SLM CORP
Form 10-K
March 02, 2009

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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 numbers 001-13251

SLM Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2013874**
(State of 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)

Securities registered pursuant to Section 12(b) of the Act
Common Stock, par value $.20 per share.
Name of Exchange on which Listed:
New York Stock Exchange
6.97% Cumulative Redeemable Preferred Stock, Series A, par value $.20 per share
Floating Rate Non-Cumulative Preferred Stock, Series B, par value $.20 per share
Name of Exchange on which Listed:
New York Stock Exchange
Medium Term Notes, Series A, CPI-Linked Notes due 2017
Medium Term Notes, Series A, CPI-Linked Notes due 2018
6% Senior Notes due December 15, 2043
Name of Exchange on which Listed:

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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
The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2008 was $8.9 billion (based on closing sale price of $19.35 per share as reported for the New York Stock Exchange Composite Transactions).
As of February 27, 2009, there were 467,403,909 shares of voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement relating to the registrant s Annual Meeting of Shareholders scheduled to be held May 22, 2009 are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This report contains forward-looking statements and information based on management s current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements, and are contained throughout this Annual Report on Form 10-K, including under the sections entitled Business and Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could give rise to our ability to cost-effectively refinance asset-backed financing facilities due April 2009, (collectively, the 2008 Asset-Backed Financing Facilities), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Administration s 2010 budget proposals as they relate to the Federal Family Education Loan Program (FFELP) and regulations and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: various liquidity programs being implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date this Annual Report on Form 10-K is filed. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company s expectations.

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

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PART I.

Item 1. Business

INTRODUCTION TO SLM CORPORATION

SLM Corporation, more commonly known as Sallie Mae, is the market leader in education finance. SLM Corporation is a holding company that operates through a number of subsidiaries. References in this Annual Report to the Company refer to SLM Corporation and its subsidiaries. The Company was formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise (GSE), with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, we completed the privatization process that began in 1997 and resulted in the wind down of the GSE.

Our primary business is to originate, service and collect student loans. We provide funding, delivery and servicing support for education loans in the United States through our participation in the Federal Family Education Loan Program (FFELP) and through our non-federally guaranteed Private Education Loan programs.

We have used internal growth and strategic acquisitions to attain our leadership position in the education finance market. Our sales force is the largest in the student loan industry. The core of our marketing strategy is to generate student loan originations by promoting our brands on campus through the financial aid office. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry.

In addition to the net interest income generated by our lending activities, we earn fees for a number of services including student loan and guarantee servicing, loan default aversion and defaulted loan collections, and for providing processing capabilities and information technology to educational institutions, as well as, 529 college savings plan program management, transfer and servicing agent services, and administrative services through Upromise Investments, Inc. (UII) and Upromise Investment Advisors, LLC (UIA). We also operate a consumer savings network through Upromise, Inc. (Upromise). References in this Annual Report to Upromise refer to Upromise and its subsidiaries, UII and UIA.

At December 31, 2008, we had approximately 8,000 employees.

Recent Developments

Legislative developments, conditions in the capital markets and regulatory actions taken by the federal government over the last eighteen months have had a significant and, in some cases, an unintended impact on the student loan industry. This has caused the Company to make significant changes in the way it conducts its business.

The College Cost Reduction and Access Act of 2007 (CCRAA) resulted in, among other things, a reduction in the yield received by the Company on FFELP loans originated on or after October 1, 2007. A description of the CCRAA can be found in APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM.

In the summer of 2007, the global capital markets began to experience a severe dislocation that has persisted to the present. This dislocation, along with a reduction in the Company s unsecured debt ratings caused by the Proposed Merger, resulted in more limited access to the capital markets than the Company has experienced in the past and a substantial increase in its cost of funding.

Historically, the Company relied on the term asset-backed securities (ABS) market for the majority of its funding. In 2006, the Company issued FFELP ABS at an average cost of 14 basis points over LIBOR. In 2007, the average cost rose slightly to 19 basis points over LIBOR. By December 2007, however, we paid in excess of 50 basis points over LIBOR for similar FFELP ABS. In 2008, the cost to issue FFELP ABS rose steadily before access was eliminated for all issuers. In 2008, we issued $18.5 billion of FFELP ABS at an

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average spread of 125 basis points over LIBOR. The Company has not accessed the market for Private Education Loan ABS since 2007.

In the past, the Company primarily relied on the unsecured debt market for the balance of its funding. In June 2008, the Company issued a $2.5 billion, ten-year unsecured note at an equivalent cost of 400 basis points over LIBOR. This rate is more than 300 basis points higher than the cost of any previously issued unsecured debt. Subsequent to this debt issuance, the market for unsecured, non-U.S. government guaranteed debt issued by financial services companies materially deteriorated and became unavailable at profitable terms.

The net interest margin earned on a newly-originated FFELP loan came under pressure as the asset yield was cut and funding costs increased, making new lending unprofitable. As a result, over 160 student lenders have exited the business since the implementation of CCRAA, and most remaining issuers significantly reduced their lending activities. By January 2008, it became clear that unless the capital markets recovered there would be a sharp contraction in the number of student loans available. The Company, along with other participants in the student loan industry, began to bring this to the attention of legislators, schools and students. As early as February 2008, members of Congress were writing to the U.S. Department of Education (ED) and the Federal Reserve alerting them to the imminent crisis and urging them to find a solution. Congress acted quickly and passed legislation that authorized ED to take action.

The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) was passed in both houses of Congress with overwhelming bipartisan support and was signed into law on May 7, 2008. Under ECASLA, ED implemented two programs in 2008, the Loan Participation Program and Loan Purchase Commitment Program (Participation Program and Purchase Program). Through the Participation Program, ED provides interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged at the commercial paper (CP) rate plus 0.50 percent on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Purchase Program prior to its expiration on September 30, 2010. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Generally, loans originated between May 1, 2008 and June 30, 2010 are eligible for these programs. ECASLA also significantly increased student loan limits. A description of ECASLA can be found in APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM.

The Participation Program enabled the Company to make a pledge to make every loan to every eligible student on every campus under FFELP and to help the country avoid a major crisis on campuses across the United States. In the first six months of academic year (AY) 2008-2009, the Company originated $9.5 billion of FFELP loans, an increase of 3 percent from the prior year. In addition, it originated $1.4 billion of FFELP loans for third parties.

In addition to the Participation and Purchase Programs, ECASLA authorized funding vehicles for FFELP loans originated after October 1, 2003 through June 30, 2009. On January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the ED Conduit Program). Funding for the ED Conduit Program will be provided by the capital markets at a cost based on market rates. The ED Conduit Program will have a term of five years. An estimated $16.0 billion of our Stafford and PLUS loans (excluding loans currently in the Participation Program) were eligible for funding under the ED Conduit Program as of December 31, 2008. We expect to utilize the ED Conduit Program to fund a significant percentage of these assets over time. The initial funding under the ED Conduit Program is expected to occur in the first quarter of 2009.

Interest paid on FFELP loans is set by law and is based on the Federal Reserve s Statistical Release H.15 90-day financial CP rate. As of December 31, 2008, on a Managed Basis, the Company had approximately $127.2 billion of

FFELP loans indexed to three-month financial CP that are funded with debt indexed or swapped to LIBOR. Due to the unintended consequences of government actions in other areas of the capital markets and limited issuances of qualifying financial CP, the relationship between the three-month financial

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CP and LIBOR became distorted and volatile resulting in CP rates being substantially below LIBOR starting in the fall of 2008.

To address this issue for the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter, the Federal Reserve s CP Funding Facility rates would be used for those days in which no three-month financial CP rate was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 compared to 8 basis points in the third quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if the ED had not addressed the issue by using the Federal Reserve s CP Funding Facility rates discussed above. The Company continues to work with Congress and ED to implement an acceptable long-term solution to this issue.

On February 26, 2009, the Administration issued their 2010 budget request to Congress, which included provisions that could impact significantly the FFELP. The President s budget overview states: FFEL processors would continue to receive federal subsidies for new loans originated in the 2009-2010 academic year and prior academic years under the regular FFEL program and the emergency programs established by the Ensuring Continued Access to Student Loans Act of 2008. The budget proposal must be passed in the Congress, prior to enactment into law. The Company will work with Congress and ED to assist them in achieving the objectives outlined in the Administration s 2010 budget request.

In 2008, the Company conducted a thorough review of our entire business model and operations with a goal of achieving appropriate risk adjusted returns across all of our business segments and providing cost-effective services. As a result, we have reduced our operating expenses by over 20 percent in the fourth quarter of 2008 compared to the fourth quarter of 2007, after adjusting for restructuring costs, growth and other investments. This reduction was accomplished by lowering our headcount by a total of 2,900 or 26 percent, and consolidating operations through closing several work locations. The Company also curtailed less profitable FFELP student loan acquisitions such as from Lender Partners, spot purchases and consolidation lending. In our private education lending business, we curtailed high default lending programs, tightened credit underwriting standards and increased pricing. We also made the decision to wind down our purchased receivables business in our Asset Performance Group (APG) business segment to focus on our core student loan collection business. These measures are discussed in more detail in the Business Segments discussion below.

Student Lending Market

Students and their families use multiple sources of funding to pay for their college education including savings, current income, grants, scholarships, and federally guaranteed and private education loans. Historically, one-third of the cost of an education has come from federally guaranteed student loans and private education loans. Over the last five years, these sources of funding for higher education have been relatively stable with a general trend towards an increased use of student loans. Due to the legislative changes described above, a dramatic reduction in other sources of credit such as home equity and private education loans, and a significant decline in personal wealth as a result of declining home prices and equity values, the Company expects to see a substantial increase in borrowing from federal loan programs in the current and future years.

Federally Guaranteed Student Lending Programs

There are two loan delivery programs that provide federal government guaranteed student loans: the FFELP and the Federal Direct Loan Program (FDLP). FFELP loans are provided by private sector institutions and are ultimately guaranteed by ED, except for the Risk Sharing loss. FDLP loans are provided to borrowers directly by ED on terms similar to student loans provided under the FFELP. We participate in and are the largest lender under the FFELP program.

For the federal fiscal year (FFY) ended September 30, 2008 (FFY 2008), ED estimated that the market share of FFELP loans was 76 percent, down from 80 percent in FFY 2007. (See LENDING BUSINESS SEGMENT Competition.) Total FFELP and FDLP volume for FFY 2008 grew by 17 percent, with the FFELP portion growing 12 percent and the FDLP portion growing 40 percent.

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As discussed above, in 2008, many lenders exited the FFELP marketplace, creating concerns about the availability of federal loans for students served by this program. As a result, some schools began to decrease their participation in the FFELP program in July 2008 for the stability of the FDLP. ED estimated that the FDLP could double its market share.

The Higher Education Act (the HEA) regulates every aspect of the federally guaranteed student loan program, including communications with borrowers, loan originations and default aversion. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. This guarantee generally covers 98 and 97 percent of the student loan s principal and accrued interest for loans disbursed before and after July 1, 2006, respectively. In the case of death, disability or bankruptcy of the borrower, the guarantee covers 100 percent of the loan s principal and accrued interest.

FFELP loans are guaranteed by state agencies or non-profit companies designated as guarantors, with ED providing reinsurance to the guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program s soundness and accountability. These functions include reviewing loan application data to detect and prevent fraud and abuse and to assist lenders in preventing default by providing counseling to borrowers. Generally, the guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the HEA. When a borrower defaults on a FFELP loan, we submit a claim to the guarantor who provides reimbursements of principal and accrued interest subject to the Risk Sharing (See APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM, to this document for a description of the role of guarantors.)

Private Education Loan Products

In addition to federal loan programs, which have statutory limits on annual and total borrowing, we sponsor a variety of Private Education Loan programs to bridge the gap between the cost of education and a student s resources. The majority of our Private Education Loans are made in conjunction with a FFELP Stafford loan and are marketed to schools through the same marketing channels and by the same sales force as FFELP loans. As a result of the credit market dislocation discussed above, a large number of lenders have exited the Private Education Loan business and only a few of the country s largest banks continue to offer the product. Private Education Loans are discussed in more detail below.

Drivers of Growth in the Student Loan Industry

Growth in our Managed student loan portfolio is driven by the growth in the overall market for student loans, as well as by our own market share gains. Rising enrollment and college costs have resulted in the size of the federally insured student loan market more than doubling over the last 10 years. Federally insured student loan originations grew from $30.0 billion in FFY 1998 to $75.5 billion in FFY 2008.

According to the College Board, tuition and fees at four-year public institutions and four-year private institutions have increased 50 percent and 27 percent, respectively, in constant, inflation-adjusted dollars, since AY 1998-1999. Under the FFELP, there are limits to the amount students can borrow each academic year. The first loan limit increases since 1992 were implemented July 1, 2007. In response to the credit crisis, Congress significantly increased loan limits again in 2008. As a result, we anticipate that students will rely more on federal loans to fund their tuition needs. Both federal and private loans as a percentage of total student aid were 52 percent of total student aid in AY 1997-1998 and 53 percent in AY 2007-2008. Private Education Loans accounted for 22 percent of total student loans both federally guaranteed and Private Education Loans in AY 2007-2008, compared to 7 percent in AY 1997-1998.

