SLM CORP
Form 10-Q
August 07, 2008

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008 or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-13251

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

Delaware	**52-2013874**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia	**20190**
(Address of principal executive offices)	*(Zip Code)*

(703) 810-3000
(Registrant s telephone number, including area code)

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

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 o Non-accelerated filer o Smaller reporting company o
(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 o No þ

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

Class	**Outstanding at July 31, 2008**
Voting common stock, $.20 par value	467,297,700 shares

GLOSSARY

Listed below are definitions of key terms that are used throughout this document. See also Appendix A FEDERAL FAMILY EDUCATION LOAN PROGRAM, included in SLM Corporation s (the Company s) 2007 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on February 29, 2008, for a further discussion of FFELP and CCRAA.

2008 Asset-Backed Financing Facilities New financing facilities closed in the first quarter of 2008 comprised of: (i) a $26.0 billion FFELP student loan asset-backed commercial paper (ABCP) conduit facility; (ii) a $5.9 billion Private Education Loan ABCP conduit facility (collectively, the 2008 ABCP Facilities); and (iii) a $2.0 billion secured FFELP loan facility (the 2008 Asset-Backed Loan Facility). The 2008 Asset-Backed Financing Facilities replaced the $30.0 billion Interim ABCP Facility (defined below) and $6.0 billion ABCP facility in the first quarter of 2008.

CCRAA The College Cost Reduction and Access Act of 2007.

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

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

Core Earnings In accordance with the rules and regulations of the SEC, the Company prepares financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition to evaluating the Company s GAAP-based financial information, management evaluates the Company s business segments on a basis that, as allowed under the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, differs from GAAP. The Company refers to management s basis of evaluating its segment results as Core Earnings presentations for each business segment and refers to these performance measures in its presentations with credit rating agencies and lenders. While Core Earnings results are not a substitute for reported results under GAAP, the Company relies on Core Earnings performance measures in operating each business segment because it believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Core Earnings performance measures are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by the Company s chief operating decision makers. Core Earnings performance measures are used in developing the Company s financial plans, tracking results, and establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company s core business activities. Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income. Accordingly, the Company s Core Earnings presentation does not represent another comprehensive basis of accounting.

See Note 13, Segment Reporting, to the consolidated financial statements and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS BUSINESS SEGMENTS Limitations of Core Earnings and Pre-tax Differences between Core Earnings and GAAP by Business Segment fo further discussion of the differences between Core Earnings and GAAP, as well as reconciliations between Core Earnings and GAAP.

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

Direct Loans Student loans originated directly by ED under the William D. Ford Federal Direct Student Loan Program (FDLP).

ED The U.S. Department of Education.

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

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

FFELP Consolidation Loans Under the FFELP, borrowers with multiple eligible student loans may consolidate them into a single student loan with one lender at a fixed-rate for the life of the loan. The new loan is considered a FFELP Consolidation Loan. Typically a borrower may consolidate his student loans only once unless the borrower has another eligible loan to consolidate with the existing FFELP Consolidation Loan. The borrower rate on a FFELP Consolidation Loan is fixed for the term of the loan and is set by the weighted average interest rate of the loans being consolidated, rounded up to the nearest 1/8th of a percent, not to exceed 8.25 percent. In low interest rate environments, FFELP Consolidation Loans provide an attractive refinancing opportunity to certain borrowers because they allow borrowers to consolidate variable rate loans into a long-term fixed-rate loan. Holders of FFELP Consolidation Loans are eligible to earn interest under the Special Allowance Payment (SAP) formula (see definition below). In April 2008, the Company suspended its participation in the FFELP Consolidation Loan program.

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

Fixed-Rate Floor Income The Company refers to Floor Income (see definition below) associated with student loans with borrower rates that are fixed to term (primarily FFELP Consolidation Loans and Stafford Loans originated on or after July 1, 2006) as Fixed-Rate Floor Income.

Floor Income FFELP loans generally earn interest at the higher of either the borrower rate, which is fixed over a period of time, or a floating rate based on the SAP formula (see definition below). The Company generally finances its student loan portfolio with floating rate debt whose interest is matched closely to the floating nature of the applicable SAP formula. If interest rates decline to a level at which the borrower rate exceeds the SAP formula rate, the Company continues to earn interest on the loan at the fixed borrower rate while the floating rate interest on our debt continues to decline. In these interest rate environments, the Company refers to the additional spread it earns between the fixed borrower rate and the SAP formula rate as Floor Income. Depending on the type of student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, the Company may earn Floor Income to the next reset date. In accordance with legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all FFELP loans disbursed on or after April 1, 2006.

The following example shows the mechanics of Floor Income for a typical fixed-rate FFELP Consolidation Loan (with a commercial paper-based SAP spread of 2.64 percent):

Fixed Borrower Rate	7.25%
SAP Spread over Commercial Paper Rate	(2.64)%
Floor Strike Rate[1]	4.61%

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

Based on this example, if the quarterly average commercial paper rate is over 4.61 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 4.61 percent, the SAP formula will produce a rate below the fixed borrower rate of 7.25 percent and the loan holder earns at the borrower rate of 7.25 percent.

Graphic Depiction of Floor Income:

Floor Income Contracts The Company enters into contracts with counterparties under which, in exchange for an upfront fee representing the present value of the Floor Income that the Company expects to earn on a notional amount of underlying student loans being economically hedged, the Company will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, the Company agrees to pay the counterparty the difference, if positive, between the fixed borrower rate less the SAP (see definition below) spread and the average of the applicable interest rate index on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contract. The contracts generally do not extend over the life of the underlying student loans. This contract effectively locks in the amount of Floor Income the Company will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and each quarter the Company must record the change in fair value of these contracts through income.

Front-End Borrower Benefits Financial incentives offered to borrowers at origination. Front-End Borrower Benefits primarily represent the Company s payment on behalf of borrowers for required FFELP fees, including the federal origination fee and federal default fee. The Company accounts for these Front-End Borrower Benefits as loan premiums amortized over the estimated life of the loans as an adjustment to the loan s yield.

Gross Floor Income Floor Income earned before payments on Floor Income Contracts.

Guarantors State agencies or non-profit companies that guarantee (or insure) FFELP loans made by eligible lenders under The Higher Education Act of 1965 (HEA), as amended.

Interim ABCP Facility An aggregate of $30 billion asset-backed commercial paper conduit facilities that the Company entered into on April 30, 2007 in connection with the Merger (defined below under Merger Agreement).

Lender Partners Lender Partners are lenders who originate loans under forward purchase commitments under which the Company owns the loans from inception or, in most cases, acquires the loans soon after origination.

Managed Basis The Company generally analyzes the performance of its student loan portfolio on a Managed Basis. The Company views both on-balance sheet student loans and off-balance sheet student loans owned by the securitization trusts as a single portfolio, and the related on-balance sheet financings are combined with off-balance sheet debt. When the term Managed is capitalized in this document, it is referring to Managed Basis.

Merger Agreement On April 16, 2007, the Company announced that a buyer group (Buyer Group) led by J.C. Flowers & Co. (J.C. Flowers), Bank of America, N.A. and JPMorgan Chase, N.A. (the Merger) signed a definitive agreement (Merger Agreement) to acquire the Company for approximately $25.3 billion or $60.00 per share of common stock. (See also Merger Agreement filed with the SEC on the Company s Current Report on Form 8-K, dated April 18, 2007.) On January 25, 2008, the Company, Mustang Holding Company Inc. (Mustang Holding), Mustang Merger Sub, Inc. (Mustang Sub), J.C. Flowers, Bank of America, N.A. and JPMorgan Chase Bank, N.A. entered into a Settlement, Termination and Release Agreement (the Agreement). Under the Agreement, a lawsuit filed by the Company related to the Merger, as well as all counterclaims, was dismissed.

Private Education Consolidation Loans Borrowers with multiple Private Education Loans (defined below) may consolidate them into a single loan with the Company (Private Consolidation Loans®). The interest rate on the new loan is variable rate with the spread set at the lower of the average weighted spread of the underlying loans or a new spread as a result of favorable underwriting criteria.

Private Education Loans Education loans to students or parents of students that are not guaranteed under the FFELP. Private Education Loans include loans for higher education (undergraduate and graduate degrees) and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. The Company s higher education Private Education Loans are not dischargeable in bankruptcy, except in certain limited circumstances. Repayment for alternative education generally begins immediately.

In the context of the Company s Private Education Loan business, the Company uses the term non-traditional loans to describe education loans made to certain borrowers that have or are expected to have a high default rate as a result of a number of factors, including having a lower tier credit rating, low program completion and graduation rates or, where the borrower is expected to graduate, a low expected income relative to the borrower s cost of attendance.

Preferred Channel Originations Preferred Channel Originations are comprised of: 1) loans that are originated by internally marketed Sallie Mae brands, and 2) student loans that are originated by Lender Partners (defined above).

Repayment Borrower Benefits Financial incentives offered to borrowers based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of Repayment Borrower Benefits is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits and

the amount of the financial benefit offered to the borrower. The Company occasionally changes Repayment Borrower Benefits programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the Repayment Borrower Benefits discount when made.

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

Retained Interest The Retained Interest includes the Residual Interest (defined above) and servicing rights (as the Company retains the servicing responsibilities) for our securitization transactions accounted for as sales.

Risk Sharing When a FFELP loan first disbursed on and after July 1, 2006 defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan is at risk for the remaining amount not guaranteed as a Risk Sharing loss on the loan. FFELP loans originated after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower s death, disability or bankruptcy. FFELP loans serviced by a servicer that has Exceptional Performer designation from ED were subject to one-percent Risk Sharing for claims filed on or after July 1, 2006 and before October 1, 2007. The CCRAA reduces default insurance to 95 percent of the unpaid principal and accrued interest for loans first disbursed on or after October 1, 2012.

Special Allowance Payment (SAP) FFELP loans disbursed prior to April 1, 2006 (with the exception of certain PLUS and SLS loans discussed below) generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan s repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to the Company. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. The Company refers to the fixed spread to the underlying index as the SAP spread. For loans disbursed after April 1, 2006, FFELP loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) must be refunded to ED.

Variable rate PLUS Loans and SLS Loans earn SAP only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. For PLUS loans disbursed on or after January 1, 2000, this limitation on SAP was repealed effective April 1, 2006.

