts require collateral in all cases if the counterparty s credit rating is withdrawn or downgraded below a certain level. Additionally, securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative, regardless of credit rating. The trusts are not required to post collateral to the counterparties. In all cases, our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties credit risk when determining the fair value of derivative positions on our exposure net of collateral.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties. If our credit ratings are downgraded from current levels, we may be required to segregate additional unrestricted cash collateral into restricted accounts.

Table of Contents

The table below highlights exposure related to our derivative counterparties at December 31, 2012.

(Dollars in millions)	SLM Corporation and Sallie Mae Bank Contracts	Securitization Trust Contracts
Exposure, net of collateral[1]	$ 79	$ 889
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody s Aa3	87%	37%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody s A3	0%	0%

(1) Recent turmoil in the European markets has led to increased disclosure of exposure to those markets. Our securitization trusts had total net exposure of $764 million related to financial institutions located in France; of this amount, $555 million carries a guaranty from the French government. The total exposure relates to $6.4 billion notional amount of cross-currency interest rate swaps held in our securitization trusts, of which $3.6 billion notional amount carries a guaranty from the French government. Counterparties to the cross currency interest rate swaps are required to post collateral when their credit rating is withdrawn or downgraded below a certain level. As of December 31, 2012, no collateral was required to be posted and we are not holding any collateral related to these contracts. Adjustments are made to our derivative valuations for counterparty credit risk. The adjustments made at December 31, 2012 related to derivatives with French financial institutions (including those that carry a guaranty from the French government) decreased the derivative asset value by $94 million. Credit risks for all derivative counterparties are assessed internally on a continual basis.

Table of Contents

Core Earnings Basis Borrowings

The following tables present the ending balances of our Core Earnings basis borrowings at December 31, 2012, 2011 and 2010, and average balances and average interest rates of our Core Earnings basis borrowings for the years ended December 31, 2012, 2011 and 2010. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment. (See Core Earnings Definition and Limitations Differences between Core Earnings and GAAP Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities of this Item 7).

Ending Balances

	December 31, 2012			December 31, 2011			December 31, 2010		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**
Unsecured borrowings:									
Senior unsecured debt	$ 2,319	$ 15,446	$ 17,765	$ 1,801	$ 15,199	$ 17,000	$ 4,361	$ 15,742	$ 20,103
Brokered deposits	979	3,088	4,067	1,733	1,956	3,689	1,387	3,160	4,547
Retail and other deposits	3,247		3,247	2,123		2,123	1,370		1,370
Other[1]	1,609		1,609	1,329		1,329	887		887
Total unsecured borrowings	8,154	18,534	26,688	6,986	17,155	24,141	8,005	18,902	26,907
Secured borrowings:									
FFELP Loan securitizations		105,525	105,525		107,905	107,905		113,671	113,671
Private Education Loan securitizations		19,656	19,656		19,297	19,297		21,409	21,409
ED Conduit Program Facility	9,551		9,551	21,313		21,313	24,484		24,484
ED Participation Program Facility									
FFELP ABCP Facility		4,154	4,154		4,445	4,445		5,853	5,853
Private Education Loan ABCP Facility		1,070	1,070		1,992	1,992			
Acquisition financing[2]		673	673		916	916		1,064	1,064
FHLB-DM Facility	2,100		2,100	1,210		1,210	900		900
Total secured borrowings	11,651	131,078	142,729	22,523	134,555	157,078	25,384	141,997	167,381
Total Core Earnings basis	19,805	149,612	169,417	29,509	151,710	181,219	33,389	160,899	194,288
Hedge accounting adjustments	51	2,789	2,840	64	2,683	2,747	227	2,644	2,871
Total GAAP basis	$ 19,856	$ 152,401	$ 172,257	$ 29,573	$ 154,393	$ 183,966	$ 33,616	$ 163,543	$ 197,159

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

(2) Relates to the acquisition of $25 billion of student loans at the end of 2010.

81

Table of Contents

Secured borrowings comprised 84 percent of our Core Earnings basis debt outstanding at December 31, 2012 versus 87 percent at December 31, 2011.

	Years Ended December 31,					
	2012		2011		2010	
(Dollars in millions)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Unsecured borrowings:						
Senior unsecured debt	$ 18,183	2.98%	$ 19,562	2.34%	$ 24,480	1.70%
Brokered deposits	3,293	1.86	3,660	2.35	5,123	2.65
Retail and other deposits	2,460	.85	1,684	1.11	644	1.16
Other[1]	1,474	.21	1,187	.17	1,159	.19
Total unsecured borrowings	25,410	2.47	26,093	2.16	31,406	1.79
Secured borrowings:						
FFELP Loan securitizations	106,493	1.08	110,474	.93	100,967	.87
Private Education Loan securitizations	19,322	2.10	20,976	2.17	21,367	2.13
ED Conduit Program Facility	16,118	.82	22,869	.75	15,096	.70
ED Participation Program Facility					13,537	.81
FFELP ABCP Facility	4,733	1.03	4,989	1.05	6,623	1.24
Private Education Loan ABCP Facility	1,880	1.77	272	2.08		
Acquisition financing[2]	791	4.83	998	4.81	3	5.28
FHLB-DM Facility	1,481	.34	893	.25	403	.35
Total secured borrowings	150,818	1.20	161,471	1.09	157,996	1.03
Total	$ 176,228	1.39%	$ 187,564	1.24%	$ 189,402	1.16%
Core Earnings average balance and rate	$ 176,228	1.39%	$ 187,564	1.24%	$ 189,402	1.16%
Adjustment for GAAP accounting treatment		.06		.04		.04
GAAP-basis average balance and rate	$ 176,228	1.45%	$ 187,564	1.28%	$ 189,402	1.20%

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

(2) Relates to the acquisition of $25 billion of student loans at the end of 2010.

Contractual Cash Obligations

The following table provides a summary of our contractual principal obligations associated with long-term notes at December 31, 2012. For further discussion of these obligations, see Note 6 Borrowings.