The National Center for Education Statistics predicts that the college-age population will increase approximately 10 percent from 2008 to 2017. Demand for education credit is expected to increase due to this population demographic, first-time college enrollments of older students and continuing interest in adult education.

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The following charts show the historical and projected enrollment and average tuition and fee growth for four-year public and private colleges and universities.

Historical and Projected Enrollment
(in millions)

Source: National Center for Education Statistics

Note: Total enrollment in all degree-granting institutions; middle alternative projections for 2006 onward.

Cost of Attendance[1]
Cumulative % Increase from AY 1997-1998

Source: The College Board

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

BUSINESS SEGMENTS

We provide credit products and related services to the higher education and consumer credit communities and others through two primary business segments: our Lending business segment and our APG business segment. In addition, within our Corporate and Other business segment, we provide a number of complementary products and services to guarantors and Lender Partners that are managed within smaller operating segments, the most prominent being our Guarantor Servicing and Loan Servicing businesses. Our Corporate and Other business segment also includes the activities of our Upromise subsidiaries. Each of these segments is summarized below. The accounting treatment for the segments is explained in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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LENDING BUSINESS SEGMENT

In the Lending business segment, we originate and acquire both federally guaranteed student loans, which are administered by ED, and Private Education Loans, which are not federally guaranteed. Most of our borrowers use Private Education Loans primarily to supplement federally guaranteed loans in meeting the cost of education. We manage the largest portfolio of FFELP and Private Education Loans in the student loan industry, and have 10 million student and parent customers through our ownership and management of $180.4 billion in Managed student loans as of December 31, 2008, of which $147.0 billion or 81 percent are federally insured. We serve over 6,000 clients including educational and financial institutions and state agencies. We are the largest servicer of student loans, servicing a portfolio of $139 billion of FFELP loans and $39 billion of Private Education Loans as of December 31, 2008.

Sallie Mae s Lending Business

Our primary marketing point-of-contact is the school s financial aid office. We deliver flexible and cost-effective products to the school and its students. The focus of our sales force is to market Sallie Mae s suite of education finance products and business office solutions to colleges. These include FFELP and Private Education Loans and our Web-based loan origination and servicing platform OpenNet®. Simply put, our strategy is to provide the financial aid and bursar s office with the tools they need to provide their students with the financing students require to pay for their education.

In 2008, we originated $24.2 billion in student loans. FFELP originations for the year ended December 31, 2008 totaled $17.9 billion, an increase of 4 percent from the year ended December 31, 2007. The slowdown in FFELP loan origination growth is due principally to a large decline in loan originations through Lender Partners as a result of the diminished profitability of FFELP loans discussed earlier. Private Education Loan originations totaled $6.3 billion, a decrease of 20 percent from the prior year. The decline in Private Education Loan originations is due to our elimination of non-traditional lending announced earlier in the year and funding pressures which required us to limit our Private Education lending activities.

In the past we relied on Lender Partners, typically national or regional banks, for a large percentage of our loan originations. Our sales force promoted their brands on campuses and we purchased the loans after disbursement. In recent years, we migrated away from this strategy due to the stronger profitability of our internal brands. The increased pressures on the profitability of student loans described above accelerated this shift. In 2007, 34 percent of our loan originations were from Lender Partners. For 2008, lender partner originations declined to 19 percent of total loan originations. They were just 10 percent in the fourth quarter. The Company believes that the contribution to total loan originations from Lender Partners will be immaterial in future years.

Growth in FFELP lending is expected to come from loan limit increases and capturing market share as other participants exit the sector (see APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM, for a discussion of the history of student loan limits). In addition, the sharp contraction in household wealth is expected to increase the use of both federal and Private Education Loan programs. Offsetting these factors is an expected increase in participation in the FDLP. The FDLP program, with a market share of 20 percent in FFY 2007, had consistently lost market share since it peaked in FFY 1997 at 34 percent. In 2008, this trend reversed for the first time in over a decade due to the events described above and FDLP s market share rose to 24 percent.

In recent years, consolidation loans were an integral part of the FFELP business. Students were able to fix their interest rate for twenty years or more. Very low interest rates persisted in the early part of this decade, resulting in high levels of loan consolidation. At the end of 2008, 63 percent of our average Managed FFELP loans were consolidation loans, down from 67 percent at the end of 2007. The CCRAA made consolidation loans virtually

unprofitable; it also removed the interest rate incentive for borrowers to consolidate their loans. As a result, we no longer offer this product.

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Private Education Loans

We bear the full credit risk for Private Education Loans, which are underwritten and priced according to credit risk based upon customized credit scoring criteria. Due to their higher risk profile, Private Education Loans have higher interest rates than FFELP loans. Over the last several years, there has been significant growth in Private Education Loans as tuition has increased faster than the rate of inflation and FFELP lending limits have not increased. This growth combined with relatively higher spreads led to Private Education Loans contributing a higher percentage of our net interest margin in recent years. We expect this trend to continue in the foreseeable future, despite recent increases in FFELP loan limits, in part due to margin erosion of FFELP student loans.

Our Private Education Loan portfolio grew at a compound annual growth rate of just under 30 percent over the last three years. The current credit environment has created significant challenges funding Private Education Loans and we have become more restrictive in our underwriting criteria. In addition, as discussed above, FFELP lending limits have increased significantly over the last three years. As a result of these factors, we expect originations of Private Education Loans to be lower in 2009 than in 2008.

At the beginning of 2008, we announced the discontinuation of non-traditional lending. Over the course of 2008, we made improvements in the structure, pricing, underwriting, servicing, collecting and funding of Private Education Loans. These changes were made to increase the profitability and decrease the risk of the product. For example, the average FICO score for loans disbursed in the fourth quarter of 2008 was up 26 points to 738 and the percentage of co-signed loans increased to 74 percent from 57 percent in the prior year.

These improvements in portfolio quality are being driven by our more selective underwriting criteria. We have instituted higher FICO cut-offs and require cosigners for borrowers with higher credit scores than in the past. Our experience shows that adding a cosigner to a loan reduces the default rate by more than 50 percent. We are also originating more loans at lower risk schools. We are capturing more data on our borrowers and cosigners and using this data in the credit decision and pricing process. We have also introduced judgmental lending. We plan to deploy up to one hundred credit analysts in our new Delaware credit center who will review applications for private credit.

During 2008, we enhanced our default aversion and collection processes. This included significantly reducing the granting of prospective forbearance as a result of a risk-based eligibility model and better development of a borrower s ability to repay. Our focus is to remain in close contact with delinquent borrowers through our call centers, email and letters in order to improve our cure rates in each stage of delinquency to assist our borrowers in returning to current status.

Our largest Private Education Loan program is the Signature Student Loan®, which is offered to undergraduates and graduates through the financial aid offices of colleges and universities to supplement traditional FFELP loans. We also offer specialized loan products to graduate and professional students primarily through our MBA Loans®, LAWLOANS®, Sallie Mae Medical School Loans® and Sallie Mae DENTALoans® programs. During 2008, as a result of funding pressures, we curtailed the issuance of new Tuition Answer® loans.

Competition

The FDLP s market share peaked at 34 percent in FFY 1997. The FDLP s market share had steadily declined since then to 20 percent in FFY 2007. However, as discussed above, schools began to return to the FDLP in FFY 2008, driven by the concern that FFELP lenders were exiting the business, and FDLP s market share rose to 24 percent.

Historically, we have faced competition for both federally guaranteed and non-guaranteed student loans from a variety of financial institutions including banks, thrifts and state-supported secondary markets. However, as a result of the

CCRAA and the dislocation in the capital markets, the student loan industry is undergoing a significant transition. A number of student lenders have ceased operations altogether or curtailed activity. The environment of aggressive price competition between FFELP lenders has also lessened dramatically. Many of the FFELP lenders that remain in the business have been adjusting their pricing by reducing

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borrower benefits and other costs. As a result of these factors, we believe that as the largest student lender, we are well positioned to increase market share in the coming years. Our FFY 2008 FFELP originations totaled $17.1 billion, representing a 23 percent market share.

ASSET PERFORMANCE GROUP BUSINESS SEGMENT

In our APG business segment, we provide accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, and contingency collections services for student loans and other asset classes. In 2008, we decided to wind down our accounts receivable management and collections services on consumer and mortgage receivable portfolios that we purchased because we did not realize the expected synergies between this business and our traditional contingent student loan collection business.

In 2008, our APG business segment had revenues totaling $277 million and net loss of $106 million. Our largest customer, United Student Aid Funds, Inc. (USA Funds), accounted for 37 percent, excluding impairments, of our revenue in this segment in 2008.

Products and Services

Student Loan Default Aversion Services

We provide default aversion services for five guarantors, including the nation s largest, USA Funds. These services are designed to prevent a default once a borrower s loan has been placed in delinquency status.

Defaulted Student Loan Portfolio Management Services

Our APG business segment manages the defaulted student loan portfolios for six guarantors under long-term contracts. APG s largest customer, USA Funds, represents approximately 17 percent of defaulted student loan portfolios in the market. Our portfolio management services include selecting collection agencies and determining account placements to those agencies, processing loan consolidations and loan rehabilitations, and managing federal and state offset programs.

Contingency Collection Services

Our APG business segment is also engaged in the collection of defaulted student loans on behalf of various clients including guarantors, federal and state agencies, and schools. We earn fees that are contingent on the amounts collected. We provide collection services for ED and now have approximately 10 percent of the total market for such services. We have relationships with approximately 900 colleges and universities to provide collection services for delinquent student loans and other receivables from various campus-based programs. We also collected other debt for credit card issuers, federal and state agencies, and retail clients.

Competition

The private sector collections industry is highly fragmented with few large companies and a large number of small scale companies. The APG businesses that provide third-party collections services for ED, FFELP guarantors and other federal holders of defaulted debt are highly competitive. In addition to competing with other collection enterprises, we also compete with credit grantors who each have unique mixes of internal collections, outsourced collections and debt sales. The scale, diversification and performance of our APG business segment has been a competitive advantage for the Company.

CORPORATE AND OTHER BUSINESS SEGMENT

The Company s Corporate and Other business 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, including comprehensive financing and loan delivery solutions to college financial aid offices and students to streamline the financial aid process.

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Guarantor Services

We earn fees for providing a full complement of administrative services to FFELP guarantors. FFELP student loans are guaranteed by these agencies, with ED providing reinsurance to the guarantor. The guarantors are non-profit institutions or state agencies that, in addition to providing the primary guarantee on FFELP loans, are responsible for other activities, including:

guarantee issuance the initial approval of loan terms and guarantee eligibility;

account maintenance the maintaining, updating and reporting of records of guaranteed loans;

default aversion services these services are designed to prevent a default once a borrower s loan has been placed in delinquency status (we perform these activities within our APG business segment);

guarantee fulfillment the review and processing of guarantee claims;

post-claim assistance assisting borrowers in determining the best way to pay off a defaulted loan; and

systems development and maintenance the development of automated systems to maintain compliance and accountability with ED regulations.

Currently, we provide a variety of these services to nine guarantors and, in AY 2007-2008, we processed $21.3 billion in new FFELP loan guarantees, of which $17.2 billion was for USA Funds, the nation s largest guarantor. We processed guarantees for approximately 33 percent of the FFELP loan market in AY 2007-2008.

Guarantor servicing fee revenue, which includes guarantee issuance and account maintenance fees, was $121 million for the year ended December 31, 2008, 85 percent of which we earned from services performed on behalf of USA Funds. Under some of our guarantee services agreements, including our agreement with USA Funds, we receive certain scheduled fees for the services that we provide under such agreements. The payment for these services includes a contractually agreed-upon percentage of the account maintenance fees that the guarantors receive from ED.

The Company s guarantee services agreement with USA Funds has a five-year term that will be automatically increased by an additional year on October 1 of each year unless prior notice is given by either party.

Our primary non-profit competitors in guarantor servicing are state and non-profit guarantee agencies that provide third-party outsourcing to other guarantors.

(See APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM Guarantor Funding for details of the fees paid to guarantors.)

Upromise

Upromise provides a number of programs that encourage consumers to save for college. Upromise has established a consumer savings network which is designed to promote college savings by consumers who are members of this program by encouraging them to purchase goods and services from the companies that participate in the program (Participating Companies). Participating Companies generally pay Upromise transaction fees based on member purchase volume, either online or in stores depending on the contractual arrangement with the Participating Company. Typically, a percentage of the purchase price of the consumer members eligible purchases with Participating Companies is set aside in an account maintained by Upromise on behalf of its members.

Upromise, through its wholly owned subsidiaries, UII, a registered broker-dealer, and UIA, a registered investment advisor, provides program management, transfer and servicing agent services, and administration services for various 529 college-savings plans. UII and UIA manage more than $17.0 billion in 529 college-savings plans.

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REGULATION

Like other participants in the FFELP, the Company is subject to the HEA and, from time to time, to review of its student loan operations by ED and guarantee agencies. As a servicer of federal student loans, the Company is subject to certain ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our guarantor servicing operations, the Company must comply with, on behalf of its guarantor servicing customers, certain ED regulations that govern guarantor activities as well as agreements for reimbursement between the Secretary of Education and the Company s guarantor servicing customers.