A schedule of SAP rates is set forth on page A-5 of the Company s 2007 Annual Report on Form 10-K.

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

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

Wholesale Consolidation Loans During 2006, the Company implemented a loan acquisition strategy under which it began purchasing a significant amount of FFELP Consolidation Loans, primarily via the spot market, which augmented its in-house FFELP Consolidation Loan origination process. Wholesale Consolidation Loans are considered incremental volume to the Company s core acquisition channels, which are focused on the retail marketplace with an emphasis on the Company s brand strategy. In 2008, the Company ceased acquiring Wholesale Consolidation Loans.

SLM CORPORATION

FORM 10-Q
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June 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $56,882 and $47,518, respectively)	$ 43,146,711	$ 35,726,062
FFELP Consolidation Loans (net of allowance for losses of $40,811 and $41,211, respectively)	73,171,342	73,609,187
Private Education Loans (net of allowance for losses of $970,150 and $885,931, respectively)	17,970,556	14,817,725
Other loans (net of allowance for losses of $46,794 and $43,558, respectively)	902,684	1,173,666
Investments		
Available-for-sale	2,707,676	2,871,340
Other	82,005	93,040
Total investments	2,789,681	2,964,380
Cash and cash equivalents	5,123,201	7,582,031
Restricted cash and investments	3,701,454	4,600,106
Retained Interest in off-balance sheet securitized loans	2,544,517	3,044,038
Goodwill and acquired intangible assets, net	1,304,941	1,300,689
Other assets	12,907,154	10,747,107
Total assets	$ 163,562,241	$ 155,564,991
Liabilities		
Short-term borrowings	$ 37,191,756	$ 35,947,407
Long-term borrowings	117,920,836	111,098,144
Other liabilities	2,905,165	3,284,545
Total liabilities	158,017,757	150,330,096
Commitments and contingencies		
Minority interest in subsidiaries	9,480	11,360
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized		

Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000
Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock; 1,150 and 1,000 shares, respectively, issued at liquidation preference of $1,000 per share	1,150,000	1,000,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,010 and 532,493 shares issued, respectively	106,802	106,499
Additional paid-in capital	4,637,731	4,590,174
Accumulated other comprehensive income (net of tax of $35,250 and $124,468, respectively)	61,994	236,364
Retained earnings	855,527	557,204
Stockholders equity before treasury stock	7,377,054	7,055,241
Common stock held in treasury: 66,445 and 65,951 shares, respectively	1,842,050	1,831,706
Total stockholders equity	5,535,004	5,223,535
Total liabilities and stockholders equity	$ 163,562,241	$ 155,564,991

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	$ 497,598	$ 511,300	$ 962,074	$ 962,062
FFELP Consolidation Loans	769,664	1,087,254	1,606,320	2,102,100
Private Education Loans	409,323	329,351	852,845	667,772
Other loans	21,355	26,453	44,699	54,426
Cash and investments	70,521	141,524	194,337	255,428
Total interest income	1,768,461	2,095,882	3,660,275	4,041,788
Total interest expense	1,365,918	1,697,229	2,981,363	3,229,319
Net interest income	402,543	398,653	678,912	812,469
Less: provisions for loan losses	143,015	148,200	280,326	298,530
Net interest income after provisions for loan losses	259,528	250,453	398,586	513,939
Other income:				
Gains on student loan securitizations				367,300
Servicing and securitization revenue	1,630	132,987	109,272	384,925
Losses on sales of loans and securities, net	(43,583)	(10,921)	(78,249)	(41,888)
Gains (losses) on derivative and hedging activities, net	362,043	821,566	89,247	464,597
Contingency fee revenue	83,790	80,237	169,096	167,559
Collections revenue	26,365	77,092	83,604	142,654
Guarantor servicing fees	23,663	30,273	58,316	69,514
Other	108,728	89,004	202,261	185,437
Total other income	562,636	1,220,238	633,547	1,740,098
Expenses:				
Salaries and benefits	167,788	191,632	347,517	377,982
Other operating expenses	185,900	207,168	361,819	376,992
Restructuring expenses	46,740		67,418	
Total expenses	400,428	398,800	776,754	754,974
Income before income taxes and minority interest in net earnings of subsidiaries	421,736	1,071,891	255,379	1,499,063
Income tax expense	153,074	104,724	90,586	414,738

Income before minority interest in net earnings of subsidiaries	268,662	967,167	164,793	1,084,325
Minority interest in net earnings of subsidiaries	2,926	696	2,861	1,701
Net income	265,736	966,471	161,932	1,082,624
Preferred stock dividends	27,391	9,156	56,416	18,249
Net income attributable to common stock	$ 238,345	$ 957,315	$ 105,516	$ 1,064,375
Basic earnings per common share	$ .51	$ 2.32	$ .23	$ 2.59
Average common shares outstanding	466,649	411,870	466,615	411,457
Diluted earnings per common share	$ .50	$ 1.03	$ .23	$ 1.82
Average common and common equivalent shares outstanding	517,954	452,406	467,316	454,139
Dividends per common share	$	$	$	$ .25

See accompanying notes to consolidated financial statements.

SLM CORPORATION

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

rred ck res	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
0,000	434,586,663	(22,649,966)	411,936,697	$ 565,000	$ 86,918	$ 2,638,334	$ 300,884	$ 1,833,359
								966,471
							(41,912)	
							6,416	
								(2,875)
								(6,120)
	1,508,640	241	1,508,881		301	46,774		
						161		(161)
						6,826		
						29,459		
		(827,319)	(827,319)					
0,000	436,095,303	(23,477,044)	412,618,259	$ 565,000	$ 87,219	$ 2,721,554	$ 265,388	$ 2,790,674

0,000	533,678,028	(66,301,201)	467,376,827	$ 1,715,000	$ 106,736	$ 4,610,278	$ (2,394)	$ 617,184
								265,736
							(8,984)	
							73,844	
							(472)	
								(2,875)
								(3,511)
								(20,844)
								(2)
	332,150	3,142	335,292		66	6,761		
						161		(161)
						(3,866)		
						24,397		
		(146,726)	(146,726)					
0,000	534,010,178	(66,444,785)	467,565,393	$ 1,715,000	$ 106,802	$ 4,637,731	$ 61,994	$ 855,527

See accompanying notes to consolidated financial statements.

SLM CORPORATION

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

rred k es	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
,000	433,112,982	(22,496,170)	410,616,812	$ 565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718
								1,082,624
							(90,100)	
							6,899	
							(522)	
								(102,658
								(5,750
								(12,178
	2,982,321	35,364	3,017,685		596	94,194		
						321		(321
						15,474		
						46,354		
								(5,761

		(1,016,238)	(1,016,238)					
,000	436,095,303	(23,477,044)	412,618,259	$ 565,000	$ 87,219	$ 2,721,554	$ 265,388	$ 2,790,674
,000	532,493,081	(65,951,394)	466,541,687	$ 1,565,000	$ 106,499	$ 4,590,174	$ 236,364	$ 557,204
								161,932
							(21,513)	
							42,270	
							(472)	
								(5,750
								(8,897
								(41,446
								(1,848
	1,517,097	3,142	1,520,239		303	18,704		
,000				150,000		(4,332)		(323
						(10,016)		
						43,201		
							(194,655)	194,655
		(496,533)	(496,533)					
,000	534,010,178	(66,444,785)	467,565,393	$ 1,715,000	$ 106,802	$ 4,637,731	$ 61,994	$ 855,527

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Six Months Ended June 30,	
	2008 (Unaudited)	**2007 (Unaudited)**
Operating activities		
Net income	$ 161,932	$ 1,082,624
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gains on student loan securitizations		(367,300)
Losses on sales of loans and securities, net	78,249	41,888
Stock-based compensation cost	48,080	52,840
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(64,418)	(125,946)
Unrealized (gains)/losses on derivative and hedging activities equity forwards		(383,969)
Provisions for loan losses	280,326	298,530
Minority interest, net	(1,517)	(190)
Mortgage loans originated	(35,455)	(441,376)
Proceeds from sales of mortgage loans	36,400	469,125
Decrease (increase) in purchased paper mortgage loans	109,720	(400,230)
Decrease in restricted cash-other	1,050	27,059
Decrease (increase) in accrued interest receivable	52,020	(677,935)
(Decrease) increase in accrued interest payable	(166,484)	203,375
Adjustment for non-cash loss/(income) related to Retained Interest	279,900	(10,255)
(Increase) decrease in other assets, goodwill and acquired intangible assets, net	(56,657)	167,801
(Decrease) in other liabilities	(346,220)	(245,656)
Total adjustments	214,994	(1,392,239)
Net cash provided by (used in) operating activities	376,926	(309,615)
Investing activities		
Student loans acquired	(15,340,698)	(20,428,723)
Loans purchased from securitized trusts (primarily loan consolidations)	(555,024)	(3,107,240)
Reduction of student loans:		
Installment payments	5,268,996	5,791,060
Proceeds from securitization of student loans treated as sales		1,976,599
Proceeds from sales of student loans	27,239	777,154
Other loans originated	(931,752)	(1,677,791)
Other loans repaid	1,183,672	1,767,690
Other investing activities, net	(58,287)	(133,358)
Purchases of available-for-sale securities	(72,071,580)	(23,921,722)

Proceeds from sales of available-for-sale securities		73,197
Proceeds from maturities of available-for-sale securities	72,279,652	24,683,374
Purchases of held-to-maturity and other securities	(400)	(540)
Proceeds from maturities of held-to-maturity securities and other securities	12,502	10,683
Decrease (increase) in restricted cash on-balance sheet trusts	874,029	(1,071,161)
Return of investment from Retained Interest	217,391	144,923
Purchase of subsidiaries, net of cash acquired	(37,868)	
Net cash used in investing activities	(9,132,128)	(15,115,855)
Financing activities		
Short-term borrowings issued	5,995,653	3,019,225
Short-term borrowings repaid	(7,501,607)	(2,760,750)
Long-term borrowings issued	2,437,226	1,567,602
Long-term borrowings repaid	(2,619,666)	(2,453,293)
Borrowings collateralized by loans in trust issued	11,590,919	16,367,492
Borrowings collateralized by loans in trust repaid	(3,535,266)	(2,380,478)
Asset-backed financing facilities net activity	(161,576)	2,341,693
Other financing activities, net	(3,248)	16,557
Excess tax benefit from the exercise of stock-based awards	282	8,832
Common stock issued	4,403	73,220
Net settlements on equity forward contracts		(152,306)
Common stock repurchased		(42,737)
Common dividends paid		(102,658)
Preferred stock issued	145,345	
Preferred dividends paid	(56,093)	(17,928)
Net cash provided by financing activities	6,296,372	15,484,471
Net (decrease) increase in cash and cash equivalents	(2,458,830)	59,001
Cash and cash equivalents at beginning of period	7,582,031	2,621,222
Cash and cash equivalents at end of period	$ 5,123,201	$ 2,680,223
Cash disbursements made for:		
Interest	$ 3,127,241	$ 3,082,619
Income taxes	$ 564,269	$ 528,768

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results for the year ending December 31, 2008. The consolidated balance sheet at December 31, 2007, as presented, was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the period ended December 31, 2007. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2007 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2007 to be consistent with classifications adopted for 2008.