(Dollars in millions)	1 Year or Less	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Long-term notes:					
Senior unsecured debt	$	$ 4,018	$ 4,100	$ 7,328	$ 15,446
Unsecured term bank deposits		2,446	642		3,088

Secured borrowings[1]	13,655	25,056	19,950	72,417	131,078
Total contractual cash obligations[2]	$ 13,655	$ 31,520	$ 24,692	$ 79,745	$ 149,612

(1) Includes long-term beneficial interests of $125.2 billion of notes issued by consolidated VIEs in conjunction with our securitization transactions and included in long-term notes in the consolidated balance sheet. Timing of obligations is estimated based on our current projection of prepayment speeds of the securitized assets.

(2) The aggregate principal amount of debt that matures in each period is $13.7 billion, $31.6 billion, $24.9 billion and $80.3 billion, respectively. Specifically excludes derivative market value adjustments of $2.8 billion for long-term notes. Interest obligations on notes are predominantly variable in nature, resetting monthly and quarterly based on LIBOR.

Unrecognized tax benefits were $33 million and $40 million for the years ended December 31, 2012 and 2011, respectively. For additional information, see Note 15 Income Taxes.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Note 2 Significant Accounting Policies includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. Actual results may differ from these estimates under varying assumptions or conditions. On a quarterly basis, management evaluates its estimates, particularly those that include the most difficult, subjective or complex judgments and are often about matters that are inherently uncertain. The most significant judgments, estimates and assumptions relate to the following critical accounting policies that are discussed in more detail below.

Allowance for Loan Losses

In determining the allowance for loan losses on our non-TDR portfolio, we estimate the principal amount of loans that will default over the next two years (two years being the expected period between a loss event and default) and how much we expect to recover over time related to the defaulted amount. Expected defaults less our expected recoveries equal the allowance related to this portfolio. Our historical experience indicates that, on average, the time between the date that a customer experiences a default causing event (i.e., the loss trigger event) and the date that we charge off the unrecoverable portion of that loan is two years. Separately, for our TDR portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan s basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan s original effective interest rate (see Allowance for Private Education Loan Losses in Note 2 Significant Accounting Policies). The separate allowance estimates for our TDR and non-TDR portfolios are combined into our total allowance for Private Education Loan losses.

In estimating both the non-TDR and TDR allowance amounts, we start with historical experience of customer default behavior. We make judgments about which historical period to start with and then make further judgments about whether that historical experience is representative of future expectations and whether additional adjustments may be needed to those historical default rates. We also take the economic environment into consideration when calculating the allowance for loan losses. We analyze key economic statistics and the effect we expect them to have on future defaults. Key economic statistics analyzed as part of the allowance for loan losses are unemployment rates and other asset type delinquency rates. More judgment has been required over the last several years, compared with years prior, in light of the recent downturn in the U.S. economy and high levels of unemployment and its effect on our customers ability to pay their obligations.

Our allowance for loan losses is estimated using an analysis of delinquent and current accounts. Our model is used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge off. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. The estimate for the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement.

We determine the collectability of our Private Education Loan portfolio by evaluating certain risk characteristics. We consider school type, credit score (FICO), existence of a cosigner, loan status and loan seasoning as the key credit quality indicators because they have the most significant effect on our determination of the adequacy of our allowance for loan losses. The type of school customers attend can have an impact on

Table of Contents

their job prospects after graduation and therefore affects their ability to make payments. Credit scores are an indicator of the credit worthiness of a customer and the higher the credit score the more likely it is the customer will be able to make all of their contractual payments. Loan status affects the credit risk because a past due loan is more likely to result in a credit loss than an up-to-date loan. Additionally, loans in a deferred payment status have different credit risk profiles compared with those in current pay status. Loan seasoning affects credit risk because a loan with a history of making payments generally has a lower incidence of default than a loan with a history of making infrequent or no payments. The existence of a cosigner lowers the likelihood of default. We monitor and update these credit quality indicators in the analysis of the adequacy of our allowance for loan losses on a quarterly basis.

To estimate the probable credit losses incurred in the loan portfolio at the reporting date, we use historical experience of customer payment behavior in connection with the key credit quality indicators and incorporate management expectations regarding macroeconomic and collection procedure factors. Our model is based upon the most recent six months of actual collection experience, adjusted for seasonality, as the starting point and applies expected macroeconomic changes and collection procedure changes to estimate expected losses caused by loss events incurred as of the balance sheet date. Our model places a greater emphasis on the more recent default experience rather than the default experience for older historical periods, as we believe the recent default experience is more indicative of the probable losses incurred in the loan portfolio today. Similar to estimating defaults, we use historical customer payment behavior to estimate the timing and amount of future recoveries on charged-off loans. We use judgment in determining whether historical performance is representative of what we expect to collect in the future. We then apply the default and collection rate projections to each category of loans. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. Additionally, we consider changes in laws and regulations that could potentially impact the allowance for loan losses. More judgment has been required over the last several years, compared with years prior, in light of the U.S. economy and its effect on our customers ability to pay their obligations. We believe that our model reflects recent customer behavior, loan performance, and collection performance, as well as expectations about economic factors.

Similar to the rules governing FFELP payment requirements, our collection policies allow for periods of nonpayment for customers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered separately in our allowance for loan losses. The loss confirmation period is in alignment with our typical collection cycle and takes into account these periods of nonpayment.