The Company s originating or servicing of federal and private student loans also subjects it to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our student loan business include:

the Truth-In-Lending Act;

the Fair Credit Reporting Act;

the Equal Credit Opportunity Act;

the Gramm-Leach Bliley Act; and

the U.S. Bankruptcy Code.

APG s debt collection and receivables management activities are subject to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our APG business segment include:

the Fair Debt Collection Practices Act;

the Fair Credit Reporting Act;

the Gramm-Leach-Bliley Act; and

the U.S. Bankruptcy Code.

Our APG business segment is subject to state laws and regulations similar to the federal laws and regulations listed above. Finally, certain APG subsidiaries are subject to regulation under the HEA and under the various laws and regulations that govern government contractors.

Sallie Mae Bank is subject to Utah banking regulations as well as regulations issued by the Federal Deposit Insurance Corporation, and undergoes periodic regulatory examinations.

UII and UIA, which administer 529 college-savings plans, are subject to regulation by the Municipal Securities Rulemaking Board, the Financial Industry Regulatory Authority (formerly the National Association of Securities Dealers, Inc.) and the Securities and Exchange Commission (SEC) through the Investment Advisers Act of 1940.

AVAILABLE INFORMATION

The SEC maintains an Internet site (http://www. sec.gov) that contains periodic and other reports such as annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, respectively, as well as proxy and information statements regarding SLM Corporation and other companies that file electronically with the SEC. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and other periodic reports are available on our website as soon as reasonably practicable after we electronically file such reports with the SEC. Investors and other interested parties can also access these reports at www.salliemae.com/about/investors.

Our Code of Business Conduct, which applies to Board members and all employees, including our Chief Executive Officer and Chief Financial Officer, is also available, free of charge, on our website at www.salliemae.com/about/business_code. htm. We intend to disclose any amendments to or waivers from our

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Code of Business Conduct (to the extent applicable to our Chief Executive Officer or Chief Financial Officer) by posting such information on our website.

In 2008, the Company submitted the annual certification of its Chief Executive Officer regarding the Company s compliance with the NYSE s corporate governance listing standards, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual.

In addition, we filed as exhibits to the Company s Annual Report on Form 10-K for the years ended December 31, 2006 and 2007 and to this Annual Report on Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

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Item 1A. Risk Factors

The Company faces a variety of significant risks that are inherent in our business. Risks that affect the Company may be grouped into the following categories: financial and funding, credit, operations, legislation and regulation, and market competition. Some of the more important risk factors that affect our business are described below.

Our business continues to be affected by the significant funding constraints in the credit market, dependence on various government funding sources, and higher and more volatile funding costs, both in absolute terms and relative to competing market instruments.

2008 was an extraordinarily disruptive year for the financial services sector. Tremendous volatility in the credit markets and significant declines in values affected all asset classes, including FFELP assets, which are no less than 97 percent guaranteed by the federal government. The disruption in the credit markets and legislative changes in the economics of the FFELP resulted in challenges for the Company to fund new loans at positive spreads and re-finance our existing portfolio.

The Company was able to meet the demand for new loan originations under the FFELP through funding and liquidity programs established by the federal government. Several of these programs are described in the LIQUIDITY AND CAPITAL RESOURCES section of this Form 10-K. These programs are not permanent and may not be extended upon their expiration dates. While the Company expects a normalization of market conditions, there is no assurance that the credit markets over time will return to a level that makes FFELP loan originations available or profitable beyond the time these programs are presently scheduled to end.

FFELP loans originated under the government programs mentioned above must be re-financed by the Company or sold to the government by a date determined under the terms of the programs. There is no assurance that the credit markets will return to a level that makes re-financing of these loans available or profitable before that date. If this is the case, the Company may sell these loans to the government, which at the current time could result in the loss of income associated with the ownership and servicing of the loans in the future.

Since the market disruptions began, the Company has funded private, non-federally guaranteed loan originations through term brokered deposits raised by Sallie Mae Bank. While this brokered-deposit funding market has been functioning well, there may be an ultimate limit to the size of this market for Sallie Mae Bank. Also, this source of funding creates certain re-financing risks because the average term of the deposits is shorter than the expected term of the Bank s loan assets the deposits are funding. There is no assurance that this source of funding will continue to be available at a level and a cost that makes new private credit loan originations possible or profitable, nor is there any assurance that the loans can be re-financed at profitable margins. If deposit funding is not available at profitable levels, the origination of our Private Education Loans will be limited.

Recent market conditions have reduced our access to and increased the cost of borrowing for student loan asset-backed securities. If the government programs mentioned were to prove ineffective or were terminated and if alternative funding sources were not available, the Company may be compelled to reduce or suspend the origination of new loans. If we were unable to find cost-effective and stable funding alternatives, our funding and liquidity would be negatively impacted and our cost of funds could increase, adversely affecting our results of operations.

The Company expects that current market conditions will not always persist and that access to market funding will eventually improve and become less volatile. Even upon the expected normalization of the capital markets, however, the Company will be exposed to typical financing risks. Factors that could make financing difficult, more expensive or unavailable on any terms include, but are not limited to, financial results and losses of the Company, changes within

our organization, events that have an adverse impact on our reputation, changes in the activities of our business partners, disruptions in the capital markets, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions.

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At some time, the Company may decide that it is prudent or necessary to raise additional equity capital through the sale of common stock, preferred stock, or securities that convert into common stock. There are no restrictions on entering into the sale of any equity securities in either public or private transactions, except that any private transaction involving more than 20 percent of shares outstanding requires shareholder approval. Under current market conditions, the terms of an equity transaction may subject existing security holders to potential subordination or dilution and may involve a change in governance.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. This mismatch exposes us to risk in the form of basis risk and repricing risk.

The Company s funding sources do not exactly match the interest rate indices, re-set frequencies, and maturities of the Company s loan assets. While most of such basis risks are hedged using interest rate swap contracts, such hedges are not always perfect matches and, therefore, may result in losses. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. For instance, the spread between 3-month CP and 3-month LIBOR was unusually volatile and wide in the fourth quarter of 2008 due to the unintended consequences of the Federal Reserve s operations in the CP market. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

The rating agencies could downgrade our ratings, which could limit our access to financing, increase the cost of financing or trigger obligations under collateralized financing arrangements.

Our credit ratings are important to our liquidity, particularly in times when the asset-backed securitization market is uncertain. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs, limit our access to the markets or trigger obligations under certain provisions in collateralized arrangements. Under these provisions, counterparties may require us to post additional collateral, segregate collateral or terminate certain contracts. Termination of our collateralized financing contracts could cause us to sustain losses and impair our liquidity by necessitating the use of other sources of financing.

There is no assurance that the ABCP Facility of $26 billion, as described in the LIQUIDITY AND CAPITAL RESOURCES section, which has a scheduled maturity date of April 28, 2009, will be extended on cost effective terms.

As reported on February 2, 2009, the Company and the parties to the $26 billion ABCP Facility that provides funding for the Company s federally-guaranteed student loans and private education loans agreed to extend the Facility by 60 days. The new scheduled maturity date of the Facility is April 28, 2009 and the new scheduled termination date is July 27, 2009. There can be no assurance that the Company will be able to cost-effectively refinance the Facility. Furthermore, foreclosure on the student loans securing the Facility might occur if we were not able to refinance the Facility at all. Either event could adversely affect the operations, capital and compliance with other debt/lender covenants of the Company.

Unexpected and sharp changes in the overall economic environment may result in the credit performance of our loan portfolio being materially different from what we expect. In addition, the Company is also subject to the creditworthiness of counterparties to our derivative contracts.

The Company s earnings are critically dependent on the evolving creditworthiness of our student loan customers. We maintain a reserve for credit losses based on current and past charge-offs, levels of past due loans and forbearances and expected economic conditions. However, management s determination of the appropriate reserve level may under- or over-estimate future losses. If the credit quality of our customer base materially decreases, if a market risk changes

significantly, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations could suffer.

In addition to customer credit risk, we are exposed to other forms of credit risk, including counterparties to our derivative transactions. For example, the Company has exposure to the financial condition of its various

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lending, investment and derivative counterparties. If any of the Company s counterparties is unable to perform its obligations, the Company would, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, related to derivative exposure, the Company may not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment. If the Company was not able to replace the derivative position, the Company may be exposed to a greater level of interest rate and/or foreign currency exchange rate risk which could lead to additional losses. The Company s counterparty exposure is more fully discussed herein in LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure.

Our businesses are regulated by state and federal laws and regulations and our failure to comply with these laws and regulations may result in significant costs or business sanctions.

The Company is subject to numerous state and federal laws and regulations. Loans originated and serviced under the FFELP are subject to legislative and regulatory changes. A summary of the program, which indicates its complexity and frequent changes, may be found in APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM of this Form 10-K. We continually update our FFELP loan originations and servicing policies and procedures and our systems technologies, provide training to our staff and maintain quality control over processes through compliance reviews and internal and external audits. We are at risk, however, for misinterpretation of ED guidance and incorrect application of ED regulations and policies, which could result in fines, the loss of the federal guarantee on FFELP loans, or limits on our participation in the FFELP.

Our private credit lending and debt collection business are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection regulation. Various state attorneys general have been active in this area of consumer protection. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators. Sallie Mae Bank is subject to state and FDIC regulation and at the time of this filing, was the subject of a cease and desist order for weaknesses in its compliance function. While the issues addressed in the order have largely been remediated, the action has not yet been lifted. We have committed resources to enhance our compliance function. Our failure to comply with various laws and regulations or with the terms of the cease and desist order could result in litigation expenses, fines, business sanctions, limitations on our ability to fund our Private Education Loans, which are currently funded by term deposits issued by Sallie Mae Bank, or restrictions on the operations of Sallie Mae Bank.

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business, result in disclosure of confidential customer information, damage our reputation and cause losses.

Our business is dependent on our ability to process and monitor, on a daily basis, a large number of transactions. These transactions must be processed in compliance with legal and regulatory standards and our product specifications, which we change to reflect our business needs. As processing demands change and grow, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. Our reduction in operating expenses and off-shoring of certain processes has also increased challenges in maintaining accurate and efficient operations.

Our loan originations and servicing, financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our clients, result in financial loss or liability to our clients, disrupt our business, result in regulatory action or cause reputational damage.

Despite the plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical,

communications, internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could negatively affect our business.

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Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this could jeopardize confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

We routinely transmit and receive personal, confidential and proprietary information. We have put in place secure transmission capability, and may not be able to ensure secure transmissions and we may not be able to ensure that third parties with whom we work have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm.

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

The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. A description of our critical accounting estimates and assumptions may be found in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CRITICAL ACCOUNTING POLICIES AND ESTIMATES in this Form 10-K. If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could result in actual results being significantly different than current estimates which could adversely affect our business.

Changes in laws and regulations that affect the FFELP in particular and consumer lending in general could affect the profitability of our business.

The FFELP portion of our business is authorized under the HEA, which is amended by Congress from time to time. ED administers the FFELP and modifies its guidance from time to time. We are also subject to various state and federal laws and regulations that govern our private credit lending and debt collection businesses.

Changes in laws and regulations that govern our businesses affect the profitability and viability of our businesses. For example, amendments made to the HEA in 2007 significantly reduced the profitability of our FFELP business. Also, the Administration s budget for the 2010 fiscal year, submitted to Congress on February 26, 2009, includes proposals that could impact significantly the FFELP. It is possible that future changes in laws and regulations could negatively impact our ability to grow and be profitable. The Administration s budget request and the current economic environment may make legislative changes more likely, making this risk to our business greater.

We operate in a competitive environment.

The financial services industry is highly competitive. We compete with banks and other consumer lending institutions, many with strong consumer brand name recognition. The market for federally-guaranteed student loans is shared among the Company and other private sector lenders who participate in the FFELP and the federal government through the FDLP. We compete based on our products and customer service. To the extent our competitors compete aggressively or more effectively, we could lose market share to them.

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Our product offerings are primarily concentrated in loan and savings products for higher education expenses. This concentration is both a competitive advantage and a risk.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the market place. This concentration also creates risks in our business, particularly in light of our concentration as a FFELP lender. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, the cost of attendance of higher education decreases, if public support for higher education costs increases, or if the demand for higher education loans decreases or increases from one product to another, our business could be negatively affected. In addition, if we introduce new education loan products, there is a risk that those new products will not be accepted in the marketplace. Because we are not a diversified financial services company, we would not have other product offerings to offset any loss of business in the education credit market.

We may be adversely affected by deterioration in economic conditions.