Restructuring Activities

The Company is currently restructuring its business in response to the impact of the College Cost Reduction and Access Act of 2007 (CCRAA) and current challenges in the capital markets. One-time, involuntary benefit arrangements, disposal costs (including contract termination costs and other exit costs), as well as certain other costs that are incremental and incurred as a direct result of the Company s restructuring plans, are accounted for in accordance with the Financial Accounting Standards Board s (FASB s) Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities, and are classified as restructuring expenses in the accompanying consolidated statements of income.

In conjunction with its restructuring plans, the Company has entered into one-time benefit arrangements with employees, primarily senior executives, who have been involuntarily terminated. The Company recognizes a liability when all of the following conditions have been met and the benefit arrangement has been communicated to the employees:

Management, having the authority to approve the action, commits to a plan of termination;

The plan of termination identifies the number of employees to be terminated, their job classifications or functions and their locations and the expected completion date;

The plan of termination establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination, in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; and

Actions required to complete the plan of termination indicate that it is unlikely that significant changes to the plan of termination will be made or that the plan of termination will be withdrawn.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2008 and for the three and six months ended
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1. Significant Accounting Policies (Continued)

Severance costs under such one-time termination benefit arrangements may include all or some combination of severance pay, medical and dental benefits, outplacement services, and certain other costs.

Contract termination costs are expensed at the earlier of (1) the contract termination date or (2) the cease use date under the contract. Other exit costs are expensed as incurred and classified as restructuring expenses if (1) the cost is incremental to and incurred as a direct result of planned restructuring activities, and (2) the cost is not associated with or incurred to generate revenues subsequent to the Company s consummation of the related restructuring activities.

In addition to one-time involuntary benefit arrangements, the Company sponsors the SLM Corporation Employee Severance Plan, which provides severance benefits in the event of termination of the Company s and its subsidiaries full-time employees (with the exception of certain specified levels of management and employees of the Company s Asset Performance Group (APG) subsidiaries) and part-time employees who work at least 24 hours per week. The Company also sponsors the DMO Employee Severance Plan, which provides severance benefits to certain specified levels of full-time management and full-time employees in the Company s APG subsidiaries. The Employee Severance Plan and the DMO Employee Severance Plan (collectively, the Severance Plan) establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon termination of employment due to Involuntary Termination or a Job Abolishment, as defined in the Severance Plan. The benefits payable under the Severance Plan relate to past service and they accumulate and vest. Accordingly, the Company recognizes severance costs to be paid pursuant to the Severance Plan in accordance with SFAS No. 112, Employer s Accounting for Post Employment Benefits, when payment of such benefits is probable and reasonably estimable. Such benefits including severance pay calculated based on the Severance Plan, medical and dental benefits, outplacement services and continuation pay, have been incurred during the first half of 2008 and the fourth quarter of 2007 as a direct result of the Company s restructuring initiatives. Accordingly, such costs are classified as restructuring expenses in the accompanying consolidated statements of income.

Recently Issued Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value within GAAP, and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not change which types of instruments are carried at fair value, but rather establishes the framework for measuring fair value. The adoption of SFAS No. 157 on January 1, 2008 did not have a material impact on the Company s financial statements.

On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157, which defers the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This FSP will delay the implementation of SFAS No. 157 for the Company s accounting of goodwill, acquired intangibles, and other nonfinancial assets and liabilities that are measured at the lower of cost or market until January 1, 2009.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2008 and for the three and six months ended
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1. Significant Accounting Policies (Continued)

The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value (on an instrument by instrument basis). Most recognized financial assets and liabilities are eligible items for the measurement option established by the statement. There are a few exceptions, including an investment in a subsidiary or an interest in a variable interest entity that is required to be consolidated, certain obligations related to post-employment benefits, assets or liabilities recognized under leases, various deposits, and financial instruments classified as shareholder s equity. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date. The Company adopted SFAS No. 159 on January 1, 2008, and elected the fair value option on all of its Residual Interests effective January 1, 2008. The Company chose this election in order to simplify the accounting for Residual Interests by including all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income or under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, with changes in fair value recorded through income. At transition, the Company recorded a pre-tax gain to retained earnings as a cumulative-effect adjustment totaling $301 million ($195 million net of tax). This amount was in accumulated other comprehensive income as of December 31, 2007, and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through the income statement. The Company has not elected the fair value option for any other financial instruments at this time.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the entire acquisition-date fair value of assets acquired and liabilities assumed in both full and partial acquisitions; changes the recognition of assets acquired and liabilities assumed related to contingencies; changes the recognition and measurement of contingent consideration; requires expensing of most transaction and restructuring costs; and requires additional disclosures to enable the users of the financial statements to evaluate and understand the nature and financial effect of the business combination.
SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the reporting period beginning on or after December 15, 2008, which for the Company is January 1, 2009. Early adoption is not permitted.

Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51. SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to its current presentation as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests.
SFAS No. 160 applies prospectively for reporting periods beginning on or after

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

December 15, 2008, which for the Company is January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. Adoption of this standard will not be material to the Company.

Disclosures about Derivative Investments and Hedging Activities an Amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Investments and Hedging Activities an Amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for the Company is January 1, 2009.

Qualifying Special Purpose Entities (QSPEs) and Changes in the FIN No. 46 Consolidation Model

In recent meetings, the FASB tentatively decided to amend SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, which would impact the accounting for QSPEs and result in certain changes to the FASB s Financial Interpretation (FIN) No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51. An exposure draft of the proposed amendment to SFAS No. 140 is expected in the third quarter of 2008. Based on the FASB s preliminary discussions and tentative decisions, and assuming no changes to the Company s current business model, it is likely that these changes may lead to the consolidation of certain QSPEs and variable interest entities (VIEs). However, the impact to the Company s accounting for its QSPEs and VIEs cannot be determined until the FASB issues the final amendments to SFAS No. 140 and FIN No. 46R.

Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued an FSP on Accounting Principles Board Opinion (APB) No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB 14-1, which is applied retrospectively, is effective for the Company beginning January 1, 2009. The Company is evaluating the impact of this FSP on its accounting for its contingently convertible note issued in May 2003 and subsequently called in July 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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1. Significant Accounting Policies (Continued)

Accounting for Hedging Activities An Amendment of FASB Statement No. 133

In June 2008, the FASB issued an exposure draft to amend the accounting for hedging activities in SFAS No. 133. This proposed Statement is intended to simplify accounting for hedging activities, improve the financial reporting of hedging activities, resolve major practice issues related to hedge accounting that have arisen under SFAS No. 133, and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. While the amendment as currently written may simplify the Company s accounting model for hedging activities under SFAS No. 133 by relieving a portion of the burdensome nature of hedge effectiveness testing and relaxing the threshold to qualify as a hedge from highly effective to reasonably effective, the Company does not expect it to significantly impact its results of operations. The full impact of the amendment cannot be evaluated until the final statement is issued later this year. It is expected the amendment will be effective January 1, 2010.

2. Allowance for Loan Losses

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

The following tables summarize the total loan provisions for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Private Education Loans	$ 119,838	$ 138,779	$ 238,449	$ 280,406
FFELP Stafford and Other Student Loans	19,295	6,192	35,398	11,760
Mortgage and consumer loans	3,882	3,229	6,479	6,364
Total provisions for loan losses	$ 143,015	$ 148,200	$ 280,326	$ 298,530

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Balance at beginning of period	$ 938,409	$ 369,072	$ 885,931	$ 308,346
Provision for Private Education Loan losses	119,838	138,779	238,449	280,406
Charge-offs	(104,593)	(87,773)	(188,752)	(169,684)
Recoveries	8,402	7,826	18,334	14,616
Net charge-offs	(96,191)	(79,947)	(170,418)	(155,068)
Reclassification of interest reserve[1]	8,094		16,188	
Balance before securitization of Private Education Loans	970,150	427,904	970,150	433,684
Reduction for securitization of Private Education Loans				(5,780)
Balance at end of period	$ 970,150	$ 427,904	$ 970,150	$ 427,904
Net charge-offs as a percentage of average loans in repayment (annualized)	4.84%	6.19%	4.54%	6.04%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.20%	5.63%	3.91%	5.56%
Allowance as a percentage of the ending total loan balance	4.99%	3.74%	4.99%	3.74%
Allowance as a percentage of ending loans in repayment	11.27%	7.79%	11.27%	7.79%
Allowance coverage of net charge-offs (annualized)	2.51	1.33	2.83	1.37
Ending total loans, gross	$ 19,448,703	$ 11,828,998	$ 19,448,703	$ 11,828,998

Average loans in repayment	$ 7,991,624	$ 5,181,847	$ 7,543,605	$ 5,173,892
Ending loans in repayment	$ 8,608,651	$ 5,496,478	$ 8,608,651	$ 5,496,478

(1) Represents the amount of uncollectible interest, initially 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. Prior to 2008, the interest reserve was reversed in interest income and then included in the provision within the allowance for loan losses. This amount was $5 million and $8 million, for the three and six months ended June 30, 2007, respectively. This change in presentation results in no impact to net income.