On July 1, 2011, we adopted new guidance that clarified when a loan restructuring constitutes a TDR. In applying the new guidance we determined that certain Private Education Loans for which we grant forbearance of greater than three months should be classified as troubled debt restructurings. If a loan meets the criteria for troubled debt accounting then an allowance for loan losses is established which represents the present value of the losses that are expected to occur over the remaining life of the loan. This accounting results in a higher allowance for loan losses than our previously established allowance for these loans as our previous allowance for these loans represented an estimate of charge-offs expected to occur over the next two years (two years being our loss confirmation period). The new accounting guidance was effective as of July 1, 2011 but was required to be applied retrospectively to January 1, 2011. This resulted in $124 million of additional provision for loan losses in the third quarter of 2011 from approximately $3.8 billion of student loans being classified as troubled debt restructurings. This new accounting guidance is only applied to certain customers who use their fourth or greater month of forbearance during the time period this new guidance is effective. This new accounting guidance has the effect of accelerating the recognition of expected losses related to our Private Education Loan portfolio. The increase in the provision for losses as a result of this new accounting guidance does not reflect a decrease in credit expectations of the portfolio or an increase in the expected life-of-loan losses related to this portfolio. We believe forbearance is an accepted and effective collections and risk management tool for Private Education Loans. We plan to continue to use forbearance and as a result, we expect to have additional loans classified as troubled debt restructurings in the future (see Note 4 Allowance for Loan Losses for a further discussion on the use of forbearance as a collection tool).

Table of Contents

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

The allowance for FFELP Loan losses uses historical experience of customer default behavior and a two year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered.

Premium and Discount Amortization

The most judgmental estimate for premium and discount amortization on student loans is the Constant Prepayment Rate (CPR), which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. Loan consolidation, default, term extension and other prepayment factors affecting our CPR estimates are affected by changes in our business strategy, changes in our competitor s business strategies, legislative changes, interest rates and changes to the current economic and credit environment. When we determine the CPR we begin with historical prepayment rates due to consolidation activity, defaults, payoffs and term extensions from the utilization of forbearance. We make judgments about which historical period to start with and then make further judgments about whether that historical experience is representative of future expectations and whether additional adjustment may be needed to those historical prepayment rates.

In the past the consolidation of FFELP Loans and Private Education Loans significantly affected our CPRs and updating those assumptions often resulted in material adjustments to our amortization expense. As a result of the passage of HCERA, there is no longer the ability to consolidate under the FFELP. In addition, due to the current U.S. economic and credit environment, we, as well as many other industry competitors, have suspended our Private Education Loans consolidation program. As a result, we do not expect to consolidate FFELP Loans in the future and do not currently expect others to actively consolidate our FFELP loans. As a result, we expect CPRs related to our FFELP Loans to remain relatively stable over time. See Business Segment Earnings Summary Core Earnings Basis FFELP Loans Segment of this Item 7, for discussion of the impact of a recent Special Direct Consolidation Loan Initiative in 2012. We expect that in the future both we and our competitors will begin to consolidate Private Education Loans. This is built into the CPR assumption we use for Private Education Loans. However, it is difficult to accurately project the timing and level at which this consolidation activity will begin and our assumption may need to be updated by a material amount in the future based on changes in the economy and marketplace. The level of defaults is a significant component of our FFELP Loan and Private Education Loan CPR. This component of the FFELP Loan and Private Education Loan CPR is estimated in the same manner as discussed in Critical Accounting Policies and Estimates Allowance for Loan Losses of this Item 7 the only difference is for premium and discount amortization purposes the estimate of defaults is a life-of-loan estimate whereas for allowance for loan losses it is a two-year estimate.

Fair Value Measurement

The most significant assumptions used in fair value measurements, including those related to credit and liquidity risk, are as follows:

1. **Investments** Our investments primarily consist of overnight/weekly maturity instruments with high credit quality counterparties. However, we consider credit and liquidity risk involving specific instruments in determining their fair value and, when appropriate, have adjusted the fair value of these instruments for the effect of credit and liquidity risk. These assumptions have further been validated by the successful maturity of these investments in the period immediately following the end of the reporting period.

2. **Derivatives** When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposure for each counterparty is adjusted based on market information available for that specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to us related to our derivatives, we fully collateralize the exposure, minimizing the adjustment necessary to the derivative valuations for our own credit risk. Trusts that contain derivatives are not required to post collateral to counterparties as the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. Adjustments related to credit risk reduced the overall value of our derivatives by $111 million as of December 31, 2012. We also take into account changes in liquidity when determining the fair value of derivative positions. We adjusted the fair value of certain less liquid positions downward by approximately $107 million to take into account a significant reduction in liquidity as of December 31, 2012, related primarily to basis swaps indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives. In addition, certain cross-currency interest rate swaps hedging foreign currency denominated reset rate and amortizing notes in our trusts contain extension features that coincide with the remarketing dates of the notes. The valuation of the extension feature requires significant judgment based on internally developed inputs.

3. **Student Loans** Our FFELP Loans and Private Education Loans are accounted for at cost or at the lower of cost or fair value if the loan is held-for-sale. The fair values of our student loans are disclosed in Note 13 Fair Value Measurements. For both FFELP Loans and Private Education Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, the amount funded by debt versus equity, and required return on equity. In addition, the Floor Income component of our FFELP Loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management s qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions) or are obtained through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to validate the model. In most cases, these are either infrequent or not observable. For FFELP Loans classified as held-for-sale and accounted for at the lower of cost or market, the fair value is based on the committed sales price of the various loan purchase programs established by ED.

For further information regarding the effect of our use of fair values on our results of operations, see Note 13 Fair Value Measurements.

Table of Contents

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

If we have a variable interest in a Variable Interest Entity (VIE) and we have determined that we are the primary beneficiary of the VIE then we will consolidate the VIE. We are considered the primary beneficiary if we have both: (1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. There can be considerable judgment that has to be used as it relates to determining the primary beneficiary of the VIEs with which we are associated. There are no bright line tests. Rather, the assessment of who has the power to direct the activities of the VIE that most significantly affect the VIE s economic performance and who has the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE can be very qualitative and judgmental in nature. However, based on our current relationship with our securitization trusts and other financing vehicles which are considered VIEs, we believe the assessment is more straightforward. As it relates to our securitized assets, we are the servicer of those securitized assets (which means we have the power to direct the activities of the trust) and we own the Residual Interest (which means we have the loss and gain obligation that could potentially be significant to the VIE) of the securitization trusts. As a result, we are the primary beneficiary of our securitization trusts and other financing vehicles. See Note 2 Significant Accounting Policies for further details.