A recession or downturn in the economy could make it difficult for us to originate new business, given the resultant reduced demand for consumer credit. Credit quality may also be impacted as borrowers may fail to meet their obligations. Adverse economic conditions may result in declines in collateral values. Accordingly, higher credit-related losses could impact our financial position. In addition, weaker credit quality could limit funding options, including capital markets activity, which could adversely impact the Company s liquidity position.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The following table lists the principal facilities owned by the Company:

Location	Function	Approximate Square Feet
Reston, VA	Headquarters	240,000
Fishers, IN	Loan Servicing and Data Center	450,000
Newark, DE	Credit and Collections Center	160,000
Wilkes Barre, PA	Loan Servicing Center	133,000
Killeen, TX[1]	Loan Servicing Center	133,000
Lynn Haven, FL	Loan Servicing Center	133,000
Indianapolis, IN	Loan Servicing Center	100,000
Big Flats, NY	Asset Performance Group and Collections Center	60,000
Arcade, NY[2]	Asset Performance Group and Collections Center	46,000
Perry, NY[2]	Asset Performance Group and Collections Center	45,000
Swansea, MA	AMS Headquarters	36,000

(1) Excludes approximately 30,000 square feet Class B single story building on four acres, located across the street from the Loan Servicing Center.

(2) In the first quarter of 2003, the Company entered into a ten year lease with the Wyoming County Industrial Development Authority with a right of reversion to the Company for the Arcade and Perry, New York facilities.

The following table lists the principal facilities leased by the Company as of December 31, 2008:

Location	Function	Approximate Square Feet
Niles, IL	AFS Headquarters	84,000
Newton, MA	Upromise	78,000
Cincinnati, OH	GRC Headquarters and Asset Performance Group and Collections Center	59,000
Muncie, IN	SLM APG	54,000
Mt. Laurel, NJ	SLM Financial Headquarters and Operations	42,000
Moorestown, NJ	Pioneer Credit Recovery	30,000
Novi, MI[1]	Sallie Mae, Inc.	27,000
White Plains, NY	GRPFS	26,000
Gaithersburg, MD[2]	AFS Operations	24,000
Whitewater, WI	AFS Operations	16,000
Las Vegas, NV	Asset Performance Group and Collections Center	16,000
West Valley, NY[3]	Pioneer Credit Recovery	14,000
Batavia, NY	Pioneer Credit Recovery	13,000

Seattle, WA	NELA	13,000
Perry, NY	Pioneer Credit Recovery	12,000
Gainesville, FL[4]	SLM-LSC	11,000

(1) Space vacated in September 2007; approximately 30 percent of space is currently being subleased.

(2) Space vacated in September 2006; the Company is actively searching for subtenants or tenants.

(3) Space vacated in June 2008; the Company is actively searching for subtenants or tenants.

(4) Space vacated in September 2008.

None of the Company s facilities is encumbered by a mortgage. The Company believes that its headquarters, loan servicing centers data center, back-up facility and data management and collections centers are generally adequate to meet its long-term student loan and business goals. The Company s principal office is currently in owned space at 12061 Bluemont Way, Reston, Virginia, 20190.

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Item 3. Legal Proceedings

The Company is involved in a number of judicial and regulatory proceedings, including those described below, concerning matters arising in connection with the conduct of our business. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on the financial condition of the Company.

Investor Litigation

On January 31, 2008, a putative class action lawsuit was filed against the Company and certain officers in U. S. District Court for the Southern District of New York. This case and other actions arising out of the same circumstances and alleged acts have been consolidated and are now identified as In Re SLM Corporation Securities Litigation. The case purports to be brought on behalf of those who acquired common stock of the Company between January 18, 2007 and January 23, 2008 (the Securities Class Period). The complaint alleges that the Company and certain officers violated federal securities laws by issuing a series of materially false and misleading statements and that the statements had the effect of artificially inflating the market price for the Company s securities. The complaint alleges that defendants caused the Company s results for year-end 2006 and for the first quarter of 2007 to be materially misstated because the Company failed to adequately provide for loan losses, which overstated the Company s net income, and that the Company failed to adequately disclose allegedly known trends and uncertainties with respect to its non-traditional loan portfolio. On July 23, 2008, the court appointed Westchester Capital Management (Westchester) Lead Plaintiff. On December 8, 2008, Lead Plaintiff filed a consolidated amended complaint. In addition to the prior allegations, the consolidated amended complaint alleges that the Company understated loan delinquencies and loan loss reserves by promoting loan forbearances. On December 19, 2008, and December 31, 2008, two rejected lead plaintiffs filed a challenge to Westchester as Lead Plaintiff. That motion is pending. Lead Plaintiff seeks unspecified compensatory damages, attorneys fees, costs, and equitable and injunctive relief.

A similar case is pending against the Company, certain officers, retirement plan fiduciaries, and the Board of Directors, In Re SLM Corporation ERISA Litigation, also in the U.S. District Court for the Southern District of New York. The proposed class consists of participants in or beneficiaries of the Sallie Mae 401(K) Retirement Savings Plan (401K Plan) between January 18, 2007 and the present whose accounts included investments in Sallie Mae stock (401K Class Period). The complaint alleges breaches of fiduciary duties and prohibited transactions in violation of the Employee Retirement Income Security Act arising out of alleged false and misleading public statements regarding the Company s business made during the 401(K) Class Period and investments in the Company s common stock by participants in the 401(K) Plan. On December 15, 2008, Plaintiffs filed a Consolidated Class Action Complaint. The plaintiffs seek unspecified damages, attorneys fees, costs, and equitable and injunctive relief.

Lending and Collection Litigation and Investigations

On September 17, 2007, the Company became a party to a qui tam whistleblower case, United States ex. Rel. Rhonda Salmeron v. Sallie Mae, in the U.S. District Court for the Northern District of Illinois. The plaintiff alleges that various defendants submitted false claims and/or created records to support false claims in connection with collection activity on federally guaranteed student loans, and specifically that the Company was negligent in auditing the collection practices of one of the defendants. The plaintiffs seek money damages in excess of $12 million plus treble damages on behalf of the federal government. This case was dismissed with prejudice in August 2008 and was appealed to the Seventh Circuit Court of Appeals in September 2008. The appeal is pending.

On December 17, 2007, plaintiffs filed a complaint against the Company, Rodriguez v. SLM Corporation et al., in the U.S. District Court for the District of Connecticut alleging that the Company engaged in underwriting practices which, among other things, resulted in certain applicants for student loans being directed into substandard and expensive loans on the basis of race. The plaintiffs have not stated the relief they seek. Motions to dismiss Sallie Mae, Inc. and for summary judgment as to the Company are pending.

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On April 6, 2007, the Company was served with a putative class action suit by several borrowers in U.S. District Court for the Central District of California (Anne Chae et al. v. SLM Corporation et al.) Plaintiffs challenge under California common and statutory law the Company s FFELP billing practices as they relate to the use of the simple daily interest method for calculating interest, the charging of late fees while charging simple daily interest, and setting the first payment date at 60 days after loan disbursement for consolidation and PLUS loans thereby alleging that the Company effectively capitalizes interest. The plaintiffs seek unspecified actual and punitive damages, restitution, disgorgement of late fees, pre-judgment and post-judgment interest, attorneys fees, costs, and equitable and injunctive relief. On June 16, 2008, the Court granted summary judgment to the Company on all counts on the basis of federal preemption. The decision was appealed to the Ninth Circuit Court of Appeals. The appeal is pending.

The Office of the Inspector General (OIG) of ED has been conducting an audit of the Company s billing practices for special allowance payments under what is known as the 9.5 percent floor calculation since September 2007. The audit covers the period from 2003 through 2006 and is focused on the Company s Nellie Mae subsidiaries. While the audit is not yet complete and there has been no definitive determination by the OIG auditors, initial indications are that the OIG disagrees with the Company s billing practices on an immaterial portion of the Company s bills. We continue to believe that our practices are consistent with longstanding ED guidance and all applicable rules and regulations. A final audit report has not been filed. Once a final report is filed, it will be presented to the Secretary of ED for consideration. The OIG has audited other industry participants on this issue and in certain cases the Secretary of ED has disagreed with the OIG s recommendation.

The Company continues to respond to numerous requests from state attorneys general and other government agencies regarding marketing and debt collection practices.

Item 4. Submission of Matters to a Vote of Security Holders

Nothing to report.

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PART II.

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

The Company s common stock is listed and traded on the New York Stock Exchange under the symbol SLM. The number of holders of record of the Company s common stock as of January 31, 2009 was 833. The following table sets forth the high and low sales prices for the Company s common stock for each full quarterly period within the two most recent fiscal years.

Common Stock Prices

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2008	High	$ 23.00	$ 25.05	$ 19.81	$ 12.03
	Low	14.70	15.45	9.37	4.19
2007	High	$ 49.96	$ 57.96	$ 58.00	$ 53.65
	Low	40.30	40.60	41.73	18.68

The Company paid quarterly cash dividends of $.22 for the first quarter of 2006, $.25 for the last three quarters of 2006 and $.25 for the first quarter of 2007. There were no cash dividends paid in 2008.

Issuer Purchases of Equity Securities

The following table summarizes the Company s common share repurchases during 2008 in connection with the exercise of stock options and vesting of restricted stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs (which combined totaled approximately 600 thousand shares for 2008). See Note 11, Stockholders Equity, to the consolidated financial statements.

(Common shares in millions)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Period:				
January 1 March 31, 2008	.3	$ 19.82		38.8
April 1 June 30, 2008	.2	23.74		38.8

July 1 September 30, 2008	.1		19.32	38.8
October 1 October 31, 2008				38.8
November 1 November 30, 2008				38.8
December 1 December 31, 2008				38.8
Total fourth quarter				
Year ended December 31, 2008	.6	$	20.10	

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Stock Performance

The following graph compares the yearly percentage change in the Company s cumulative total shareholder return on its common stock to that of Standard & Poor s 500 Stock Index and Standard & Poor s Financials Index. The graph assumes a base investment of $100 at December 31, 2003 and reinvestment of dividends through December 31, 2008.

Five Year Cumulative Total Shareholder Return

Company/Index	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
SLM Corporation	$ 100.0	$ 143.7	$ 150.5	$ 135.9	$ 56.8	$ 25.1
S&P Financials Index	100.0	110.7	117.7	139.9	114.5	52.4
S&P 500 Index	100.0	110.7	116.1	134.2	141.6	89.8

Source: Bloomberg Total Return Analysis

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Item 6. Selected Financial Data

Selected Financial Data 2004-2008
(Dollars in millions, except per share amounts)

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements, related notes, and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS included in this Form 10-K.

	2008	2007	2006	2005	2004
Operating Data:					
Net interest income	$ 1,365	$ 1,588	$ 1,454	$ 1,451	$ 1,299
Net income (loss)	(213)	(896)	1,157	1,382	1,914
Basic earnings (loss) per common share	(.69)	(2.26)	2.73	3.25	4.36
Diluted earnings (loss) per common share	(.69)	(2.26)	2.63	3.05	4.04
Dividends per common share		.25	.97	.85	.74
Return on common stockholders equity	(9)%	(22)%	32%	45%	73%
Net interest margin	.93	1.26	1.54	1.77	1.92
Return on assets	(.14)	(.71)	1.22	1.68	2.80
Dividend payout ratio		(11)	37	28	18
Average equity/average assets	3.45	3.51	3.98	3.82	3.73
Balance Sheet Data:					
Student loans, net	$ 144,802	$ 124,153	$ 95,920	$ 82,604	$ 65,981
Total assets	168,768	155,565	116,136	99,339	84,094
Total borrowings	160,158	147,046	108,087	91,929	78,122
Stockholders equity	4,999	5,224	4,360	3,792	3,102
Book value per common share	7.03	7.84	9.24	7.81	6.93
Other Data:					
Off-balance sheet securitized student loans, net	$ 35,591	$ 39,423	$ 46,172	$ 39,925	$ 41,457

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Years ended December 31, 2006-2008
(Dollars in millions, except per share amounts, unless otherwise stated)

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the statements contained in this Annual Report discuss future expectations and business strategies or include other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions.

OVERVIEW

This section provides an overview of the Company s 2008 business results from a financial perspective. Certain financial impacts of funding and liquidity, loan losses, asset growth, fee income, the distressed debt purchased paper business, operating expenses, and capital adequacy are summarized below. The income statement amounts discussed in this Overview section are on a Core Earnings basis.

As discussed in the Business section, legislative changes to the FFELP, the credit markets and the economic downturn impacted the Company s financial results for 2008. The Company reported $526 million in Core Earnings net income, a decrease from $560 million in 2007. (Core Earnings are defined in BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment*.)

Funding and Liquidity

The Company s results were affected by higher funding costs than in prior periods. The higher costs were, in part, related to the 2008 Asset-Backed Financing Facility; the after-tax fees for this Facility were $225 million for the year. This Facility was reduced from $34 billion at the beginning of the year to $28 billion by year end and was extended by 60 days to mature on April 28, 2009.

Our funding costs were also affected by higher than average interest rate index divergence. Most of our FFELP loans earn interest based on market CP rates; our funding costs are primarily based on LIBOR. Due to government intervention in the CP marketplace and other market dislocations, the spread widened as much as 200 basis points on certain days during the fourth quarter of 2008, compared to an average spread of 8 basis points in the third quarter of 2008. ED established an alternative interest rate calculation for a portion of the fourth quarter to address the issue, which resulted in a 21 basis point spread for the Company for the fourth quarter.