Due to the seasoning of the Private Education Loan portfolio, shifts in its mix, certain economic factors and other operational factors, the Company has expected and has seen charge-off rates increase from the levels experienced prior to 2007. In the fourth quarter of 2007, the Company recorded provision expense of $503 million related to the Private Education Loan portfolio. This significant increase in provision expense compared to prior and current quarters primarily relates to the non-traditional portion of the Company s Private Education Loan portfolio which the Company had been expanding over the past few years. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

Company has recently terminated these non-traditional loan programs because the performance of these loans turned out to be materially different from its original expectations and from the rest of the Company s Private Education Loan programs. The non-traditional portfolio is particularly impacted by the weakening U.S. economy and an underlying borrower s ability to repay a non-traditional loan. As a result, the Company recorded the additional provision in the fourth quarter of 2007, and this is the primary reason that the allowance as a percentage of the ending total loan balance and as a percentage of ending loans in repayment is significantly higher at June 30, 2008 versus June 30, 2007.

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of June 30, 2008, December 31, 2007, and June 30, 2007. Delinquencies have the potential to adversely impact earnings if the loan charges off and results in increased servicing and collection costs.

	Private Education Loan Delinquencies					
	June 30, 2008		December 31, 2007		June 30, 2007	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 9,662		$ 8,151		$ 5,789	
Loans in forbearance[2]	1,178		974		544	
Loans in repayment and percentage of each status:						
Loans current	7,720	89.7%	6,236	88.5%	4,873	88.7%
Loans delinquent 31-60 days[3]	326	3.8	306	4.3	243	4.4
Loans delinquent 61-90 days[3]	210	2.4	176	2.5	131	2.4
Loans delinquent greater than 90 days[3]	353	4.1	329	4.7	249	4.5
Total Private Education Loans in repayment	8,609	100%	7,047	100%	5,496	100%
Total Private Education Loans, gross	19,449		16,172		11,829	
Private Education Loan unamortized discount	(508)		(468)		(387)	
Total Private Education Loans	18,941		15,704		11,442	
Private Education Loan allowance for losses	(970)		(886)		(428)	

Private Education Loans, net	$ 17,971	$ 14,818	$ 11,014
Percentage of Private Education Loans in repayment	44.3%	43.6%	46.5%
Delinquencies as a percentage of Private Education Loans in repayment	10.3%	11.5%	11.3%
Loans in forbearance as a percentage of loans in repayment and forbearance	12.0%	12.1%	9.0%

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Balance at beginning of period	$ 93,997	$ 22,279	$ 88,729	$ 20,315
Provisions for student loan losses	19,295	6,192	35,398	11,760
Net charge-offs	(15,876)	(4,720)	(26,711)	(8,621)
Increase for student loan sales and securitization activity	277	332	277	629
Balance at end of period	$ 97,693	$ 24,083	$ 97,693	$ 24,083

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of June 30, 2008, 44 percent of the on-balance sheet FFELP loan portfolio was subject to three-percent Risk Sharing, 55 percent was subject to two-percent Risk Sharing and the remaining one percent was not subject to any Risk Sharing. At June 30, 2007, the Company s FFELP loans were serviced under the Exceptional Performer designation from ED which limited the portfolio to only one-percent Risk Sharing. The Exceptional Performer designation was eliminated by the CCRAA effective October 1, 2007.

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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of June 30, 2008, December 31, 2007 and June 30, 2007. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

	FFELP Loan Delinquencies					
	June 30, 2008		December 31, 2007		June 30, 2007	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 35,136		$ 31,200		$ 28,396	
Loans in forbearance[2]	12,245		10,675		9,366	
Loans in repayment and percentage of each status:						
Loans current	57,046	85.5%	55,128	84.4%	50,790	84.9%
Loans delinquent 31-60 days[3]	3,573	5.4	3,650	5.6	3,000	5.0
Loans delinquent 61-90 days[3]	1,662	2.5	1,841	2.8	1,707	2.8
Loans delinquent greater than 90 days[3]	4,406	6.6	4,671	7.2	4,353	7.3
Total FFELP loans in repayment	66,687	100%	65,290	100%	59,850	100%
Total FFELP loans, gross	114,068		107,165		97,612	
FFELP loan unamortized premium	2,348		2,259		2,024	
Total FFELP loans	116,416		109,424		99,636	
FFELP loan allowance for losses	(98)		(89)		(24)	
FFELP loans, net	$ 116,318		$ 109,335		$ 99,612	
Percentage of FFELP loans in repayment		58.5%		60.9%		61.3%
Delinquencies as a percentage of FFELP loans in repayment		14.5%		15.6%		15.1%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		15.5%		14.1%		13.5%

(1) Loans for borrowers who may 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.

(2) Loans for borrowers 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 the established loan program servicing policies and procedures.

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

SLM CORPORATION

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

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of June 30, 2008 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 371	$ (183)	$ 188
Software and technology	7 years	95	(84)	11
Non-compete agreements	2 years	11	(10)	1
Total		477	(277)	200
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	119		119
Total acquired intangible assets		$ 596	$ (277)	$ 319

(Dollars in millions)	Average Amortization Period	As of December 31, 2007 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	13 years	$ 366	$ (160)	$ 206
Software and technology	7 years	95	(77)	18
Non-compete agreements	2 years	12	(10)	2
Total		473	(247)	226
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	110		110
Total acquired intangible assets		$ 583	$ (247)	$ 336

The Company recorded amortization of acquired intangibles totaling $15 million and $16 million for the three months ended June 30, 2008 and 2007, respectively, and $31 million and $31 million for the six months ended June 30, 2008

and 2007, respectively. In the first quarter of 2007, the Company recognized intangible impairments of $9 million in connection with certain tax exempt bonds previously acquired through the purchase of certain subsidiaries. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

A summary of changes in the Company s goodwill by reportable segment (see Note 13, Segment Reporting) is as follows:

(Dollars in millions)	December 31, 2007	Adjustments	June 30, 2008
Lending	$ 388	$	$ 388
APG	377	19	396
Corporate and Other	200	2	202
Total	$ 965	$ 21	$ 986

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3. Goodwill and Acquired Intangible Assets (Continued)

On January 3, 2008, the Company acquired an additional 12 percent interest in AFS Holdings, LLC (AFS) for a purchase price of approximately $38 million, increasing the Company s total purchase price to approximately $324 million including cash consideration and certain acquisition costs for its 100 percent controlling interest. The acquisition was accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company s purchase price allocation associated with the January 2008 acquisition resulted in goodwill of approximately $19 million, which increased the aggregate goodwill associated with the Company s acquisition of AFS to $226 million. The remaining fair value of AFS s assets and liabilities at each respective acquisition date was primarily allocated to purchased loan portfolios and other identifiable intangible assets.

4. Student Loan Securitization

Securitization Activity

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

The following table summarizes the Company s securitization activity for the three and six months ended June 30, 2008 and 2007. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

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4. Student Loan Securitization (Continued)

	Three Months Ended June 30,							
	2008				2007			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans								
Total securitizations sales			$	%			$	%
Securitization financings:								
FFELP Stafford/PLUS Loans(1)	3	7,125						
FFELP Consolidation Loans(1)					1	4,985		
Total securitizations financings	3	7,125			1	4,985		
Total securitizations	3	$ 7,125			1	$ 4,985		

	Six Months Ended June 30,							
	2008				2007			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans					1	2,000	367	18.4

Total securitizations sales			$	%	1	2,000	$ 367	18.4%
Securitization financings:								
FFELP Stafford/PLUS Loans[1]	6	11,825			2	7,004		
FFELP Consolidation Loans[1]					2	8,987		
Total securitizations financings	6	11,825			4	15,991		
Total securitizations	6	$ 11,825			5	$ 17,991		

(1) In certain securitizations there are terms within the deal structure that result in such securitizations not qualifying for sale treatment and accordingly, they are accounted for on-balance sheet as VIEs. Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements after the initial settlement of the securitization, which do not relate to the reissuance of third party beneficial interests or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

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4. Student Loan Securitization (Continued)

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three and six months ended June 30, 2008 and 2007 were as follows:

	Three Months Ended June 30,					
	2008			2007		
Prepayment Speed (annual rate)	FFELP Stafford and PLUS[1]	FFELP Consolidation Loans[1]	Private Education Loans[1]	FFELP Stafford and PLUS[1]	FFELP Consolidation Loans[1]	Private Education Loans[1]
Interim status						
Repayment status						
Life of loan repayment status						
Weighted average life						
Expected credit losses (% of principal securitized)						
Residual cash flows discounted at (weighted average)						

(1) No securitizations qualified for sale treatment in the period.

	Six Months Ended June 30,					
	2008			2007		
Prepayment Speed (annual rate)	FFELP Stafford and PLUS[1]	FFELP Consolidation Loans[1]	Private Education Loans[1]	FFELP Stafford and PLUS[1]	FFELP Consolidation Loans[1]	Private Education Loans
Interim status						0%
Repayment status						4-7%
Life of loan repayment status						6%
Weighted average life						9.4 yrs.

Expected credit losses (% of principal securitized)	4.69%
Residual cash flows discounted at (weighted average)	12.5%

(1) No securitizations qualified for sale treatment in the period.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of June 30, 2008 and December 31, 2007.

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4. Student Loan Securitization (Continued)

	As of June 30, 2008			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 410	$ 619	$ 1,516	$ 2,545
Underlying securitized loan balance[3]	8,383	15,586	13,773	37,742
Weighted average life	2.8 yrs.	7.3 yrs.	6.6 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	0-30%	3-8%	1-30%	
Life of loan repayment status	17	6%	9%	
Expected credit losses (% of outstanding student loan principal)	.10%	.20%	5.36%	
Residual cash flows discount rate	12.0%	10.0%	16.4%	

	As of December 31, 2007			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 390	$ 730	$ 1,924	$ 3,044
Underlying securitized loan balance[3]	9,338	15,968	14,199	39,505
Weighted average life	2.7 yrs.	7.4 yrs.	7.0 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	0-37%	3-8%	1-30%	
Life of loan repayment status	21%	6%	9%	
Expected credit losses (% of outstanding student loan principal)	.11%	.21%	5.28%	
Residual cash flows discount rate	12.0%	9.8%	12.9%	

(1) Includes $295 million and $283 million related to the fair value of the Embedded Floor Income as of June 30, 2008 and December 31, 2007, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At December 31, 2007, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $301 million that related to the Retained Interests. There were no such gains at June 30, 2008.

(3) In addition to student loans in off-balance sheet trusts, the Company had $75.2 billion and $65.5 billion of securitized student loans outstanding (face amount) as of June 30, 2008 and December 31, 2007, respectively, in on-balance sheet securitization trusts.