Derivative Accounting

The most significant judgments related to derivative accounting are: (1) concluding the derivative is an effective hedge and qualifies for hedge accounting and (2) determining the fair value of certain derivatives and hedged items. To qualify for hedge accounting a derivative must be concluded to be a highly effective hedge upon designation and on an ongoing basis. There are no bright line tests on what is considered a highly effective hedge. We use a historical regression analysis to prove ongoing and prospective hedge effectiveness. See previous discussion under Critical Accounting Policies and Estimates Fair Value Measurement of this Item 7 for significant judgments related to the valuation of derivatives. Although some of our valuations are more judgmental than others, we compare the fair values of our derivatives that we calculate to those provided by our counterparties on a monthly basis. We view this as a critical control which helps validate these judgments. Any significant differences with our counterparties are identified and resolved appropriately.

Goodwill and Intangible Assets

In determining annually (or more frequently if required) whether goodwill is impaired, we first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit, which is the same as or one level below a business segment, is less than its carrying amount as a basis for determining whether it is necessary to perform additional goodwill impairment testing. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If this more-likely-than-not threshold is met, then we will complete a quantitative goodwill impairment analysis which consists of a comparison of the fair value of the reporting unit to our carrying value, including goodwill. If the carrying value of the reporting unit exceeds the fair value, a goodwill impairment analysis will be performed to measure the amount of impairment loss, if any. If we determine that this event has occurred, we perform an analysis to determine the fair value of the business unit. There are significant judgments involved in determining the fair value of a business unit, including assumptions regarding estimates of future cash flows from existing and new business activities, customer relationships, the value of existing customer contracts, the value of other tangible and intangible assets, as well as assumptions regarding what we believe a third party would be willing to pay for all of the assets and liabilities of the business unit. This calculation requires us to estimate the appropriate discount and growth rates to apply to those projected cash flows and the appropriate control premium to apply to arrive at the final fair value. The business units for which we must estimate the fair value are not publicly traded and often there is not comparable market data available for that individual business to aid in its valuation. We use a third party appraisal firm to provide an opinion on the fair values we conclude upon.

Table of Contents

Risk Management

Our Approach

The products and services we provide, as well as the financial markets in which we participate, continue to undergo dramatic competitive, operational, technological and regulatory changes. Identifying, understanding, and effectively managing the risks inherent in our business is critical to our continued success. Risk oversight, management and assessment responsibilities are clearly assigned and documented, reviewed and coordinated at various levels of our organization. We maintain comprehensive risk management practices to identify, measure, monitor, evaluate, control, and report on our significant risks.

Risk Oversight

Our Board of Directors and its standing committees oversee our overall strategic direction, including setting our risk management philosophy, tolerance and parameters; and establishing procedures for assessing the risks our businesses face as well as the risk management practices our management team develop and utilize. We escalate to our Board any significant departures from established tolerances and parameters and review new and emerging risks with them.

In 2012 our Board and senior management took significant steps to further enhance, formalize and centralize our existing enterprise risk management activities. We expect these efforts to continue into 2013 and beyond and to further evolve as our Bank achieves large bank status under the Dodd-Frank Act. The steps taken in 2012 included:

- The addition of a new, extended meeting of our Board focused exclusively on Sallie Mae s strategic direction and priorities. This meeting will occur annually and in advance of management s development and presentation of its business plan for the following fiscal year.

- The development and, then, adoption in early 2013 of a formal Risk Appetite Framework which reinforces our commitment to an organized enterprise risk management program that identifies, measures, monitors, reports and escalates risks to our senior management and Board in line with developed and agreed risk profiles, tolerances and escalation mechanisms.

- The initial development and testing of a strategy and stress testing tool designed to overlay our previously existing, well-developed financial, credit and operational models that can evolve to provide Sallie Mae and the Bank with the capability to more rapidly analyze key risks in light of actual or assumed changes in strategy, economic conditions, and asset, liability and portfolio performance.

- Enhancement to our existing incentive compensation plan risk oversight policies and procedures which included the following: the creation of a new committee, the Corporate Incentive Compensation Plan Committee, to oversee our incentive compensation plans; enhancements to our incentive compensation plan governance policy, which among other items, require appropriate risk mitigation elements in our incentive compensation plans and annual review of the effectiveness of such plans; and increase in coverage of plans during our annual risk review.

Risk Management Philosophy

Our risk management philosophy is to do all we can to ensure all significant risks inherent in our business can be identified, measured, monitored, evaluated, controlled and reported. In furtherance of these goals, we seek to (i) maintain a comprehensive and uniform risk management framework; (ii) maintain accountability and ownership at the business segment level for risks to which they are exposed; (iii) provide appropriate reporting tools to management and the Board and its committees; and (iv) reinforce this philosophy to our employees.

Risk Management Roles and Responsibilities

Responsibility for risk management is held at several different levels of our organization, including our Board and its committees. Each business area within our organization is primarily responsible for managing its specific risks utilizing formalized processes and procedures developed in collaboration with our executive management team and internal risk management partners. Our compliance, credit, human resources, legal, information technology, finance and accounting, and information security groups, are responsible for providing our business segments with the training, systems and specialized expertise necessary to properly perform their risk management responsibilities.

Board of Directors. Our Board, directly and through its standing committees, is responsible for overseeing our overall strategic direction and risk management approach. The Board approves our annual business plan, periodically reviews our strategic approach and priorities and spends significant time considering our capital requirements and our dividend and share repurchase levels and activities. Standing committees of our Board include Executive, Audit, Compensation and Personnel, Nominations and Governance, Finance and Operations, Preferred Stock and Strategy Committees. Charters for each committee providing their specific responsibilities and areas of risk oversight are published at www.salliemae.com under Investors-Corporate Governance. Additional information regarding their activities and responsibilities will also be contained in the Corporate Governance section of our Proxy Statement to be filed on Schedule 14A relating to our Annual Meeting of Shareholders scheduled to be held on May 30, 2013 and is incorporated herein by reference.