In the fourth quarter, we secured access to stable and profitable funding sources for new FFELP and Private Education Loan originations. ECASLA provides FFELP lenders with access to unlimited funding to meet student demand through AY 2009-2010. Our Private Education Loan originations are being funded by term deposits issued by Sallie Mae Bank.

The Company s primary funding challenge is to replace our short-term funding sources, principally the 2008 Asset-Backed Financing Facility, with longer-term, lower-cost funding. Two federally-sponsored programs, the ED Conduit Program and the Federal Reserve Bank of New York s Term Asset-Backed Liquidity Facility, which are

discussed in the LIQUIDITY AND CAPITAL RESOURCES section, are under development and offer significant potential. At year end, approximately $30 billion in student loans assets were eligible for these programs, which are expected to be operational in the first quarter of 2009.

In 2008, we issued approximately $26 billion in term funding, including $18.5 billion in term FFELP ABS funding, which carried an average spread of 125 basis points over LIBOR. In early January 2009, we

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announced a $1.5 billion, 12.5 year asset-backed securities facility. The cost of this facility is expected to average LIBOR plus 5.75 percent and is expected to fund our Private Education Loans. Though significantly more expensive than historical transactions, this facility demonstrates term funding capability and availability for our Private Education Loan portfolio.

At year end, 70 percent of our Managed student loans were funded for the life of the loans and another 12 percent were funded for an average life of 4.3 years.

At year end, we held approximately $11 billion in primary liquidity, consisting of cash and short-term investments and committed lines of credit. We have $5.2 billion in standby liquidity in the form of unencumbered FFELP loans.

Loan Losses

On a Core Earnings basis, the loan loss provision for the year was $1 billion, of which $127 million was for FFELP loans. The provision for Private Education Loans in the fourth quarter was $348 million, approximately double the average of the first three quarters of the year. We began significantly increasing the Private Education Loan allowance for loan loss in the fourth quarter of 2007 and throughout 2008 primarily related to the continued weakening of the U.S. economy, which in particular impacts our non-traditional loans which are now moving into repayment status. At year end, our Private Education Loan allowance for loan loss covered approximately two years of expected losses for Private Education Loans.

Asset Growth

In 2008, the Company originated $17.9 billion in FFELP loans, a four percent increase over 2007. We refocused our FFELP originations on our internal lending brands, which grew 48 percent over 2007. We expect FFELP volume to exceed $20 billion in AY 2008-2009.

Private Education Loan originations for 2008 were $6.3 billion, a 20 percent decline from 2007. In 2008, the Company increased its underwriting standards and as a result, average FICO scores and loans with cosigner have increased. The Company expects to continue to increase its underwriting standards, shorten the term of Private Education Loans, and require interest payments while students are attending school. The impact of these product changes and the overall economy may impact future Private Education Loan asset growth.

Fee Income

Fee income from our contingency business was relatively stable, increasing $4 million from $336 million in 2007 to $340 million in 2008.

Fee income from our guarantor servicing business was $121 million for the year, a $35 million decrease from last year. The decrease was primarily due to legislative changes that reduce by 40 percent the account maintenance fee paid to guarantee agencies, and a one-time non-recurring increase to 2007 revenue of $15 million related to a contingency resolution.

A possible source of additional fee income for 2009 is an increase in third-party servicing. We originated $0.5 billion of FFELP loans for third parties in the fourth quarter, a 14 percent increase from the year-ago quarter. The Company will seek to be a loan servicer for ED under the Loan Purchase Program.

Purchased Paper Business

We have decided to exit the debt purchased paper business (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT). This line of business reported a $203 million after-tax loss for the year, primarily due to a $368 million pre-tax impairment charge. The economy and changes in real estate values will continue to impact this line of business.

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Operating Expenses

Excluding restructuring expenses, fourth quarter 2008 operating expenses on a Core Earnings basis were $270 million, a 26 percent decrease from the year-ago period, exceeding the Company s 20 percent cost reduction target. For 2008, operating expenses on a Core Earnings basis were $1.3 billion, compared to $1.4 billion in 2007.

Capital Adequacy

At year end, the Company s tangible capital ratio was 1.8 percent of Managed assets, compared to 2 percent at 2007 year end. With 81 percent of our Managed loans carrying an explicit federal government guarantee and with 70 percent of our Managed loans funded for the life of the loan, we currently believe that our capital levels are appropriate. In the current economic environment, we cannot predict the availability nor cost of additional capital, should the Company determine that additional capital is necessary.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses

We maintain an allowance for loan losses at an amount sufficient to absorb losses incurred in our FFELP loan and Private Education Loan portfolios at the reporting date based on a projection of estimated probable net credit losses incurred in the portfolio. We analyze those portfolios to determine the effects that the various stages of delinquency have on borrower default behavior and ultimate net charge-off. We estimate the allowance for loan losses for our loan portfolio using a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge off, net of recoveries, and is a widely used reserving methodology in the consumer finance industry. We also use the migration analysis to estimate the amount of uncollectible accrued interest on Private Education Loans and write-off that amount against current period interest income. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. Our default estimates are based on a loss confirmation period of generally two years (i.e., our allowance for loan loss covers the next two years of expected losses). The two-year estimate of the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement. We believe that the Private Education Loan and FFELP allowance for loan losses are appropriate to cover probable losses incurred in the student loan portfolio.

When calculating the allowance for loan losses on Private Education Loans, we divide the portfolio into categories of similar risk characteristics based on loan program type, loan status (in-school, grace, forbearance, repayment, and delinquency), underwriting criteria (FICO scores), and existence or absence of a cosigner. As noted above, we use

historical experience of borrower default behavior and charge-offs to estimate the probable credit losses incurred in the loan portfolio at the reporting date. Also, we use historical borrower payment behavior to estimate the timing and amount of future recoveries on charged off loans. We then apply the default and collection rate projections to each category of loans. Once the quantitative calculation is

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performed, management reviews the adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered. One technique for making this determination is through projection modeling, which is used to determine if the allowance for loan losses is sufficient to absorb net credit losses anticipated during the loss confirmation period. Projection modeling is an independent forward-looking projection of net charge-offs. Assumptions that are utilized in the projection modeling include (but are not limited to) historical experience, recent changes in collection policies and procedures, collection performance, and macroeconomic indicators. Additionally, management considers changes in laws and regulations that could potentially impact the allowance for loan losses.

The majority of our Private Education Loan programs do not require that borrowers begin repayment until six months after they have graduated or otherwise left school. Consequently, our loss estimates for these programs are generally low while the borrower is in school. At December 31, 2008, 38 percent of the principal balance in the higher education Managed Private Education Loan portfolio is related to borrowers who are in in-school or grace status and not required to make payments. As the current portfolio ages, an increasing percentage of the borrowers will leave school and be required to begin payments on their loans. The allowance for losses will change accordingly.

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

In general, Private Education Loan principal is charged off against the allowance when the loan exceeds 212 days delinquency. As further discussed in LENDING BUSINESS SEGMENT Private Education Loan Losses Activity in the Allowance for Private Education Loan Losses, this period we corrected our charge-off methodology.

In the fourth quarter of 2007, we recorded provision expense of $667 million related to the Managed Private Education Loan portfolio. This significant increase in provision primarily related to the non-traditional portion of our loan portfolio (education loans made to certain borrowers that have or are expected to have a high default rate) which we had been expanding over the past few years. We have taken actions in 2008 to terminate these non-traditional loan programs because the performance of these loans is materially different from our original expectations and from the rest of our Private Education Loan programs. However, there can be no assurance that our non-traditional loans outstanding will not require additional significant loan provisions or have any further adverse effect on the overall credit quality of our Managed Private Education Loan portfolio.

Also, we have seen higher delinquencies and continued deterioration of the overall portfolio in 2008 due primarily to the weakening U.S. economy, which has resulted in increased provisioning for expected losses. If the economy continues to weaken beyond our expectations, the expected losses resulting from our default and collection estimates embedded in the allowance for loan losses could continue to increase.

FFELP loans are guaranteed as to their principal and accrued interest in the event of default subject to a Risk Sharing level set based on the date of loan disbursement. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement. The CCRAA reduces the Risk Sharing level for loans disbursed on or after October 1, 2012 to 95 percent reimbursement, which will impact the allowance for loan losses in the future.

Similar to the Private Education allowance for loan losses, the FFELP allowance for loan losses uses historical experience of borrower default behavior and a two year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We divide the portfolio into categories of similar risk characteristics based on loan program type, school type and loan status. We then apply the default rate projections, net of applicable Risk

Sharing, to each category for the current period to perform our

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quantitative calculation. Once the quantitative calculation is performed, management reviews the adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered.

The 2007 FFELP provision included one-time adjustments for the repeal of the Exceptional Performer program (and the resulting increase in our Risk Sharing percentage) due to the passage of the CCRAA, which was effective October 1, 2007, as well as increased provision related to the increase in our default expectations due to an increase in recent delinquencies and claim filings. The provision in 2008 increased due to an increase in delinquencies and claim filings from the weakening of the U.S. economy, as well as the portfolio transitioning to FFELP loans, which are subject to more Risk Sharing. Since we are impacted by changes in the laws and regulations of the FFELP, any changes made to the Risk Sharing levels could have a material impact on our FFELP allowance for loan losses. Also, if the economy continues to weaken beyond our expectations, the losses embedded in the FFELP allowance for loan losses could continue to increase.

Premium and Discount Amortization

For both federally insured and Private Education Loans, we account for premiums paid, discounts received, and capitalized direct origination costs incurred on the origination of student loans in accordance with the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standard (SFAS) No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. The unamortized portion of the premiums and the discounts is included in the carrying value of the student loans on the consolidated balance sheet. We recognize income on our student loan portfolio based on the expected yield over the estimated life of the student loan after giving effect to the amortization of purchase premiums and accretion of student loan discounts. In arriving at the expected yield, we make a number of estimates that when changed are reflected as a cumulative adjustment to interest income in the current period. The most critical estimates for premium and discount amortization are incorporated in the Constant Prepayment Rate (CPR), which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. The CPR estimate is based on historical prepayments due to consolidation activity, defaults, and term extensions from the utilization of forbearance, as well as, management s qualitative expectation of future prepayments and term extensions.

In the development of the CPR estimates, the effect of consolidation activity can be a significant assumption. Between 2003 and 2006, we experienced a surge in FFELP Stafford loan consolidation activity as a result of aggressive marketing and historically low interest rates. This, in turn, has had a significant effect on premium and discount amortization in our financial statements. More recently, as a result of the CCRAA and the current U.S. economic and credit environment, we, as well as many other industry competitors, have suspended our FFELP consolidation program. In lieu of consolidation, we may offer a term extension option for FFELP loans based on the borrower s total indebtedness.

Based upon these market factors, we have updated our CPR assumptions that are affected by consolidation activity, and we have updated the estimates used in developing the cash flows and effective yield calculations as they relate to the amortization of student loan premium and discount amortization.

Consolidation activity affects estimates differently depending on whether the original loans being consolidated were on-balance sheet or off-balance sheet and whether the resulting consolidation is retained by us or consolidated with a third party. When we consolidate a loan that was in our portfolio, the term of that loan is generally extended and the term of the amortization of associated student loan premiums and discounts is likewise extended to match the new term of the loan. In that process, the unamortized premium balance must be adjusted to reflect the new expected term of the consolidated loan as if it had been in place from inception.

At the beginning of 2008, when we evaluated our estimates by taking into consideration the suspension of our FFELP consolidation program, there was an expectation of increased external consolidations to third parties, but an overall decrease in total consolidation activity (when taking into account both internal consolidations and consolidations to third parties) due to a lack of financial incentive for lenders to continue offering a consolidation product. External consolidations did not significantly increase as expected; therefore,

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the consolidation assumptions implemented in the first quarter of 2008 were reduced during the third quarter of 2008, as we made the decision to lower the consolidation rate as additional information became available.

Additionally, in previous years, the increased activity in FFELP Consolidation Loans had led to demand for the consolidation of Private Education Loans. Private Education Consolidation Loans provide an attractive refinancing opportunity to certain borrowers because they allow borrowers to lower their monthly payments by extending the life of the loan and/or lowering their interest rate. The private loan consolidation assumption was established in 2007 and was changed to explicitly consider private loan consolidation in the same manner as for FFELP. Because of limited historical data on private loan consolidation, the assumption primarily relies on near term plan data and timing assumptions. In the second quarter of 2008, we suspended making private consolidation loans due to funding limitations which impacted this assumption.

The consolidation, default, term extension and other prepayment factors affecting our CPR estimates are impacted by changes in our business strategy, FFELP legislative changes, and changes to the current economic and credit environment. If our accounting estimates, especially CPRs, are different as a result of changes to our business environment or actual consolidation or default activity, the previously recognized interest income on our student loan portfolio based on the expected yield of the student loan would potentially result in a material adjustment in the current period.

Fair Value Measurement

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value within GAAP, and expands disclosures about 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.

On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157, which deferred 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 delayed the implementation of SFAS No. 157 for our 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.