(4) The Company uses CPR curves for Residual Interest valuations that are based on seasoning (the number of months since entering repayment). Under this methodology, a different CPR is applied to each year of a loan s seasoning. Repayment status CPR used is based on the number of months since first entering repayment (seasoning). Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

As previously discussed, the Company adopted SFAS No. 159 on January 1, 2008, and has elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company chose this election in order to record all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other

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4. Student Loan Securitization (Continued)

comprehensive income, except if impaired in which case changes in fair value were recorded through income, or under SFAS No. 155 with all changes in fair value recorded through income. Changes in the fair value of Residual Interests from January 1, 2008 forward are recorded in the servicing and securitization revenue line item of the consolidated income statement.

The Company recorded a net unrealized mark-to-market loss related to the Residual Interests of $280 million during the six months ended June 30, 2008. The mark-to-market loss was primarily related to the increase in the discount rate assumption related to the Private Education Loan Residual Interest. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium by 350 basis points (from December 31, 2007) to take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Private Education Loan Residual Interests in light of the current economic and credit uncertainty that exists in the market. The increase in the discount rate accounted for $244 million of the net unrealized mark-to-market loss for the six months ended June 30, 2008.

The 2008 mark-to-market loss was also related to increases in the cost of funds assumptions related to the underlying auction rate securities bonds within the FFELP ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts, which resulted in a $98 million decrease in fair value.

The Company recorded impairments to the Retained Interests of $46 million for the six months ended June 30, 2007. The impairment charges were primarily the result of FFELP loans prepaying faster than projected through loan consolidations. In addition, the Company recorded an unrealized mark-to-market loss under SFAS No. 155 of $57 million for the six months ended June 30, 2007.

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of June 30, 2008, December 31, 2007 and June 30, 2007.

	June 30, 2008		December 31, 2007		June 30, 2007	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 4,159		$ 4,963		$ 6,136	
Loans in forbearance[2]	1,339		1,417		1,093	
Loans in repayment and percentage of each status:						
Loans current	7,871	95.1%	7,403	94.7%	7,002	95.3%
Loans delinquent 31-60 days[3]	178	2.2	202	2.6	196	2.7
Loans delinquent 61-90 days[3]	102	1.2	84	1.1	66	.9
Loans delinquent greater than 90 days[3]	124	1.5	130	1.6	80	1.1

Total off-balance sheet Private Education Loans in repayment	8,275	100%	7,819	100%	7,344	100%
Total off-balance sheet Private Education Loans, gross	$ 13,773		$ 14,199		$ 14,573	

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

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

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

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5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2008 and December 31, 2007 and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2008 and 2007. At June 30, 2008 and December 31, 2007, available-for-sale securities with fair values of $208 million and $196 million (none of which was in restricted cash and investments on the balance sheet), respectively, and $69 million and $890 million, respectively, of cash were pledged as collateral against these derivative instruments. In addition, $2.2 billion ($0.1 billion of which is in restricted cash and investments on the balance sheet) and $1.3 billion (none of which was in restricted cash and investments on the balance sheet) of cash was held as collateral at June 30, 2008 and December 31, 2007, respectively, for derivative counterparties where the Company has exposure.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Fair Values[1]								
Interest rate swaps	$ 32	$ (34)	$ 142	$ 102	$ (51)	$ 252	$ 123	$ 320
Floor/Cap contracts					(639)	(442)	(639)	(442)
Futures					(2)		(2)	
Cross currency interest rate swaps			5,137	3,640	(1)	3	5,136	3,643
Total	$ 32	$ (34)	$ 5,279	$ 3,742	$ (693)	$ (187)	$ 4,618	$ 3,521
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 5.5	$ 3.1	$ 15.6	$ 14.7	$ 185.0	$ 199.5	$ 206.1	$ 217.3
Floor/Cap contracts					38.2	38.9	38.2	38.9
Futures					.3	.6	.3	.6
Cross currency interest rate swaps			23.8	23.8	.1	.1	23.9	23.9
Other[2]					.7	.7	.7	.7
Total	$ 5.5	$ 3.1	$ 39.4	$ 38.5	$ 224.3	$ 239.8	$ 269.2	$ 281.4

(1) Fair values reported are exclusive of collateral held and/or pledged.

(2) Other includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155, Accounting for Certain Hybrid Financial Instruments.

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5. Derivative Financial Instruments (Continued)

	Three Months Ended June 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Change in fair value to cash flow hedges	$ 74	$ 6	$	$	$	$	$ 74	$ 6
Amortization of effective hedges[1]								
Change in accumulated other comprehensive income, net	$ 74	$ 6	$	$	$	$	$ 74	$ 6
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$	$	$	$	$	$	$
Gains (losses) on derivative and hedging activities Realized[3]					(67)	(20)	(67)	(20)
Gains (losses) on derivative and hedging activities Unrealized[4]			37	1	392	841	429	842
Total earnings impact	$	$	$ 37	$ 1	$ 325	$ 821	$ 362	$ 822

	Six Months Ended June 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Change in fair value to cash flow hedges	$ 42	$ 6	$	$	$	$	$ 42	$ 6
Amortization of effective hedges[1]		1						1
	$ 42	$ 7	$	$	$	$	$ 42	$ 7

Change in accumulated other comprehensive income, net								
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$ (2)	$	$	$	$	$	$ (2)
Gains (losses) on derivative and hedging activities Realized[3]					25	(45)	25	(45)
Gains (losses) on derivative and hedging activities Unrealized[4]			99	16	(35)	494	64	510
Total earnings impact	$	$ (2)	$ 99	$ 16	$ (10)	$ 449	$ 89	$ 463

(1) The Company expects to amortize $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments outstanding as of June 30, 2008.

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

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

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

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6. Other Assets

The following table provides the detail of the Company s other assets at June 30, 2008 and December 31, 2007.

	June 30, 2008		December 31, 2007	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Derivatives at fair value	$ 4,993,182	39%	$ 3,744,611	35%
Accrued interest receivable	3,128,571	24	3,180,590	30
APG related receivables and Real Estate Owned	1,640,401	13	1,758,871	16
Accounts receivable collateral posted			867,427	8
Federal, state and international net income tax asset	1,196,056	9		
Benefit-related investments	471,871	4	467,379	4
Fixed assets, net	304,405	2	315,260	3
Accounts receivable general	727,465	6	305,118	2
Other	445,203	3	107,851	2
Total	$ 12,907,154	100%	$ 10,747,107	100%

The Derivatives at fair value line in the above table represents the fair value of the Company s derivatives in a gain position by counterparty. At June 30, 2008 and December 31, 2007, these balances primarily included cross-currency interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged foreign currency-denominated debt. As of June 30, 2008 and December 31, 2007, the cumulative mark-to-market adjustment to the hedged debt was $(5.0) billion and $(3.6) billion, respectively.

7. Stockholders Equity

The following table summarizes the Company s common share repurchases and issuances for the three and six months ended June 30, 2008 and 2007. Equity forward activity for the three and six months ended June 30, 2007 is also reported.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Shares in millions)	**2008**	**2007**	**2008**	**2007**
Common shares repurchased:				

Benefit plans[1]	.2	.8	.5	1.0
Total shares repurchased	.2	.8	.5	1.0
Average purchase price per share	$ 23.74	$ 41.18	$ 20.98	$ 42.05
Common shares issued	.3	1.5	1.5	3.0
Equity forward contracts:				
Outstanding at beginning of period		48.2		48.2
New contracts				
Exercises				
Outstanding at end of period		48.2		48.2
Authority remaining at end of period for repurchases	38.8	15.7	38.8	15.7

(1) Includes shares withheld from stock option exercises and vesting of performance stock for employees tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

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7. Stockholders Equity (Continued)

The closing price of the Company s common stock on June 30, 2008 was $19.35.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale investments (which includes the Retained Interest in off-balance sheet securitized loans as of December 31, 2007 and June 30, 2007), unrealized gains and losses on derivatives, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive income as of June 30, 2008, December 31, 2007 and June 30, 2007.

	June 30, 2008	December 31, 2007	June 30, 2007
Net unrealized gains (losses) on investments[1]	$ 22,604	$ 238,772	$ 250,263
Net unrealized gains (losses) on derivatives[2]	19,696	(22,574)	(671)
Defined benefit pension plans:			
Net prior service cost			(23)
Net gain	19,694	20,166	15,819
Total defined benefit pension plans[3]	19,694	20,166	15,796
Total accumulated other comprehensive income	$ 61,994	$ 236,364	$ 265,388

(1) Net of tax expense of $12,707, $125,473 and $130,348 as of June 30, 2008, December 31, 2007 and June 30, 2007, respectively.

(2) Net of tax expense of $11,118 as of June 30, 2008, and tax benefit of $12,682 and $382 as of December 31, 2007 and June 30, 2007, respectively.

(3) Net of tax expense of $11,425, $11,677 and $9,309 as of June 30, 2008, December 31, 2007 and June 30, 2007, respectively.

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8. Earnings per Common Share

Basic earnings per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Numerator:				
Net income attributable to common stock	$ 238,345	$ 957,315	$ 105,516	$ 1,064,375
Adjusted for dividends of convertible preferred stock series C[1]	20,844			
Adjusted for debt expense of convertible debentures (Co-Cos), net of taxes[2]		17,679		35,189
Adjusted for non-taxable unrealized gains on equity forwards[3]		(507,072)		(272,191)
Net income attributable to common stock, adjusted	$ 259,189	$ 467,922	$ 105,516	$ 827,373
Denominator ***(shares in thousands):***				
Weighted average shares used to compute basic EPS	466,649	411,870	466,615	411,457
Effect of dilutive securities:				
Dilutive effect of convertible preferred stock series C	50,568			
Dilutive effect of Co-Cos		30,312		30,312
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, Employee Stock Purchase Plan (ESPP) and equity forwards[3][4]	737	10,224	701	12,370
Dilutive potential common shares[5]	51,305	40,536	701	42,682
Weighted average shares used to compute diluted EPS	517,954	452,406	467,316	454,139
Net earnings per share:				
Basic earnings per common share	$ .51	$ 2.32	$ .23	$ 2.59
Dilutive effect of convertible preferred stock series C[1]	(.01)			
Dilutive effect of Co-Cos[2]		(.03)		(.05)

Dilutive effect of equity forwards[3]		(1.21)		(.66)
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and ESPP[4]		(.05)		(.06)
Diluted earnings per common share	$ .50	$ 1.03	$ .23	$ 1.82

(1) The Company s 7.25 percent mandatory convertible preferred stock series C was issued on December 31, 2007. The mandatory convertible preferred stock will automatically convert on December 15, 2010, into between 48 million shares and 59 million shares of common stock, depending upon the Company s stock price at that time. These instruments were anti-dilutive for the six months ended June 30, 2008.