Chief Executive Officer. Our Chief Executive Officer is ultimately responsible for ensuring proper oversight, management and reporting to Board regarding our risk management practices and the timely escalation of any significant issues. Our Chief Executive Officer is responsible for establishing our risk management culture and ensuring business areas operate within directed risk parameters and in accordance with our annual business plan.

Internal Risk Oversight Committees. We have a number of standing management committees dedicated to oversight of various risks relating to our business. In 2012, we formed the Corporate Incentive Compensation Plan Committee and in 2013 we will initiate an additional senior-executive level committee, the Enterprise Risk Committee. Both committees have broader risk oversight agendas and responsibilities. Below is a description of our key internal risk management committees.

Enterprise Risk Committee. As part of the adoption of our formal Risk Appetite Framework, we recently formed an Enterprise Risk Committee to more efficiently assist our Chief Executive Officer in the execution of his risk responsibilities. This committee is an executive management-level committee that will provide a forum for our senior management team to review and discuss our significant risks, receive periodic reports on adherence to agreed risk parameters and continue to supervise the evolution of our enterprise risk management program. Committee membership consists of our Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and General Counsel, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Marketing Officer, Executive Vice President Administration, Chief Credit Officer, Chief Compliance Officer and the Chief Audit Officer (in a non-voting capacity). The predominance of committee members are direct reports to our Chief Executive Officer. The committee will meet at least six times per year in advance of each regularly scheduled Board meeting and more frequently as may needed to address particular issues.

Corporate Incentive Compensation Plan Committee. Our Corporate Incentive Compensation Plan Committee is comprised of a cross-functional team of senior officers from human resources, risk and legal who oversee our incentive compensation plans. The committee s responsibilities include ensuring that our incentive compensation plans do not incent our employees to take inappropriate risks which could impact our financial position and controls, reputation and operations; reviewing the annual risk assessment of our incentive compensation plans conducted by our Chief Compliance Officer and Chief Credit Officer; and developing policies and procedures for the development and approval of new incentive compensation plans in line with our business goals and within acceptable risk parameters. The committee periodically reports to the Compensation and Personnel Committee of our Board on our controls and reviews of our incentive compensation plans. We expect the committee will also work in tandem with our newly formed Enterprise Risk Committee over the course of the year. Committee membership includes our Executive Vice President Administration, Chief Compliance Officer, Chief Credit Officer, Deputy General Counsel responsible for human resources matters, and our Chief Audit Officer (in a non-voting capacity).

Disclosure Committee. Our Disclosure Committee reviews and approves content of periodic SEC reporting documents, earnings releases and related disclosure policies and procedures.

Loan Loss Reserve Committee. Our Loan Loss Reserve Committee oversees the sufficiency of our loan loss reserves and considers current or emerging issues affecting delinquency and default trends which may result in adjustments in our allowances for loan losses.

Critical Accounting Assumptions Committee. Our Critical Accounting Assumptions Committee oversees critical accounting assumptions, as well as key judgments and estimates, utilized in preparation of our financial statements.

Asset and Liability Committee. Our Asset and Liability Committee oversees our investment portfolio and strategy and our compliance with our investment policy.

Corporate Credit Committee. Our Corporate Credit Committee oversees the overall credit and portfolio management strategy, policy review and monitoring.

Corporate Compliance Committee. Our Corporate Compliance Committee oversees regulatory compliance risk management activities for Sallie Mae and its affiliates.

ICE Steering Committee. Our ICE Steering Committee oversees our Internal Controls Excellence (ICE) initiative and Sarbanes-Oxley compliance and sponsors periodic forums in which the top internal control deficiencies are discussed and analyzed to ensure the control deficiencies are identified, understood by all relevant affected parties, and have established resolution plans supported by adequate resources.

Customer Products and Services Assessment Committee. Our Customer Products and Services Assessment Committee considers matters relating to risks affecting us and our wholly- and majority-owned subsidiaries associated with new, expanded, or modified products or services and makes recommendations regarding proposed products or service offerings based on their inherent risks and controls.

Risk Assessment

Our Internal Audit Department monitors our various risk management and compliance efforts, identifies areas that may require increased focus and resources, and reports significant control issues and recommendations to executive management and the Audit Committee of our Board. At least annually, the Internal Audit Department performs a risk assessment to identify our top risks used to develop their annual internal audit plan. The risk assessment focuses on those risks most relevant to us and our subsidiaries (including the Bank).

Risk Appetite Framework

Our risk appetite framework establishes the level of risk we are willing to accept within each risk category in pursuit of our business strategy. By having a uniform risk appetite framework, it creates linkages across our businesses to ensure business decisions, monitoring and reporting are made on a consistent basis. Management and our various corporate committees monitor approved limits and escalation triggers to ensure that our businesses are operating within the approved risk limits. Risk limits are monitored and reports are provided to various corporate committees and our Board and its committees, as appropriate. Through ongoing monitoring of risk exposures, management is able to identify potential risks and develop appropriate responses and mitigation strategies. Our Board has agreed our Risk Appetite Framework with management and directed management to continue its development and evolution with the Audit Committee of our Board.

Table of Contents

Risk Categories

We evaluate our significant risks using the following categories: (1) credit; (2) market; (3) funding & liquidity; (4) compliance; (5) legal; (6) operational; (7) reputational/political; (8) governance; and (9) strategy.

Credit Risk. Credit risk is the risk to earnings or capital resulting from an obligor s failure to meet the terms of any contract with us or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance.