As such, SFAS No. 157 applies to the recurring fair value measurements of our investment portfolio accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities; our derivative portfolio and designated hedged assets or liabilities accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities; and our Residual Interest in off-balance sheet securitization trusts accounted for under SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. In general, changes in the fair value of items measured at fair value on a recurring basis will affect the consolidated statement of income and capital each period. In addition, SFAS No. 157 applies to FFELP student loans accounted for as held-for-sale loans under Statement of Position 01-6, Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others. These loans are accounted for at the lower of cost or fair value and as such affect the consolidated statements of income and capital on a non-recurring basis. Lastly, the valuation principles set forth in SFAS No. 157 apply to all financial instruments disclosed at fair value under SFAS No. 107, Disclosures about Fair Value of Financial Instruments in Note 16, Fair Values of Financial Instruments, to the consolidated financial statements.

Liquidity is impacted to the extent that a decrease in fair value would result in less cash being received upon a sale of an investment. Liquidity is also impacted to the extent that changes in capital and net income affect compliance with principal financial covenants in our unsecured revolving credit facilities. Noncompliance with these covenants also

impacts our ability to use our 2008 ABCP Facilities (see LIQUIDITY AND CAPITAL RESOURCES Additional Funding Sources for General Corporate Purposes). Additionally, liquidity is impacted to the extent that changes in the fair value of derivative instruments result in the movement of collateral between us and our counterparties. Collateral agreements are bilateral and are based on the derivative fair values used to determine the net exposure between us and individual counterparties. For a

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general description of valuation techniques and models used for the above items, see Note 16, Fair Values of Financial Instruments, to the consolidated financial statements. For a discussion of the sensitivity of fair value estimates, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

In light of the recent economic turmoil occurring in the U.S., the FASB released FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, on October 10, 2008. This FSP clarified, among other things, that quotes and other market inputs need not be solely used to determine fair value if they do not relate to an active market. The FSP points out that when relevant observable market information is not available, an approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable (such as a discounted cash flow analysis). Regardless of the valuation technique applied, entities must include appropriate risk adjustments that market participants would make, including adjustments for non-performance risk (credit risk) and liquidity risk. In determining the fair value of the instruments that fall under SFAS No. 157, we have specifically taken into account both credit risk and liquidity risk as of December 31, 2008.

Significant assumptions used in fair value measurements including those related to credit and liquidity risk are as follows:

1. **Investments** Our investments primarily consist of overnight/weekly maturity instruments with high credit quality counterparties. However, we have considered credit and liquidity risk involving specific instruments. These assumptions have further been validated by the successful maturity of these investments in the period immediately following the end of the reporting period. In the fourth quarter 2008, we recorded an impairment of $8 million related to our investment in the Reserve Primary Fund based on an internal assessment of the collectability of our remaining investment. See LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure for further discussion.

2. **Derivatives** When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. (See Note 9, Derivative Financial Instruments *Risk Management Strategy,* to the consolidated financial statements for further discussion of our derivative agreements and their policy to require legally enforceable netting provisions and collateral agreements.) The net exposure for each counterparty is adjusted based on market information available for the specific counterparty including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, we fully collateralize the exposure minimizing the adjustment necessary to the derivative valuations for our credit risk. While trusts that contain derivatives are not required to post collateral to counterparties, the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. Adjustments related to credit risk reduced the overall value of our derivatives by $41 million as of December 31, 2008. We also take into account changes in liquidity related to derivative positions and the fair value. We adjusted the fair value of certain less liquid positions by approximately $201 million to take into account a significant reduction in liquidity as of December 31, 2008, related primarily to basis swaps indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives.

3. **Residual Interests** We have never sold our Residual Interests and we are unaware of any sales of student loan residual interests by others. As a result, these instruments have never been considered liquid. This lack of liquidity has always been taken into account when valuing the Residual Interests. The discount rate assumption related to the Private Education Loan Residual Interests has been increased every quarter since

the fourth quarter of 2007 to take into account changes in credit and liquidity risks. The discount rate assumption related to the FFELP Loan Residual Interests was examined and deemed to accurately reflect the risks associated with these instruments each quarter through the second quarter of 2008. It was subsequently increased for both quarters ending

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September 30, 2008 and December 31, 2008. We use non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interest. We also use the most current prepayment and default rate assumptions to project the expected cash flows used to value Residual Interests. These assumptions are internally developed and primarily based on analyzing the actual results of loan performance from past periods. See Note 8, Student Loan Securitization, to the consolidated financial statements for a discussion of all assumption changes made during the quarter to properly determine the fair value of the Residual Interests as well as a shock analysis to fair value related to all significant assumptions.

4. **Student Loans** Our FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or fair value if the loan is held-for-sale. The fair value is disclosed in compliance with SFAS No. 107. For both FFELP loans and Private Education Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, and required return on equity. In addition, the Floor Income component of our FFELP loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management s qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions), or are obtained through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to validate the model. In most cases these are either infrequent or not observable. For FFELP loans classified as held-for-sale and accounted for at the lower of cost or market, the fair value is based on the committed sales price of the various loan purchase programs established by ED.

Securitization Accounting and Retained Interests

We regularly engage in securitization transactions as part of our Lending segment financing strategy (see also LIQUIDITY AND CAPITAL RESOURCES Securitization Activities). In a securitization, we sell student loans to a trust that issues bonds backed by the student loans as part of the transaction. When our securitizations meet the sale criteria of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of SFAS No. 125, we record a gain on the sale of the student loans, which is the difference between the allocated cost basis of the assets sold and the relative fair value of the assets received including the Residual Interest component of the Retained Interest in the securitization transaction. 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. We have not structured any securitization transaction to meet the sale criteria since March 2007 and all securitizations settled since that date have been accounted for on-balance sheet as secured financings as a result.

We adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement 115, effective January 1, 2008, whereby we elected to carry all existing Residual Interests at fair value with subsequent changes in fair value recorded in servicing and securitization revenue. Since there are no quoted market prices for our Residual Interests, we estimate their fair value both initially and each subsequent quarter using the key assumptions listed below:

The CPR (see Premium and Discount Amortization above for discussion of this assumption);

The expected credit losses from the underlying securitized loan portfolio. Although loss estimates related to the Allowance for Loan Loss are based on a loss confirmation period of generally two years, expected credit losses related to the Residual Interests use a life of loan default rate. The life of loan default rate is used to determine the percentage of the loan s original balance that will default. The life of loan default rate is then applied using a curve to determine the percentage of the overall default rate

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that should be recognized annually throughout the life of the loan. (See also Allowance for Loan Losses above for the determination of default rates and the factors that may impact them.)

The discount rate used (see Fair Value Measurement discussed above).

We also receive income for servicing the loans in our securitization trusts. We assess the amounts received as compensation for these activities at inception and on an ongoing basis to determine if the amounts received are adequate compensation as defined in SFAS No. 140. To the extent such compensation is determined to be no more or less than adequate compensation, no servicing asset or obligation is recorded.

Derivative Accounting

We use interest rate swaps, cross-currency interest rate swaps, interest rate futures contracts, Floor Income Contracts and interest rate cap contracts as an integral part of our overall risk management strategy to manage interest rate and foreign currency risk arising from our fixed rate and floating rate financial instruments. We account for these instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. We determine the fair value for our derivative instruments primarily by using pricing models that consider current market conditions and the contractual terms of the derivative contracts. Market inputs into the model include interest rates, forward interest rate curves, volatility factors, forward foreign exchange rates, and the closing price of our stock (related to our equity forward contracts). Inputs are generally from active financial markets; however, as mentioned under Fair Value Measurements above, adjustments are made for inputs from illiquid markets and to adjust for credit risk. In some instances, counterparty valuations are used in determining the fair value of a derivative when deemed a more appropriate estimate of the fair value. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized and, as such, the use of different pricing models or assumptions could produce different financial results. As a matter of policy, we compare the fair values of our derivatives that we calculate to those provided by our counterparties on a monthly basis. Any significant differences are identified and resolved appropriately.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by SFAS No. 133 are met. We believe that all of our derivatives are effective economic hedges and are a critical element of our interest rate risk management strategy. However, under SFAS No. 133, some of our derivatives, primarily Floor Income Contracts, certain Eurodollar futures contracts, basis swaps and equity forwards, do not qualify for hedge treatment under SFAS No. 133. Therefore, changes in market value along with the periodic net settlements must be recorded through the gains (losses) on derivative and hedging activities, net line in the consolidated statement of income with no consideration for the corresponding change in fair value of the hedged item. The derivative market value adjustment is primarily caused by interest rate and foreign currency exchange rate volatility, changing credit spreads during the period, and changes in our stock price (related to equity forwards), as well as, the volume and term of derivatives not receiving hedge accounting treatment. See also BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment* Derivative Accounting for a detailed discussion of our accounting for derivatives.

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SELECTED FINANCIAL DATA

Condensed Statements of Income

	Years Ended December 31,			Increase (Decrease) 2008 vs. 2007		Increase (Decrease) 2007 vs. 2006	
	2008	2007	2006	$	%	$	%
Net interest income	$ 1,365	$ 1,588	$ 1,454	$ (223)	(14)%	$ 134	9%
Less: provisions for loan losses	720	1,015	287	(295)	(29)	728	254
Net interest income after provisions for loan losses	645	573	1,167	72	13	(594)	(51)
Gains on student loan securitizations		367	902	(367)	(100)	(535)	(59)
Servicing and securitization revenue	262	437	553	(175)	(40)	(116)	(21)
Losses on loans and securities, net	(186)	(95)	(49)	(91)	(96)	(46)	(94)
Gains (losses) on derivative and hedging activities, net	(445)	(1,361)	(339)	916	67	(1,022)	(301)
Contingency fee revenue	340	336	397	4	1	(61)	(15)
Collections revenue (loss)	(64)	272	240	(336)	(124)	32	13
Guarantor servicing fees	121	156	132	(35)	(22)	24	18
Other income	392	385	338	7	2	47	14
Restructuring expenses	84	23		61	265	23	100
Operating expenses	1,357	1,529	1,346	(172)	(11)	183	14
Pre-tax income (loss)	(376)	(482)	1,995	106	22	(2,477)	(124)
Income tax expense (benefit)	(167)	412	834	(579)	(141)	(422)	(51)
Minority interest in net earnings of subsidiaries	4	2	4	2	100	(2)	(50)
Net income (loss)	(213)	(896)	1,157	683	76	(2,053)	(177)
Preferred stock dividends	111	37	36	74	200	1	3
Net income (loss) attributable to common stock	$ (324)	$ (933)	$ 1,121	$ 609	65%	$ (2,054)	(183)%
Basic earnings (loss) per common share	$ (.69)	$ (2.26)	$ 2.73	$ 1.57	69%	$ (4.99)	(183)%
Diluted earnings (loss) per common share	$ (.69)	$ (2.26)	$ 2.63	$ 1.57	69%	$ (4.89)	(186)%
Dividends per common share	$	$ .25	$ .97	$ (.25)	(100)%	$ (.72)	(74)%

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Condensed Balance Sheets

	December 31,		Increase (Decrease) 2008 vs. 2007	
	2008	2007	$	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 44,025	$ 35,726	$ 8,299	23%
FFELP Stafford Loans Held-for-Sale	8,451		8,451	100
FFELP Consolidation Loans, net	71,744	73,609	(1,865)	(3)
Private Education Loans, net	20,582	14,818	5,764	39
Other loans, net	729	1,174	(445)	(38)
Cash and investments	5,112	10,546	(5,434)	(52)
Restricted cash and investments	3,535	4,600	(1,065)	(23)
Retained Interest in off-balance sheet securitized loans	2,200	3,044	(844)	(28)
Goodwill and acquired intangible assets, net	1,249	1,301	(52)	(4)
Other assets	11,141	10,747	394	4
Total assets	$ 168,768	$ 155,565	$ 13,203	8%
Liabilities and Stockholders Equity				
Short-term borrowings	$ 41,933	$ 35,947	$ 5,986	17%
Long-term borrowings	118,225	111,098	7,127	6
Other liabilities	3,604	3,285	319	10
Total liabilities	163,762	150,330	13,432	9
Minority interest in subsidiaries	7	11	(4)	(36)
Stockholders equity before treasury stock	6,855	7,055	(200)	(3)
Common stock held in treasury	1,856	1,831	25	1
Total stockholders equity	4,999	5,224	(225)	(4)
Total liabilities and stockholders equity	$ 168,768	$ 155,565	$ 13,203	8%

RESULTS OF OPERATIONS

We present the results of operations first on a consolidated basis in accordance with GAAP. As discussed in Item 1. Business, we have two primary business segments, Lending and APG, plus a Corporate and Other business segment. Since these business segments operate in distinct business environments, the discussion following the Consolidated Earnings Summary is primarily presented on a segment basis. See BUSINESS SEGMENTS for further discussion on the components of each segment. Securitization gains and the ongoing servicing and securitization income are included in LIQUIDITY AND CAPITAL RESOURCES Securitization Activities. The discussion of derivative market value gains and losses is under BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment* Derivative Accounting. The discussion of goodwill and acquired intangible amortization and impairment is discussed under BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment* Acquired Intangibles.