(2) Emerging Issues Task Force (EITF) Issue No. 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings per Share, requires the shares underlying Co-Cos to be included in diluted EPS computations regardless of whether the market price trigger or the conversion price has been met, using the if-converted method. On June 25, 2007, holders of these securities were notified that the Co-Cos would be called at par on July 25, 2007, as allowed by the terms of the indenture governing the Co-Cos.

(3) SFAS No. 128, Earnings per Share, and the additional guidance provided by EITF Topic No. D-72, Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share, require both the denominator and the numerator to be adjusted in calculating the potential impact of the Company s equity forward contracts on diluted EPS. Under this guidance, when certain conditions are satisfied, the impact can be dilutive when: (1) the average share price during the period is lower than the respective strike prices on the Company s equity forward contracts, and (2) the Company recorded an unrealized gain or loss on derivative and hedging activities related to its equity forward contracts.

(4) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, nonvested restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method, and equity forward contracts determined by the reverse treasury stock method. The Company settled all of its outstanding equity forward contracts in January 2008.

(5) For the three and six months ended June 30, 2008, stock options covering approximately 40 million and 41 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the three and six months ended June 30, 2007, stock options and equity forward contracts covering approximately 21 million and 26 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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9. Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Late fees and forbearance fees	$ 34,030	$ 32,405	$ 71,185	$ 67,627
Asset servicing and other transaction fees	26,067	25,785	51,935	50,775
Loan servicing fees	5,616	5,776	12,268	13,551
Gains on sales of mortgages and other loan fees	806	3,843	1,914	7,311
Other	42,209	21,195	64,959	46,173
Total	$ 108,728	$ 89,004	$ 202,261	$ 185,437

During the second quarter of 2008, the Company repurchased a portion of its unsecured debt with short-term maturities, which resulted in a gain that is reflected in Other in the above table.

Late Fees and Forbearance Fees

The Company recognizes late fees and forbearance fees on student loans when earned according to the contractual provisions of the promissory notes. Fees are recognized only to the extent they are deemed collectible.

Asset Servicing and Other Transaction Fees

The Company s Upromise subsidiary operates a number of programs that encourage consumers to save for the cost of college education. Upromise has established an affinity marketing program which is designed to increase consumer purchases of merchant goods and services and to promote saving for college by consumers who are members of this program. Merchant partners generally pay Upromise transaction fees based on member purchase volume, either online or in stores depending on the contractual arrangement with the merchant partner. A percentage of the consumer members purchases is set aside in an account maintained by Upromise on the members behalf. The Company recognizes transaction fee revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, as marketing services focused on increasing member purchase volume are rendered based on contractually determined rates and member purchase volumes.

Upromise, through its wholly-owned subsidiaries, Upromise Investments, Inc. (UII), a registered broker-dealer, and Upromise Investment Advisors, LLC (UIA), provides transfer and servicing agent services and program management associated with various 529 college-savings plans. The fees associated with the provision of these services are recognized in accordance with SAB No. 104 based on contractually determined rates and the net assets of the investments within the 529 college-savings plans (transfer and servicing agent/program management fees), and the number of accounts for which Upromise provides record-keeping and account servicing functions (an additional form of transfer and servicing agent fees).

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10. Restructuring Activities

During the fourth quarter of 2007, the Company initiated a restructuring program to reduce costs and improve operating efficiencies in response to the impacts of the CCRAA and current challenges in the capital markets. As part of this review the Company has refocused its lending activities, exited certain customer relationships and product lines, and is on target to reduce its operating expenses by 20 percent by the year ended December 31, 2009, as compared to the year ended December 31, 2007, before adjusting for growth and other investments. In addition, the Company has concluded that its APG operating segment purchased paper businesses no longer produce a mutual strategic fit. As a result, the Company is currently exploring alternatives for its purchased paper businesses, including a potential sale, wind-down and other options. The outcome of these different alternatives is uncertain at this time.

The following table summarizes the restructuring expenses incurred to date.

	Three Months Ended December 31, 2007	Three Months Ended March 31, 2008	Three Months Ended June 30, 2008	Cumulative Expense as of June 30, 2008
Severance costs	$ 22,505	$ 14,869	$ 34,214	$ 71,588
Lease and other contract termination costs			8,634	8,634
Exit and other costs		5,809	3,892	9,701
Total[(1)(2)]	$ 22,505	$ 20,678	$ 46,740	$ 89,923

(1) Aggregate restructuring expenses incurred across the Company s reportable segments during the three months ended June 30, 2008, March 31, 2008 and December 31, 2007 totaled $31 million, $15 million and $19 million, respectively, in the Company s Lending reportable segment, $5 million, $1 million and $2 million, respectively, in the Company s APG reportable segment and $11 million, $5 million and $1 million, respectively, in the Company s Corporate and Other reportable segment.

(2) As of June 30, 2008, the Company estimates an additional $24 million of restructuring expenses associated with its current cost reduction efforts will be incurred in future periods primarily related to position eliminations and resulting employee terminations in its Lending business segment.

As of June 30, 2008, severance costs were incurred in conjunction with aggregate completed and planned position eliminations of approximately 2,500 positions across all of the Company s reportable segments with position eliminations ranging from senior executives to service center personnel.

The following table summarizes the restructuring liability balance, which is included in other liabilities in the accompanying consolidated balance sheet at June 30, 2008, and related activity during the six months ended June 30, 2008.

	Severance Costs	Lease and Other Contract Termination Costs	Exit and Other Costs	Total
Balance at December 31, 2007	$ 18,329	$	$	$ 18,329
Net accruals	49,083	8,634	9,701	67,418
Cash paid	(37,367)	(4,979)	(7,318)	(49,664)
Balance at June 30, 2008	$ 30,045	$ 3,655	$ 2,383	$ 36,083

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11. Fair Value Measurements

The Company uses estimates of fair value as defined by SFAS No. 157 in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;

In the consolidated balance sheet with changes in fair value recorded in the other comprehensive income section of stockholders equity;

In the notes to the financial statements as required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments ; and

In the consolidated balance sheet for instruments carried at lower of cost or market with impairment charges recorded in the consolidated statement of income.

Fair value under SFAS No. 157 is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company s policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including the Company s for its liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model s output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

Under SFAS No. 157, the Company categorizes its fair value estimates based on a hierarchal framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.

Level 2 Inputs other than quoted prices for identical instruments in active markets are used to model fair value. Significant inputs are directly observable for substantially the full term of the asset or liability being valued. Instruments included in the level 2 category include investment securities, short term liquidity investments and a majority of the Company s over-the-counter derivative contracts.

Level 3 Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs. Instruments included in level 3 include residual interests in off-balance sheet securitized loans and derivatives indexed to interest rate indices that do not have active markets.

Investments (Including Restricted)

Investments accounted for under SFAS No. 115 and classified as trading or available-for-sale, are carried at fair value in the financial statements. Investments in U.S. Treasury securities and securities issued by

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11. Fair Value Measurements (Continued)

U.S. government agencies that are traded in active markets were valued using observable market prices. Other investments for which observable prices from active markets are not available (such as U.S. Treasury-backed securities) were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost. Adjustments for liquidity and credit spreads are made as appropriate.

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair values of a majority of derivative financial instruments, including swaps and floors, were determined by standard derivative pricing and option models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates and volatilities from active markets. In some cases, management utilized internally developed amortization streams to model the fair value for swaps whose notional matched securitized asset balances. Complex structured derivatives or derivatives that trade in less liquid markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. All of the Company s corporate and some of the Company s trust related derivatives are covered under an International Swap Dealer Association (ISDA) agreement requiring collateral to be exchanged based on the fair value of the derivatives. For a more detailed discussion of the collateral agreements, see Note 10, Derivative Financial Instruments, within the Company s 2007 Annual Report on Form 10-K. In all cases, the Company s derivatives require collateral movement (or reassignment of the contract) if either the counterparty or the Company experiences a credit rating decrease below a specified level. The fair value of the Company s derivatives take into account the impact of these collateral agreements in assessing counterparty nonperformance risk. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs. The carrying value of borrowings designated as the hedged item in a SFAS No. 133 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

Residual Interests

The Residual Interests are carried at fair value in the financial statements. The fair value is calculated using discounted cash flow models and option models. Observable inputs from active markets are used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds costs of funds and discount rates, are used in determining the fair value and require significant judgment. These unobservable inputs are internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back tests its prepayment speed, default rates and costs of funds assumptions by comparing those assumptions to actuals experienced. Material changes in these significant unobservable inputs can directly affect income by impacting the amount of unrealized gain or loss recorded in servicing and securitization revenue as a result of the adoption of SFAS No. 159. An analysis of the impact of changes to significant inputs is

addressed further in Note 9, Student Loan Securitization, within the Company s 2007 Annual Report on Form 10-K. In addition, market transactions are not available to validate the models results (see Note 4, Student Loan Securitization, for further discussion regarding these assumptions).

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11. Fair Value Measurements (Continued)

The following table summarizes the valuation of the Company s financial instruments that are marked-to-market on a recurring basis in the financial statements as of June 30, 2008.

	Fair Value Measurements on a Recurring Basis as of June 30, 2008			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available for sale investments	$	$ 2,708	$	$ 2,708
Retained Interest in off-balance sheet securitized loans			2,545	2,545
Derivative instruments[1]		4,993		4,993
Total Assets	$	$ 7,701	$ 2,545	$ 10,246
Liabilities[2]				
Derivative instruments[1]	$	$ (252)	$ (121)	$ (373)
Total Liabilities	$	$ (252)	$ (121)	$ (373)

(1) Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

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

The following table summarizes the change in balance sheet carrying value associated with Level 3 financial instruments carried at fair value on a recurring basis during the three and six months ended June 30, 2008.