We have credit or counterparty risk exposure with borrowers and cosigners with whom we have made Private Education Loans, the various counterparties with whom we have entered into derivative contracts and the various issuers with whom we make investments. Credit and counterparty risks are overseen by our Chief Credit Officer, his staff and the internal Credit Committee he chairs. Our Chief Credit Officer reports regularly to our Board and Finance and Operations and Audit Committees of our Board.

The credit risk related to Private Education Loans is managed within a credit risk infrastructure which includes (i) a well-defined underwriting, asset quality and collection policy framework; (ii) an ongoing monitoring and review process of portfolio concentration and trends; (iii) assignment and management of credit authorities and responsibilities; and (iv) establishment of an allowance for loan losses that covers estimated losses based upon portfolio and economic analysis.

Credit risk related to derivative contracts is managed by reviewing counterparties for credit strength on an ongoing basis and through our credit policies, which place limits on the amount of exposure we may take with any one counterparty and, in most cases, require collateral to secure the position. The credit and counterparty risk associated with derivatives is measured based on the replacement cost should the counterparties with contracts in a gain position to the Company fail to perform under the terms of the contract.

Market Risk. Market risk is the risk to earnings or capital resulting from changes in market conditions, such as interest rates, credit spreads, commodity prices or volatilities. We are exposed to various types of market risk, in particular the risk of loss resulting in a mismatch between the maturity/duration of assets and liabilities, interest rate risk and other risks that arise through the management of our investment, debt and student loan portfolios. Market risk exposures are managed primarily through our internal Asset and Liability Committee. The responsibilities of this committee include: maintaining oversight and responsibility for all risks associated with managing our assets and liabilities, and recommending limits to be included in our risk appetite and investment structure. These activities are closely tied to those related to the management of our funding and liquidity risks. The Finance and Operations Committee of our Board periodically reviews and approves the investment and asset and liability management policies and contingency funding plan developed and administered by our internal Asset and Liability Committee. The Finance and Operations Committee of our Board as well as our Chief Financial Officer report to the full Board on matters of market risk management.

Funding & Liquidity Risk. Funding and liquidity risk is the risk to earnings, capital or the conduct of our business arising from the inability to meet our obligations when they become due without incurring unacceptable losses, such as the ability to fund liability maturities and deposit withdrawals, or invest in future asset growth and business operations at reasonable market rates, as well as the inability to fund Private Education Loan originations. Our three primary liquidity needs include our ongoing ability to meet our funding needs for our businesses throughout market cycles, including during periods of financial stress and to avoid any mismatch between the maturity of assets and liabilities, our ongoing ability to fund originations of Private Education Loans and servicing our indebtedness and bank deposits. Key objectives associated with our funding liquidity needs relate to our ability to access the capital markets at reasonable rates and to continue to maintain retail deposits and funding sources through the Bank.

Our funding and liquidity risk management activities are centralized within our Corporate Finance department, which is responsible for planning and executing our funding activities and strategies. We analyze and monitor our liquidity risk, maintain excess liquidity and access diverse funding sources depending on current market conditions. Funding and liquidity risks are overseen and recommendations approved primarily through our internal Asset and Liability Committee. The Finance and Operations Committee of our Board is responsible for periodically reviewing and approving the funding and liquidity positions and contingency funding plan developed and administered by our internal Asset and Liability Committee. The Finance and Operations Committee of our Board also receives regular reports on our performance against funding and liquidity plans at each of its meetings.

Operational Risk. Operational risk is the risk to earnings resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is pervasive in that it exists in all business lines, functional units, legal entities and geographic locations, and it includes information technology risk, physical security risk on tangible assets, as well as legal/compliance risk and reputational risk.

Our Board receives operations reports (which include operating metrics and performance against annual plan) from our Chief Executive Officer and Chief Operating Officer at each regularly scheduled meeting. Additionally, the Finance & Operations Committee of our Board receives business development updates regarding our various business initiatives that provide information and metrics about each key component of business operations. The Audit Committee of our Board receives periodic information security updates and reviews operational and systems-related matters to insure their implementation produces no significant internal control issues.

Operational risk exposures are managed through a combination of business line management and enterprise-wide oversight. Our Chief Operating Officer is responsible for all of our business operations (credit, servicing, collections and technology). Management committees, comprised of senior managers and subject matter experts, focus on particular aspects of operational risk. Enterprise-wide oversight is conducted by a number of our internal risk management committees. Most importantly, the Customer Products and Services Assessment Committee oversees the process, in connection with new, expanded or modified products or services it recommends for approval, for determining that significant risks are properly identified; confirming that adequate controls are in place to monitor risks to established, prudent limits; and monitors risk management activities, exposures, and issues.

Compliance, Legal and Governance Risk. Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Legal risk is the risk to earnings, capital or reputation that is manifested by claims made through the legal system and may arise from a product, a transaction, a business relationship, property (real, personal or intellectual), conduct of an employee or a change in law or regulation. Governance risk is the risk of not establishing and maintaining a control environment that aligns with stakeholder and regulatory expectations, including tone at the top and board performance. These risks are inherent in all of our businesses. Compliance, legal and governance risk are sub-sets of operational risk but are recognized as a separate and complementary risk category given their importance in our business. We can be exposed to these risks in key areas such as our private education lending, collections or loan servicing businesses if compliance with legal and regulatory requirements is not properly implemented, documented or tested, as well as when an oversight program does not include appropriate audit and control features.

The Audit Committee of our Board has oversight over the establishment of standards related to our monitoring and control of legal and compliance risks and the qualification of employees overseeing these risk management functions. The Audit Committee of our Board annually approves our Corporate Compliance Plan, has responsibility for considering significant breaches of our Code of Business Conduct and receives regular reports from executive management team members responsible for the regulatory and compliance risk management functions.

Primary ownership and responsibility for legal and compliance risk is placed with the business segments to manage their specific regulatory and compliance risks. Our Compliance group supports these activities by providing extensive training, monitoring and testing of the processes, policies and procedures utilized by our business segments, maintaining consumer lending regulatory and information security policies and procedures, and working in close coordination with our Legal group. Our Corporate Compliance Committee serves as a regular internal forum where key compliance issues and risks are discussed. At this committee, business, compliance and legal professionals review testing of existing regulatory compliance procedures and approve new or revised procedures.