CONSOLIDATED EARNINGS SUMMARY

The main drivers of our net income are the growth in our Managed student loan portfolio, which drives net interest income and securitization transactions, the spread we earn on student loans, unrealized gains and losses on derivatives that do not receive hedge accounting treatment, the timing and size of securitization gains, growth in our fee-based business, and expense control.

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Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

For the year ended December 31, 2008, our net loss was $213 million or $.69 diluted loss per share, compared to a net loss of $896 million, or $2.26 diluted loss per share, for the year December 31, 2007. The effective tax rate for those periods was 45 percent and (86) percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under SFAS No. 133 in 2007. Pre-tax loss decreased by $106 million versus the year-ago period primarily due to a decrease in net losses on derivative and hedging activities from $1.4 billion for the year ended December 31, 2007 to $445 million for the year ended December 31, 2008, which was primarily a result of the mark-to-market on the equity forward contracts in the fourth quarter of 2007.

There were no gains on student loan securitizations in the year ended December 31, 2008 compared to gains of $367 million in the year-ago period. We did not complete any off-balance sheet securitizations in the year ended December 31, 2008, versus one Private Education Loan securitization in the year-ago period. We adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, on January 1, 2008, and elected the fair value option on all of the Residual Interests effective January 1, 2008. We made this election in order to simplify the accounting for Residual Interests by having all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, 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. We reclassified the related accumulated other comprehensive income of $195 million into retained earnings 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 servicing and securitization income. We have not elected the fair value option for any other financial instruments at this time. Servicing and securitization revenue decreased by $175 million from $437 million in the year ended December 31, 2007 to $262 million in the year ended December 31, 2008. This decrease was primarily due to a $425 million unrealized mark-to-market loss recorded under SFAS No. 159 in the current year compared to a $278 million unrealized mark-to-market loss in the prior year, which included both impairment and an unrealized mark-to-market gain recorded under SFAS No. 155. The increase in the unrealized mark-to-market loss in 2008 versus 2007 was primarily due to increases in the discount rates used to value the Residual Interests. See LIQUIDITY AND CAPITAL RESOURCES *Residual Interest in Securitized Receivables* for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses increased by $72 million in the year ended December 31, 2008 from the prior year. This increase was due to a $296 million decrease in provisions for loan losses, offset by a $224 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*), an increase in the 2008 Asset-Backed Financing Facilities Fees, partially offset by a $25 billion increase in the average balance of on-balance sheet student loans. The decrease in provisions for loan losses relates to the higher provision amounts in the fourth quarter of 2007 for Private Education Loans, FFELP loans and mortgage loans, primarily due to a weakening U.S. economy. The significant provision in the fourth quarter of 2007 primarily related to the non-traditional portfolio which was particularly impacted by the weakening U.S. economy (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Activity in the Allowance for Private Education Loan Losses*).

For the year ended December 31, 2008, fee and other income and collections revenue totaled $790 million, a $359 million decrease from $1.1 billion in the prior year. This decrease was primarily the result of $368 million of impairment related to both declines in the fair value of mortgage loans and real estate held by our mortgage purchased paper subsidiary and related to our non-mortgage purchased paper subsidiary recorded in 2008 compared to

$21 million in 2007 (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

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Losses on loans and securities, net, totaled $186 million for the year ended December 31, 2008, a $91 million increase from $95 million incurred in the year ended December 31, 2007. Prior to the fourth quarter of 2008, these losses were primarily the result of our repurchase of delinquent Private Education Loans from our off-balance sheet securitization trusts. When Private Education Loans in our off-balance sheet securitization trusts that settled before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. We do not hold the contingent call option for any trusts that settled after September 30, 2005. Beginning in October 2008, we decided to no longer exercise our contingent call option. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under the ECASLA, which resulted in a $53 million loss. See LIQUIDITY AND CAPITAL RESOURCES ED Funding Programs for further discussion.

We are restructuring our business in response to the impact of CCRAA and current challenges in the capital markets. In conjunction with our restructuring plan, we are refocusing our lending activities, exiting certain customer relationships and product lines, and winding down our debt purchase paper businesses. As a result, during 2008 we have reduced our operating expenses by over 20 percent in the fourth quarter of 2008 compared to the fourth quarter of 2007, after adjusting for restructuring costs, growth and other investments. As part of our cost reduction efforts, restructuring expenses of $84 million and $23 million were recognized in the years ended December 31, 2008 and 2007, respectively. Restructuring expenses from the fourth quarter of 2007 through the fourth quarter of 2008 totaled $106 million. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 26 percent of the workforce. We estimate approximately $8 million to $15 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred and our current restructuring plan will be substantially complete by the end of 2009. During 2009, we will continue to review our business to determine whether there are other opportunities to further streamline the business.

Operating expenses totaled $1.4 billion and $1.5 billion for the years ended December 31, 2008 and 2007, respectively. The year-over-year reduction is primarily due to our cost reduction efforts discussed above. Of these amounts, $91 million and $112 million, respectively, relate to amortization and impairment of goodwill and intangible assets.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

For the year ended December 31, 2007, our net loss was $896 million, or $2.26 diluted loss per share, compared to net income of $1.2 billion, or $2.63 diluted earnings per share, in the year-ago period. The effective tax rate in those periods was (86) percent and 42 percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which are marked to market through earnings under the FASB s SFAS No. 133. Pre-tax income decreased by $2.5 billion versus the year ended December 31, 2006 primarily due to a $1.0 billion increase in net losses on derivative and hedging activities, which was mostly comprised of losses on our equity forward contracts. Losses on derivative and hedging activities were $1.4 billion for the year ended December 31, 2007 compared to $339 million for the year ended December 31, 2006.

Pre-tax income for the year ended December 31, 2007 also decreased versus the year ended December 31, 2006 due to a $535 million decrease in gains on student loan securitizations. The securitization gain in 2007 was the result of one Private Education Loan securitization that had a pre-tax gain of $367 million or 18.4 percent of the amount securitized. In the year-ago period, there were three Private Education Loan securitizations that had total pre-tax gains of $830 million or 16.3 percent of the amount securitized. For the year ended December 31, 2007, servicing and securitization income was $437 million, a $116 million decrease from the year ended December 31, 2006. This

decrease was primarily due to a $97 million increase in impairment losses which was mainly the result of FFELP Stafford Consolidation Loan activity exceeding expectations, increased Private Education Consolidation Loan activity, increased Private Education Loan expected default activity, and an increase in the discount rate used to value the Private Education Loan

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Residual Interests (see LIQUIDITY AND CAPITAL RESOURCES *Residual Interest in Securitized Receivables*).

Net interest income after provisions for loan losses decreased by $594 million versus the year ended December 31, 2006. The decrease was due to the year-over-year increase in the provisions for loan losses of $728 million, which offset the year-over-year $134 million increase in net interest income. The increase in net interest income was primarily due to an increase of $30.8 billion in the average balance of on-balance sheet interest earning assets offset by a decrease in the student loan spread (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin-On-Balance Sheet Student Loan Spread On-Balance Sheet*). The increase in provisions for loan losses relates to higher provision amounts for Private Education Loans, FFELP loans, and mortgage loans primarily due to a weakening U.S. economy (see LENDING BUSINESS SEGMENT *Activity in the Allowance for Private Education Loan Losses;* and Total Provisions for Loan Losses).

Fee and other income and collections revenue increased $42 million from $1.11 billion for the year ended December 31, 2006 to $1.15 billion for the year ended December 31, 2007.

As noted above, we began restructuring our business in the fourth quarter of 2007 in response to the impact of the CCRAA and current challenges in the capital markets. As part of our cost reduction efforts, $23 million of severance costs related to the elimination of approximately 400 positions across all areas of the Company were incurred in the fourth quarter of 2007.

Operating expenses increased by $183 million year-over-year. This increase in operating expenses was primarily due to $56 million in the Proposed Merger-related expenses incurred in 2007. Operating expenses in 2007 also included $93 million related to a full year of expenses for Upromise, acquired in August 2006, compared to $33 million incurred in 2006.

Our Managed student loan portfolio grew by $21.5 billion (or 15 percent), from $142.1 billion at December 31, 2006 to $163.6 billion at December 31, 2007. In 2007 we acquired $40.3 billion of student loans, an 8 percent increase over the $37.4 billion acquired in the year-ago period. The 2007 acquisitions included $9.3 billion in Private Education Loans, an 11 percent increase over the $8.4 billion acquired in 2006. In the year ended December 31, 2007, we originated $25.2 billion of student loans through our Preferred Channel, an increase of 8 percent over the $23.4 billion originated in the year-ago period.

Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	**2007**	**2006**
Late fees and forbearance fees	$ 143	$ 136	$ 121
Asset servicing and other transaction fees	108	110	42
Loan servicing fees	26	26	48
Gains on sales of mortgages and other loan fees	3	11	15
Other	112	102	112
Total other income	$ 392	$ 385	$ 338

BUSINESS SEGMENTS

The results of operations of the Company s Lending and APG operating segments are presented below. These defined business segments operate in distinct business environments and are considered reportable segments under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, based on quantitative thresholds applied to the Company s financial statements. In addition, we provide other complementary products and services, including guarantor and student loan servicing, through smaller

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operating segments that do not meet such thresholds and are aggregated in the Corporate and Other reportable segment for financial reporting purposes.

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. In accordance with the Rules and Regulations of the Securities and Exchange Commission (SEC), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company s GAAP-based financial information, management, including the Company s chief operation decision maker, evaluates the performance of the Company s operating segments based on their profitability on a basis that, as allowed under SFAS No. 131, differs from GAAP. We refer to management s basis of evaluating our segment results as Core Earnings presentations for each business segment and we refer to these performance measures in our presentations with credit rating agencies and lenders. Accordingly, information regarding the Company s reportable segments is provided herein based on Core Earnings, which are discussed in detail below.

Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting and as a result, our management reporting 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.

Core Earnings 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. While Core Earnings are not a substitute for reported results under GAAP, the Company relies on Core Earnings in operating its business because Core Earnings permit management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by management. Management believes this information provides additional insight into the financial performance of the core business activities of our operating segments. Accordingly, the tables presented below reflect Core Earnings which is reviewed and utilized by management to manage the business for each of the Company s reportable segments. A further discussion regarding Core Earnings is included under Limitations of Core Earnings and *Pre-tax Differences between Core Earnings an GAAP by Business Segment.*

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The LENDING BUSINESS SEGMENT section includes all discussion of income and related expenses associated with the net interest margin, the student loan spread and its components, the provisions for loan losses, and other fees earned on our Managed portfolio of student loans. The APG BUSINESS SEGMENT section reflects the fees earned and expenses incurred in providing accounts receivable management and collection services. Our CORPORATE AND OTHER BUSINESS SEGMENT section includes our remaining fee businesses and other corporate expenses that do not pertain directly to the primary operating segments identified above.

	Year Ended December 31, 2008		
	Lending	**APG**	**Corporate and Other**
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,216	$	$
FFELP Consolidation Loans	3,748		
Private Education Loans	2,752		
Other loans	83		
Cash and investments	304		25
Total interest income	9,103		25
Total interest expense	6,665	25	19
Net interest income (loss)	2,438	(25)	6
Less: provisions for loan losses	1,029		
Net interest income (loss) after provisions for loan losses	1,409	(25)	6
Contingency fee revenue		340	
Collections revenue (loss)		(63)	
Guarantor serving fees			121
Other income	180		199
Total other income	180	277	320
Restructuring expenses	49	12	23
Operating expenses	589	398	277
Total expenses	638	410	300
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	951	(158)	26
Income tax expense (benefit)[1]	336	(56)	9
Minority interest in net earnings of subsidiaries		4	
Core Earnings net income (loss)	$ 615	$ (106)	$ 17

[1] Income taxes are based on a percentage of net income before tax for the individual reportable segment.

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	Year Ended December 31, 2007		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,848	$	$
FFELP Consolidation Loans	5,522		
Private Education Loans	2,835		
Other loans	106		
Cash and investments	868		21
Total interest income	12,179		21
Total interest expense	9,597	27	21
Net interest income (loss)	2,582	(27)	
Less: provisions for loan losses	1,394		1
Net interest income (loss) after provisions for loan losses	1,188	(27)	(1)
Contingency fee revenue		336	
Collections revenue		269	
Guarantor serving fees			156
Other income	194		218
Total other income	194	605	374
Restructuring expenses	19	2	2
Operating expenses	690	388	339
Total expenses	709	390	341
Income before income taxes and minority interest in net earnings of subsidiaries	673	188	32
Income tax expense[1]	249	70	12
Minority interest in net earnings of subsidiaries		2	
Core Earnings net income	$ 424	$ 116	$ 20

[1] Income taxes are based on a percentage of net income before tax for the individual reportable segment.