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
(Dollars in millions)	**Residual Interests**	**Derivative Instruments**	**Total**	**Residual Interests**	**Derivative Instruments**	**Total**
Balance, beginning of period	$ 2,874	$ (52)	$ 2,822	$ 3,044	$ (71)	$ 2,973

Total gains/(losses) (realized and unrealized):						
Included in earnings	(43)[1]	(72)[2]	(115)	17[1]	(62)[2]	(45)
Included in other comprehensive income						
Purchases, issuances and settlements	(286)	3	(283)	(516)	12	(504)
Transfers in and/or out of Level 3						
Balance, end of period	$ 2,545	$ (121)	$ 2,424	$ 2,545	$ (121)	$ 2,424
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$ (192)[1]	$ (68)[2]	$ (260)	$ (280)[1]	$ (49)[2]	$ (329)

[1] Recorded in servicing and securitization revenue.

[2] Recorded in gains (losses) on derivative and hedging activities, net.

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12. Contingencies

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against the Company and it subsidiaries.

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

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

In accordance with SFAS No. 5, Accounting for Contingencies, the Company is required to establish reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves.

Based on current knowledge, reserves have not been established for any pending litigation or regulatory matters. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending litigation or regulatory matters will have a material adverse effect on the consolidated financial position or liquidity of the Company.

13. Segment Reporting

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

The management reporting process measures the performance of the Company s operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and

allocate resources. Management, including the Company s chief operating decision makers, evaluates the performance of the Company s operating segments based on their profitability. As discussed further below, management measures the profitability of the Company s operating segments based on Core Earnings net income. Accordingly, information regarding the Company s reportable segments is provided based on a Core Earnings basis. The Company s Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other

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13. Segment Reporting (Continued)

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

The Company s principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer accounted for more than 10 percent of its total revenue during the three months ended June 30, 2008 and 2007. USA Funds is the Company s largest customer in both the APG and Corporate and Other segments. During the six months ended June 30, 2008 and 2007, USA Funds accounted for 28 percent and 33 percent, respectively, of the aggregate revenues generated by the Company s APG and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for the years mentioned.

Lending

In the Company s Lending operating segment, the Company originates and acquires both FFELP loans and Private Education Loans. As of June 30, 2008, the Company managed $171.9 billion of student loans, of which $140.8 billion or 82 percent are federally insured, and serves over 10 million customers. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. In the six months ended June 30, 2008, the Company originated $132 million in mortgage and consumer loans and its mortgage and consumer loan portfolio totaled $546 million at June 30, 2008.

Private Education Loans consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers resources, and (2) those that are used to meet the needs of students in alternative learning programs such as career training, distance learning and lifelong learning programs. Most higher education Private Education Loans are made in conjunction with a FFELP loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through industry-tested loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

APG

The Company s APG operating segment provides a wide range of accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, and accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors, and sub-performing and non-performing mortgage loans. The Company s APG

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13. Segment Reporting (Continued)

operating segment serves the student loan marketplace through a broad array of default management services on a contingency fee or other pay-for-performance basis to 14 FFELP guarantors and for campus-based programs.

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

The Company has also concluded that its APG operating segment purchased paper businesses no longer produce a mutual strategic fit. As a result, the Company is currently exploring alternatives for its purchased paper businesses, including a potential sale, wind-down and other options.

Corporate and Other

The Company s Corporate and Other segment includes the aggregate activity of its smaller operating segments primarily its Guarantor Servicing, Loan Servicing, and Upromise operating segments. Corporate and Other also includes several smaller products and services, as well as corporate overhead.

In the Guarantor Servicing operating segment, the Company provides a full complement of administrative services to FFELP guarantors including guarantee issuance, account maintenance, and guarantee fulfillment. In the Loan Servicing operating segment, the Company provides a full complement of activities required to service student loans on behalf of lenders who are unrelated to the Company. Such servicing activities generally commence once a loan has been fully disbursed and include sending out payment coupons to borrowers, processing borrower payments, originating and disbursing FFELP Consolidation Loans on behalf of the lender, and other administrative activities required by ED.

Upromise markets and administers an affinity marketing program and also provides administration services for 529 college-savings plans. The Company s other products and services include comprehensive financing and loan delivery solutions that it provides to college financial aid offices and students to streamline the financial aid process. Corporate overhead includes all of the typical headquarter functions such as executive management, accounting and finance, human resources and marketing.

Measure of Profitability

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

Core Earnings performance measures are the primary financial performance measures used by management to develop the Company s financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage

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13. Segment Reporting (Continued)

the business. Reconciliation of the Core Earnings segment totals to the Company s consolidated operating results in accordance with GAAP is also included in the tables below.

Segment Results and Reconciliations to GAAP

	Three Months Ended June 30, 2008					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 524	$	$	$ 524	$ (26)	$ 498
FFELP Consolidation Loans	908			908	(138)	770
Private Education Loans	665			665	(256)	409
Other loans	21			21		21
Cash and investments	81		5	86	(15)	71
Total interest income	2,199		5	2,204	(435)	1,769
Total interest expense	1,605	7	5	1,617	(251)	1,366
Net interest income (loss)	594	(7)		587	(184)	403
Less: provisions for loan losses	192			192	(49)	143
Net interest income (loss) after provisions for loan losses	402	(7)		395	(135)	260
Contingency fee revenue		84		84		84
Collections revenue		27		27	(1)	26
Guarantor servicing fees			24	24		24
Other income	62		45	107	322	429
Total other income	62	111	69	242	321	563
Restructuring expenses	31	5	11	47		47
Operating expenses	155	110	73	338	16	354
Total expenses	186	115	84	385	16	401
	278	(11)	(15)	252	170	422

Income (loss) before income taxes and minority interest in net earnings of subsidiaries						
Income tax expense (benefit)[1]	103	(4)	(6)	93	60	153
Minority interest in net earnings of subsidiaries		3		3		3
Net income (loss)	$ 175	$ (10)	$ (9)	$ 156	$ 110	$ 266

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended June 30, 2008				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (254)	$ 89	$ (19)	$	$ (184)
Less: provisions for loan losses	(49)				(49)
Net interest income (loss) after provisions for loan losses	(205)	89	(19)		(135)
Contingency fee revenue					
Collections revenue	(1)				(1)
Guarantor servicing fees					
Other income	(40)	362			322
Total other income (loss)	(41)	362			321
Restructuring expenses					
Operating expenses	1			15	16
Total expenses	1			15	16
Total pre-tax Core Earnings adjustments to GAAP	$ (247)	$ 451	$ (19)	$ (15)	170
Income tax benefit					60
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ 110

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13. Segment Reporting (Continued)

	Three Months Ended June 30, 2007					
(Dollars in millions)	**Lending**	**APG**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[2]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 719	$	$	$ 719	$ (208)	$ 511
FFELP Consolidation Loans	1,391			1,391	(304)	1,087
Private Education Loans	692			692	(363)	329
Other loans	27			27		27
Cash and investments	182		7	189	(47)	142
Total interest income	3,011		7	3,018	(922)	2,096
Total interest expense	2,371	7	5	2,383	(686)	1,697
Net interest income (loss)	640	(7)	2	635	(236)	399
Less: provisions for loan losses	247			247	(99)	148
Net interest income (loss) after provisions for loan losses	393	(7)	2	388	(137)	251
Contingency fee revenue		80		80		80
Collections revenue		77		77		77
Guarantor servicing fees			30	30		30
Other income	59		49	108	925	1,033
Total other income	59	157	79	295	925	1,220
Restructuring expenses						
Operating expenses	182	96	104	382	17	399
Total expenses	182	96	104	382	17	399
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	270	54	(23)	301	771	1,072
Income tax expense (benefit)[1]	100	20	(9)	111	(6)	105
		1		1		1

Minority interest in net earnings of subsidiaries												
Net income (loss)	$	170	$	33	$	(14)	$	189	$	777	$	966

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended June 30, 2007				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (217)	$ 20	$ (39)	$	$ (236)
Less: provisions for loan losses	(99)				(99)
Net interest income (loss) after provisions for loan losses	(118)	20	(39)		(137)
Contingency fee revenue					
Collections revenue					
Collections revenue					
Other income (loss)	103	822			925
Total other income (loss)	103	822			925
Operating expenses				17	17
Total pre-tax Core Earnings adjustments to GAAP	$ (15)	$ 842	$ (39)	$ (17)	771
Income tax benefit					(6)
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ 777

SLM CORPORATION

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(Information at June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

13. Segment Reporting (Continued)

	Six Months Ended June 30, 2008					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 1,018	$	$	$ 1,018	$ (56)	$ 962
FFELP Consolidation Loans	1,896			1,896	(290)	1,606
Private Education Loans	1,415			1,415	(562)	853
Other loans	45			45		45
Cash and investments	222		11	233	(39)	194
Total interest income	4,596		11	4,607	(947)	3,660
Total interest expense	3,429	14	10	3,453	(472)	2,981
Net interest income (loss)	1,167	(14)	1	1,154	(475)	679
Less: provisions for loan losses	374			374	(94)	280
Net interest income (loss) after provisions for loan losses	793	(14)	1	780	(381)	399
Contingency fee revenue		169		169		169
Collections revenue		84		84		84
Guarantor servicing fees			58	58		58
Other income	106		97	203	119	322
Total other income	106	253	155	514	119	633
Restructuring expenses	46	6	15	67		67
Operating expenses	318	216	144	678	32	710
Total expenses	364	222	159	745	32	777
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	535	17	(3)	549	(294)	255
Income tax expense (benefit)[1]	197	6	(1)	202	(112)	90
		3		3		3

Minority interest in net earnings of subsidiaries						
Net income (loss)	$ 338	$ 8	$ (2)	$ 344	$ (182)	$ 162

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

(2) Core Earnings adjustments to GAAP:

	Six Months Ended June 30, 2008				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (449)	$ (2)	$ (24)	$	$ (475)
Less: provisions for loan losses	(94)				(94)
Net interest income (loss) after provisions for loan losses	(355)	(2)	(24)		(381)
Contingency fee income					
Collections revenue					
Guarantor servicing fees					
Other income (loss)	30	89			119
Total other income (loss)	30	89			119
Operating expenses	1			31	32
Total pre-tax Core Earnings adjustments to GAAP	$ (326)	$ 87	$ (24)	$ (31)	(294)
Income tax benefit					(112)
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ (182)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