Our Code of Business Conduct and the on-going training our employees receive in many compliance areas provide a framework for our employees to conduct themselves with the highest integrity. We instill a risk-conscious culture through communications, training, policies and procedures. We have strengthened the linkage between the management performance process and individual compensation to encourage employees to work toward corporate-wide compliance goals.

Reputational/Political Risk. Reputational risk is the risk to shareholder value and growth from a negative perception, whether true or not, of an organization by its key stakeholders, the changing expectations of its stakeholders and/or weak internal coordination of business decisions. This could expose us to litigation, financial loss or other damage to our business or brand. Political risk addresses political changes that may affect the probability of achieving our business objectives.

Management proactively assesses and manages political and reputation risk. Our government relations team manages our review of and response to all formal inquiries from members of Congress, state legislators, and their staff, including providing targeted messaging that reinforces our public policy goals. We review and consider political and reputational risks on an integrated basis in connection with the risk management oversight activities conducted in the various aspects of our business on matters as diverse as the launch of new products and services, our credit underwriting activities and how we fund our operations. Our public relations, marketing and media teams constantly monitor print, electronic and social media to understand how we are perceived; actively provide assistance and support to our customers and other constituencies; and maintain and promote the value of our considerable corporate brand. Significant political and reputation risks are reported to and monitored by the Finance and Operations Committee of our Board. Our Legal, Government Relations and Compliance groups efforts are coordinated through our General Counsel and regularly meet and collaborate with our Media and Investor Relations teams to provide more coordinated monitoring and management of our political and reputational risks.

Strategy Risk. Strategic risk is the risk to shareholder value and growth trajectory from adverse business decisions and/or improper implementation of business strategies. Management must be able to develop and implement business strategies that leverage the organization s core competencies, are structured appropriately and are achievable. The cornerstone of our annual strategy risk management program involves our Board s approval of our annual strategic business plan and management s recommendations for how to grow our business while focused on managing risks to acceptable parameters. Management and the Board and its various committees continuously review how we execute on our annual business plan.

Table of Contents

Common Stock

The following table summarizes our common share repurchases and issuances.

	Years Ended December 31, 2012	2011	2010
Common stock repurchased[1]	58,038,239	19,054,115	
Average purchase price per share[2]	$ 15.52	$ 15.77	$
Shares repurchased related to employee stock-based compensation plans[3]	4,547,785	3,024,662	1,097,647
Average purchase price per share	$ 15.86	$ 15.71	$ 13.44
Common shares issued[4]	6,432,643	3,886,217	1,803,683

(1) Common shares purchased under our share repurchase program, of which none remained available as of December 31, 2012.

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

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

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

The closing price of our common stock on December 31, 2012 was $17.13.

Our shareholders have authorized the issuance of 1.125 billion shares of common stock (par value of $.20). At December 31, 2012, 453 million shares were issued and outstanding and 27 million shares were unissued but encumbered for outstanding stock options for employee compensation and remaining authority for stock-based compensation plans. The stock-based compensation plans are described in Note 11, Stock-Based Compensation Plans and Arrangements.

In March 2011, we retired 70 million shares of common stock held in treasury. This retirement decreased the balance in treasury stock by $1.9 billion, with corresponding decreases of $14 million in common stock and $1.9 billion in additional paid-in capital. There was no impact to total equity from this transaction.

On December 15, 2010, the mandatory conversion date, the remaining 810,370 shares of our Series C Preferred Stock were converted into 41 million shares of common stock.

Dividend and Share Repurchase Program

On January 26, 2012, we increased the quarterly dividend on our common stock to $.125 per share, up from $.10 per share in the prior quarter. We paid our quarterly dividend on March 16, 2012, June 15, 2012, September 21, 2012 and December 21, 2012. In 2012, we authorized the repurchase of up to $900 million of outstanding common stock in open market transactions. During 2012, we repurchased 58.0 million shares for an aggregate purchase price of $900 million. In 2011, we repurchased 19.1 million shares of common stock at an aggregate price of $300 million under our April 2011 share repurchase program that authorized up to $300 million of share repurchases.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures about Market Risk
Interest Rate Sensitivity Analysis

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at December 31, 2012 and 2011, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 25 basis points while holding the asset index constant, if the funding index is different than the asset index. The earnings sensitivity is applied only to financial assets and liabilities, including hedging instruments that existed at the balance sheet date and does not take into account new assets, liabilities or hedging instruments that may arise in 2013.

	As of December 31, 2012 Impact on Annual Earnings If:			As of December 31, 2011 Impact on Annual Earnings If:		
	Interest Rates:		Funding Indices	Interest Rates:		Funding Indices
(Dollars in millions, except per share amounts)	Increase 100 Basis Points	Increase 300 Basis Points	Increase 25 Basis Points(1)	Increase 100 Basis Points	Increase 300 Basis Points	Increase 25 Basis Points(1)
Effect on Earnings:						
Change in pre-tax net income before unrealized gains (losses) on derivative and hedging activities	$ (20)	$ 24	$ (307)	$	$ 45	$ (419)
Unrealized gains (losses) on derivative and hedging activities	463	769	(3)	493	814	(16)
Increase in net income before taxes	$ 443	$ 793	$ (310)	$ 493	$ 859	$ (435)
Increase in diluted earnings per common share	$ .92	$ 1.64	$ (.64)	$ .94	$ 1.64	$ (.83)

(1) If an asset is not funded with the same index/frequency reset of the asset then it is assumed the funding index increases 25 basis points while holding the asset index constant.