13. Segment Reporting (Continued)

	Six Months Ended June 30, 2007					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 1,414	$	$	$ 1,414	$ (452)	$ 962
FFELP Consolidation Loans	2,722			2,722	(620)	2,102
Private Education Loans	1,350			1,350	(682)	668
Other loans	54			54		54
Cash and investments	345		9	354	(98)	256
Total interest income	5,885		9	5,894	(1,852)	4,042
Total interest expense	4,592	13	11	4,616	(1,387)	3,229
Net interest income (loss)	1,293	(13)	(2)	1,278	(465)	813
Less: provisions for loan losses	444		1	445	(146)	299
Net interest income (loss) after provisions for loan losses	849	(13)	(3)	833	(319)	514
Contingency fee revenue		166		166		166
Collections revenue		143		143		143
Guarantor servicing fees			70	70		70
Other income	104		100	204	1,157	1,361
Total other income	104	309	170	583	1,157	1,740
Total operating expenses	353	190	172	715	40	755
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	600	106	(5)	701	798	1,499
Income tax expense (benefit)[1]	222	39	(2)	259	156	415
Minority interest in net earnings of subsidiaries		2		2		2
Net income (loss)	$ 378	$ 65	$ (3)	$ 440	$ 642	$ 1,082

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

(2) Core Earnings adjustments to GAAP:

	Six Months Ended June 30, 2007				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (432)	$ 45	$ (78)	$	$ (465)
Less: provisions for loan losses	(146)				(146)
Net interest income (loss) after provisions for loan losses	(286)	45	(78)		(319)
Contingency fee revenue					
Collections revenue					
Guarantor servicing fees					
Other income (loss)	692	465			1,157
Total other income (loss)	692				

	Redeemable Noncontrolling Interests		Noncontrolling Interests		Total	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017	2018	2017
Balance, beginning of period	$1,004,094	$1,528,001	$16,718	$165,977	$1,020,812	$1,693,978
Issuance of shares	466,550	210,200	321,900	258,300	788,450	468,500
Adjustment to noncontrolling interests as a result of deconsolidation	—	(459,021)	—	—	—	(459,021)
Income attributable to noncontrolling interests	47,628	54,485	52,595	31,737	100,223	86,222
Redemption of shares / Distributions	(128,039)	(82,005)	(19,956)	(40,356)	(147,995)	(122,361)
Balance, end of period	$1,390,233	$1,251,660	$371,257	$415,658	$1,761,490	$1,667,318

As at June 30, 2018, redemptions payable of $80,315 (December 31, 2017: $180,104) relating to redeemable noncontrolling interests were included within accounts payable and accrued expenses in the Company’s Consolidated Balance Sheets.

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Validus Holdings, Ltd.
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8. Derivative instruments

The Company enters into various derivative instruments in the form of foreign currency forward exchange contracts, interest rate swap contracts and weather derivative instruments. These derivative instruments are used to manage exposures to currency and interest rate risks, to enhance the efficiency of the Company's investment portfolio and to provide protection against cedants' financial exposure to variability in weather patterns. All of the Company's outstanding derivative financial instruments are recognized in the Consolidated Balance Sheets at their fair values. The effect on earnings from recognizing the fair values of these derivative financial instruments depends on each instrument's intended use, hedge designation, and effectiveness in offsetting the exposure it is intended to hedge.

(a) Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at June 30, 2018 and December 31, 2017:

	June 30, 2018			December 31, 2017		
Derivatives not designated as hedging instruments	Notional Exposure	Asset Derivative at Fair Value [(a)]	Liability Derivative at Fair Value [(a)]	Notional Exposure	Asset Derivative at Fair Value [(a)]	Liability Derivative at Fair Value [(a)]
Foreign currency forward contracts	$190,952	$ 3,880	$ 3,310	$283,765	$ 1,147	$ 906
Interest rate swap contracts	$200,000	$ 10,306	$ —	$200,000	$ 1,589	$ —
Weather derivative contracts	$4,825	$ 8,380	$ —	$4,825	$ 853	$ —

(a) Asset and liability derivative positions are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's Consolidated Balance Sheets.

The foreign currency forward contracts and interest rate swap contracts are valued on the basis of standard industry valuation models. The inputs to these models are based on observable market inputs, and as such the fair values of these contracts are classified as Level 2. The weather derivative contracts are valued on the basis of modeled and other information provided by Validus' counterparties. Validus reviews this information, which represents Level 3 inputs, as it is ultimately management's responsibility to ensure that the fair values reflected in the Company's financial statements are appropriate.

The following table summarizes information on the classification and net impact on earnings recognized in the Company's Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income relating to derivatives that were not designated as hedging instruments during the three and six months ended June 30, 2018 and 2017:

Derivatives not designated as hedging instruments	Classification of gains recognized in earnings	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Foreign currency forward contracts	Foreign exchange (losses) gains	$4,843	$(6,525)	$(358)	$(6,072)
Foreign currency forward contracts	Other insurance related income and other income	$—	$(874)	$—	$(979)
Interest rate swap contracts	Net realized gains on investments	$2,123	$(319)	$8,067	$(319)
Weather derivative contracts	Other insurance related income and other income	$(17,910)	$—	$8,863	$—

(b) Derivatives designated as hedging instruments

Derivative instruments designated as cash flow hedges

During 2012 and 2013, the Company entered into several swap agreements with third parties in order to convert the floating interest rates associated with its Junior Subordinated Deferrable Debentures into fixed rates. See Note 13, "Debt and financing arrangements," for further details. The Company also designates certain foreign exchange contracts as cash flow hedges of anticipated foreign currency-denominated sales or purchases.

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The following table summarizes information on the classification and amount of the fair value of derivatives designated as hedging instruments on the Consolidated Balance Sheets as at June 30, 2018 and December 31, 2017:

Derivatives designated as hedging instruments	June 30, 2018			December 31, 2017		
	Notional Exposure	Asset Derivative at Fair Value [(a)]	Liability Derivative at Fair Value [(a)]	Notional Exposure	Asset Derivative at Fair Value [(a)]	Liability Derivative at Fair Value [(a)]
Interest rate swap contracts	$552,263	$ 28,982	$ 2,627	$552,263	$ 9,806	$ 18,840
Foreign currency forward contracts	$64,405	$ —	$ 546	$96,293	$ 1,891	$ —

(a) Asset and liability derivative positions are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's Consolidated Balance Sheets.

The interest rate swap contracts and foreign currency forward contracts are valued on the basis of Level 2 inputs.
The following tables provide the total impact on other comprehensive income and earnings relating to the derivative instruments formally designated as cash flow hedges for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
Interest rate swap contracts	2018	2017	2018	2017
Amount recognized in other comprehensive income	$7,200	$(144)	$33,043	$(46)
Amount reclassified to finance expenses	$698	$—	$2,041	$—

	Three Months Ended June 30,		Six Months Ended June 30,	
Foreign currency forward contracts	2018	2017	2018	2017
Amount recognized in other comprehensive income	$(4,165)	$—	$(1,245)	$—
Amount reclassified to general and administrative expenses	$(884)	$—	$(1,192)	$—

(c) Balance sheet offsetting

There was no balance sheet offsetting activity as at June 30, 2018 or December 31, 2017.
The Company provides investments as collateral for interest rate swap contracts and weather derivative contracts. The Company does not provide collateral or financial instruments as security for foreign currency forward contracts. Our derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash.
The Company has not elected to settle multiple transactions with an individual counterparty on a net basis.

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9. Reserve for losses and loss expenses

The following table summarizes the Company’s reserve for losses and loss expenses as at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Case reserves	$1,836,130	$ 1,753,844
IBNR	2,863,469	3,077,546
Reserve for losses and loss expenses	$4,699,599	$ 4,831,390

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Reserve for losses and loss expenses, beginning of period	$4,632,629	$3,052,745	$4,831,390	$2,995,195
Loss reserves recoverable	(979,944)	(451,856)	(1,233,997)	(430,421)
Net reserves for losses and loss expenses, beginning of period	3,652,685	2,600,889	3,597,393	2,564,774
Net reserves acquired	—	23,753	—	23,753
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:				
Current year	489,181	339,439	818,296	670,255
Prior years	(12,571)	(43,290)	(20,141)	(104,521)
Total incurred losses and loss expenses	476,610	296,149	798,155	565,734
Foreign exchange (gain) loss	(30,348)	20,216	(14,721)	32,533
Less net losses and loss expenses paid in respect of losses occurring in:				
Current year	(61,340)	(42,758)	(81,075)	(50,456)
Prior years	(308,958)	(193,265)	(571,103)	(431,354)
Total net paid losses	(370,298)	(236,023)	(652,178)	(481,810)
Net reserve for losses and loss expenses, end of period	3,728,649	2,704,984	3,728,649	2,704,984
Loss reserves recoverable	970,950	600,207	970,950	600,207
Reserve for losses and loss expenses, end of period	$4,699,599	$3,305,191	$4,699,599	$3,305,191

Incurred losses and loss expenses comprise:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross losses and loss expenses	$535,438	$410,421	$784,219	$746,863
Reinsurance recoveries	(58,828)	(114,272)	13,936	(181,129)
Net incurred losses and loss expenses	$476,610	$296,149	$798,155	$565,734

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The net (favorable) adverse development on prior accident years by segment and line of business for the three and six months ended June 30, 2018 and 2017 was as follows:

	Three Months Ended June 30, 2018			
	Property	Specialty - Short-tail	Specialty - Other	Total
Reinsurance Segment	$(9,634)	$(10,273)	$5,097	$(14,810)
Insurance Segment	4,792	4,986	(4,814)	4,964
Asset Management Segment	(1,666)	(1,059)	—	(2,725)
Net (favorable) adverse development	$(6,508)	$(6,346)	$283	$(12,571)

	Three Months Ended June 30, 2017			
	Property	Specialty - Short-tail	Specialty - Other	Total
Reinsurance Segment	$(697)	$(14,344)	$(667)	$(15,708)
Insurance Segment	(5,347)	(9,349)	(9,034)	(23,730)
Asset Management Segment	(3,097)	(755)	—	(3,852)
Net favorable development	$(9,141)	$(24,448)	$(9,701)	$(43,290)

The net favorable development on prior accident years for the three months ended June 30, 2018 and 2017 was primarily driven by favorable development on attritional losses.

	Six Months Ended June 30, 2018			
	Property	Specialty - Short-tail	Specialty - Other	Total
Reinsurance Segment	$(14,456)	$(23,724)	$5,532	$(32,648)
Insurance Segment	8,860	(7,215)	(12,229)	(10,584)
Asset Management Segment	23,534	(443)		