	At December 31, 2012				
		Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points	
(Dollars in millions)	Fair Value	$	%	$	%
Effect on Fair Values					
Assets					
FFELP Loans	$ 125,042	$ (738)	(1)%	$ (1,438)	(1)%
Private Education Loans	36,081				
Other earning assets	9,994			(1)	
Other assets	8,721	(560)	(6)	(1,187)	(14)%
Total assets gain/(loss)	$ 179,838	$ (1,298)	(1)%	$ (2,626)	(1)%
Liabilities					
Interest-bearing liabilities	$ 166,071	$ (829)	%	$ (2,298)	(1)%
Other liabilities	3,937	(422)	(11)	(274)	(7)

Total liabilities (gain)/loss	$ 170,008	$ (1,251)	(1)%	$ (2,572)	(2)%

		At December 31, 2011			
		Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points	
(Dollars in millions)	Fair Value	$	%	$	%
Effect on Fair Values					
Assets					
FFELP Loans	$ 134,196	$ (665)	%	$ (1,335)	(1)%
Private Education Loans	33,968				
Other earning assets	9,871			(1)	
Other assets	8,943	(639)	(7)	(1,420)	(16)%
Total assets gain/(loss)	$ 186,978	$ (1,304)	(1)%	$ (2,756)	(1)%
Liabilities					
Interest-bearing liabilities	$ 171,152	$ (730)	%	$ (2,002)	(1)%
Other liabilities	4,128	(617)	(15)	(801)	(19)
Total liabilities (gain)/loss	$ 175,280	$ (1,347)	(1)%	$ (2,803)	(2)%

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, due to the ability of some FFELP loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating. In addition, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

During the years ended December 31, 2012 and 2011, certain FFELP Loans were earning Floor Income and we locked in a portion of that Floor Income through the use of Floor Income contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the preceding tables, under the scenario where interest rates increase 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our unhedged loans being in a fixed-rate mode due to Floor Income, while being funded with variable debt in low interest rate environments; and (ii) a portion of our variable assets being funded with fixed rate liabilities and equity. Item (i) will generally cause income to decrease when interest rates increase from a low interest rate environment, whereas item (ii) will generally offset this decrease.

Under the scenario in the tables above labeled Impact on Annual Earnings If: Funding Indices Increase by 25 Basis Points, the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities in the December 31, 2012 analysis is the result of one-month LIBOR-indexed FFELP Loans (loans formerly indexed to commercial paper) being funded with three-month LIBOR and other non-discrete indexed liabilities. In the December 31, 2011 analysis, it is the result of LIBOR-based debt funding commercial paper-indexed assets. See Asset and Liability Funding Gap of this Item 7A for a further discussion. Increasing the spread between indices will also impact the unrealized gains (losses) on derivative and hedging activities as it relates to basis swaps that hedge the mismatch between the asset and funding indices.

In addition to interest rate risk addressed in the preceding tables, we are also exposed to risks related to foreign currency exchange rates. Foreign currency exchange risk is primarily the result of foreign currency denominated debt issued by us. When we issue foreign denominated corporate unsecured and securitization debt, our policy is to use cross currency interest rate swaps to swap all foreign currency denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging

Table of Contents

instrument and hedged items matching. The balance sheet interest bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross currency interest rate swaps in other assets or other liabilities. In the current economic environment, volatility in the spread between spot and forward foreign exchange rates has resulted in material mark-to-market impacts to current-period earnings which have not been factored into the above analysis. The earnings impact is noncash, and at maturity of the instruments the cumulative mark-to-market impact will be zero.

Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of December 31, 2012. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the gains (losses) on derivatives and hedging activities, net line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

Management analyzes interest rate risk and in doing so includes all derivatives that are economically hedging our debt whether they qualify as effective hedges or not (Core Earnings basis). Accordingly, we are also presenting the asset and liability funding gap on a Core Earnings basis in the table that follows the GAAP presentation.

GAAP-Basis

Index (Dollars in billions)	Frequency of Variable Resets	Assets[1]	Funding[2]	Funding Gap
3-month Treasury bill	weekly	$ 7.5	$	$ 7.5
Prime	annual	.7		.7
Prime	quarterly	4.3		4.3
Prime	monthly	19.8		19.8
Prime	daily		1.4	(1.4)
PLUS Index	annual	.4		.4
3-month LIBOR	daily			
3-month LIBOR	quarterly		107.1	(107.1)
1-month LIBOR	monthly	12.4	29.9	(17.5)
1-month LIBOR daily	daily	117.8		117.8
CMT/CPI Index	monthly/quarterly		1.5	(1.5)
Non-Discrete reset[3]	monthly		20.0	(20.0)
Non-Discrete reset[4]	daily/weekly	10.0	4.7	5.3
Fixed Rate[5]		8.4	16.7	(8.3)
Total		$ 181.3	$ 181.3	$

(1) FFELP Loans of $53.2 billion ($48.0 billion LIBOR index and $5.2 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) Funding (by index) includes all derivatives that qualify as hedges.

(3) Funding consists of auction rate securities, the ABCP Facilities, the ED Conduit Program Facility and the FHLB-DM Facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposures.

(5) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders equity (excluding series B Preferred Stock).

Table of Contents

The Funding Gaps in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that typically convert quarterly reset three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges and as a result the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

Core Earnings Basis

Index **(Dollars in billions)**	**Frequency of Variable Resets**	**Assets(1)**	**Funding(2)**	**Funding Gap**
3-month Treasury bill	weekly	$ 7.5	$ .8	$ 6.7
Prime	annual	.7		.7
Prime	quarterly	4.3		4.3
Prime	monthly	19.8	4.5	15.3
Prime	daily		1.4	(1.4)
PLUS Index	annual	.4		.4
3-month LIBOR	daily		6.0	(6.0)
3-month LIBOR	quarterly		84.9	(84.9)
1-month LIBOR	monthly	12.4	39.3	(26.9)
1-month LIBOR	daily	117.8	5.0	112.8
Non-Discrete reset(3)	monthly		20.0	(20.0)
Non-Discrete reset(4)	daily/weekly	10.0	4.7	5.3