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	Year Ended December 31, 2006		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,771	$	$
FFELP Consolidation Loans	4,690		
Private Education Loans	2,092		
Other loans	98		
Cash and investments	705		7
Total interest income	10,356		7
Total interest expense	7,877	23	12
Net interest income (loss)	2,479	(23)	(5)
Less: provisions for loan losses	303		
Net interest income (loss) after provisions for loan losses	2,176	(23)	(5)
Contingency fee revenue		397	
Collections revenue		239	
Guarantor servicing fees			132
Other income	177		155
Total other income	177	636	287
Restructuring expenses			
Operating expenses	645	358	250
Total expenses	645	358	250
Income before income taxes and minority interest in net earnings of subsidiaries	1,708	255	32
Income tax expense[1]	632	94	12
Minority interest in net earnings of subsidiaries		4	
Core Earnings net income	$ 1,076	$ 157	$ 20

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

Limitations of Core Earnings

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, management believes that Core Earnings are an important additional tool for providing a more complete understanding of the Company s results of operations. Nevertheless, Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, as stated above, unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. Our Core Earnings are not defined terms within

GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike GAAP, Core Earnings reflect only current period adjustments to GAAP. Accordingly, the Company s Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not compare our Company s performance with that of other financial services companies based upon Core Earnings. Core Earnings results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, the Company s board of directors, rating agencies and lenders to assess performance.

Other limitations arise from the specific adjustments that management makes to GAAP results to derive Core Earnings results. For example, in reversing the unrealized gains and losses that result from

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SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, on derivatives that do not qualify for hedge treatment, as well as on derivatives that do qualify but are in part ineffective because they are not perfect hedges, we focus on the long-term economic effectiveness of those instruments relative to the underlying hedged item and isolate the effects of interest rate volatility, changing credit spreads and changes in our stock price on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the derivative instruments (but not on the underlying hedged item) tend to show more volatility in the short term. While our presentation of our results on a Core Earnings basis provides important information regarding the performance of our Managed portfolio, a limitation of this presentation is that we are presenting the ongoing spread income on loans that have been sold to a trust managed by us. While we believe that our Core Earnings presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains. Our Core Earnings results exclude certain Floor Income, which is real cash income, from our reported results and therefore may understate earnings in certain periods. Management s financial planning and valuation of operating results, however, does not take into account Floor Income because of its inherent uncertainty, except when it is economically hedged through Floor Income Contracts.

Pre-tax Differences between Core Earnings and GAAP by Business Segment

Our Core Earnings are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by our chief operating decision makers. Our Core Earnings are used in developing our financial plans and tracking results, and also in 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 net income reflects only current period adjustments to GAAP net income, as described in the more detailed discussion of the differences between Core Earnings and GAAP that follows, which includes further detail on each specific adjustment required to reconcile our Core Earnings segment presentation to our GAAP earnings.

	Years Ended December 31,								
	2008			2007			2006		
	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other
Core Earnings adjustments:									
Net impact of securitization accounting	$ (442)	$	$	$ 247	$	$	$ 532	$	$
Net impact of derivative accounting	(560)			217		(1,558)	131		(360)
Net impact of Floor Income	(102)			(169)			(209)		
Net impact of acquired intangibles	(53)	(24)	(14)	(55)	(28)	(29)	(49)	(34)	(11)
Total Core Earnings adjustments to	$ (1,157)	$ (24)	$ (14)	$ 240	$ (28)	$ (1,587)	$ 405	$ (34)	$ (371)

GAAP

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

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The following table summarizes Core Earnings securitization adjustments for the Lending operating segment for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	2007	2006
Core Earnings securitization adjustments:			
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$ (872)	$ (818)	$ (896)
Provisions for loan losses	309	380	16
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(563)	(438)	(880)
Intercompany transactions with off-balance sheet trusts	(141)	(119)	(43)
Net interest income on securitized loans, after provisions for loan losses	(704)	(557)	(923)
Gains on student loan securitizations		367	902
Servicing and securitization revenue	262	437	553
Total Core Earnings securitization adjustments[1]	$ (442)	$ 247	$ 532

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

Intercompany transactions with off-balance sheet trusts in the above table relate primarily to losses that result from the repurchase of delinquent loans from our off-balance sheet securitization trusts. When Private Education Loans in our securitization trusts settling before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We do not hold the contingent call option for any trusts settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option.

2) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for hedge treatment under GAAP. These unrealized gains and losses occur in our Lending operating segment, and occurred in our Corporate and Other reportable segment related to equity forward contracts prior to 2008. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item s life. Core Earnings also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for hedge treatment as defined by SFAS No. 133, and the stand-alone

derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The gains and losses described in Gains (losses) on derivative and hedging activities, net are primarily caused by interest rate and foreign currency exchange rate volatility, changing credit spreads and changes in our stock price during the period as well as the volume and term of derivatives not receiving hedge treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness under SFAS No. 133. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Under SFAS No. 133, the upfront payment is deemed

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a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio, including our Retained Interests, earning Floor Income but that offsetting change in value is not recognized under SFAS No. 133. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Prior to SFAS No. 133, we accounted for Floor Income Contracts as hedges and amortized the upfront cash compensation ratably over the lives of the contracts.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required by SFAS No. 133. Additionally, some of our FFELP loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the SFAS No. 133 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, equity forward contracts that allow a net settlement option either in cash or the Company s stock are required to be accounted for as derivatives in accordance with SFAS No. 133. As a result, we account for our equity forward contracts as derivatives in accordance with SFAS No. 133 and mark them to market through earnings. They do not qualify as effective SFAS No. 133 hedges, as a requirement to achieve hedge accounting is the hedged item must impact net income and the settlement of these contracts through the purchase of our own stock does not impact net income. The Company settled all of its equity forward contracts in January 2008.

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the years ended December 31, 2008, 2007 and 2006 when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Years Ended December 31,		
	2008	2007	2006
Core Earnings derivative adjustments:			
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$ (445)	$ (1,361)	$ (339)
Less: Realized (gains) losses on derivative and hedging activities, net[1]	(107)	18	109
Unrealized gains (losses) on derivative and hedging activities, net	(552)	(1,343)	(230)
Other pre-SFAS No. 133 accounting adjustments	(8)	2	1
Total net impact of SFAS No. 133 derivative accounting[2]	$ (560)	$ (1,341)	$ (229)

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

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

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities) that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a Core Earnings basis for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	**2007**	**2006**
Reclassification of realized gains (losses) on derivative and hedging activities:			
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (488)	$ (67)	$ (50)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	563	47	(59)
Foreign exchange derivatives gains/(losses) reclassified to other income	11		
Net realized gains (losses) on terminated derivative contracts reclassified to other income	21	2	
Total reclassifications of realized (gains)losses on derivative and hedging activities	107	(18)	(109)
Add: Unrealized gains (losses) on derivative and hedging activities, net[(1)]	(552)	(1,343)	(230)
Gains (losses) on derivative and hedging activities, net	$ (445)	$ (1,361)	$ (339)

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

	Years Ended December 31,		
	2008	**2007**	**2006**
Floor Income Contracts	$ (529)	$ (209)	$ 176
Equity forward contracts		(1,558)	(360)
Basis swaps	(239)	360	(58)
Other	216	64	12
Total unrealized gains (losses) on derivative and hedging activities, net	$ (552)	$ (1,343)	$ (230)

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on equity forward contracts fluctuate with changes in the Company s stock price. Unrealized gains and losses on basis swaps result from

changes in the spread between indices and on changes in the forward interest rate curves that impact basis swaps hedging repricing risk between quarterly reset debt and daily reset assets. Other unrealized gains are primarily the result of ineffectiveness on cross-currency interest rate swaps hedging foreign currency denominated debt related to differences between forward and spot foreign currency exchange rates.

3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we exclude such income from Core Earnings when it is not economically hedged. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in Derivative Accounting, these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the gains (losses) on derivative and hedging activities, net line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For Core Earnings, we reverse the

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fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include the amortization of net premiums received in income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	2007	2006
Core earnings Floor Income adjustments:			
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 69	$	$
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(171)	(169)	$ (209)
Total Core Earnings Floor Income adjustments[1]	$ (102)	$ (169)	$ (209)

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

4) **Acquired Intangibles:** Our Core Earnings exclude goodwill and intangible impairment and the amortization of acquired intangibles. These amounts totaled $91 million, $112 million and $94 million, respectively, for the years ended December 31, 2008, 2007 and 2006. As discussed in ASSET PERFORMANCE GROUP BUSINESS SEGMENT, the Company decided to wind down its purchased paper businesses. This decision resulted in $36 million of impairment of intangible assets for the year ended December 31, 2008, of which $28 million related to the impairment of two trade names and $8 million related to certain banking customer relationships. In 2007, we recognized impairments related principally to our mortgage origination and mortgage purchased paper businesses including approximately $20 million of goodwill and $10 million of value attributable to certain banking relationships. In connection with our acquisition of Southwest Student Services Corporation and Washington Transferee Corporation, we acquired certain tax exempt bonds that enabled us to earn a 9.5 percent SAP rate on student loans funded by those bonds in indentured trusts. In 2007 and 2006, we recognized intangible impairments of $9 million and $21 million, respectively, due to changes in projected interest rates used to initially value the intangible asset and to a regulatory change that restricts the loans on which we are entitled to earn a 9.5 percent yield.

LENDING BUSINESS SEGMENT

In our Lending business segment, we originate and acquire federally guaranteed student loans and Private Education Loans, which are not federally guaranteed. Typically a Private Education Loan is made in conjunction with a FFELP Stafford loan and as a result is marketed through the same marketing channels as FFELP loans. While FFELP loans and Private Education Loans have different overall risk profiles due to the federal guarantee of the FFELP loans, they currently share many of the same characteristics such as similar repayment terms, the same marketing channel and sales force, and are originated and serviced on the same servicing platform. Finally, where possible, the borrower receives a single bill for both FFELP and Private Education Loans.

An overview of this segment and recent developments that have significantly impacted this segment are included in the Item 1. Business, section of this document.

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The following table summarizes the Core Earnings results of operations for our Lending business segment.

	Years Ended December 31,			% Increase (Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Core Earnings interest income:					
FFELP Stafford and Other Student Loans	$ 2,216	$ 2,848	$ 2,771	(22)%	3%
FFELP Consolidation Loans	3,748	5,522	4,690	(32)	18
Private Education Loans	2,752	2,835	2,092	(3)	36
Other loans	83	106	98	(22)	8
Cash and investments	304	868	705	(65)	23
Total Core Earnings interest income	9,103	12,179	10,356	(25)	18
Total Core Earnings interest expense	6,665	9,597	7,877	(31)	22
Net Core Earnings interest income	2,438	2,582	2,479	(6)	4
Less: provisions for loan losses	1,029	1,394	303	(26)	360
Net Core Earnings interest income after provisions for loan losses	1,409	1,188	2,176	19	(45)
Other income	180	194	177	(7)	10
Restructuring expenses	49	19		158	100
Operating expenses	589	690	645	(15)	7
Total expenses	638	709	645	(10)	10
Income before income taxes and minority interest in net earnings of subsidiaries	951	673	1,708	41	(61)
Income tax expense	336	249	632	35	(61)
Income before minority interest in net earnings of subsidiaries	615	424	1,076	45	(61)
Minority interest in net earnings of subsidiaries					
Core Earnings net income	$ 615	$ 424	$ 1,076	45%	(61)%

Net Interest Income

Changes in net interest income are primarily due to fluctuations in the student loan and other asset spread discussed below, the growth of our student loan portfolio, and changes in the level of cash and investments we hold on our balance sheet for liquidity purposes.

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Average Balance Sheets On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the years ended December 31, 2008, 2007 and 2006. This table reflects the net interest margin for the entire Company for our on-balance sheet assets. It is included in the Lending business segment discussion because the Lending business segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Years Ended December 31,					
	2008		2007		2006	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Stafford and Other Student Loans	$ 44,291	4.50%	$ 31,294	6.59%	$ 21,152	6.66%
FFELP Consolidation Loans	73,091	4.35	67,918	6.39	55,119	6.43
Private Education Loans	19,276	9.01	12,507	11.65	8,585	11.90
Other loans	955	8.66	1,246	8.49	1,155	8.48
Cash and investments	9,279	2.98	12,710	5.57	8,824	5.70
Total interest-earning assets	146,892	4.95%	125,675	6.90%	94,835	6.94%
Non-interest-earning assets	9,999		9,715		8,550	
Total assets	$ 156,891		$ 135,390		$ 103,385	
Average Liabilities and Stockholders Equity						
ED Participation Program facility	$ 1,727	3.43%	$	%	$	%
Term bank deposits	696	3.95	166	5.26	1	4.98
Other short-term borrowings	33,636	4.81	16,219	5.75	3,901	5.33
Short-term borrowings	36,059	4.73	16,385	5.74	3,902	5.33
Long-term borrowings	111,625	3.76	109,984	5.59	91,461	5.37
Total interest-bearing liabilities	147,684	4.00%	126,369	5.61%	95,363	5.37%
Non-interest-bearing liabilities	3,797		4,272		3,912	
Stockholders equity	5,410		4,749		4,110	
Total liabilities and stockholders equity	$ 156,891		$ 135,390		$ 103,385	
Net interest margin		.93%		1.26%		1.53%

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Rate/Volume Analysis On-Balance Sheet

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

	(Decrease) Increase	(Decrease) Increase Attributable to Change in Rate	(Decrease) Increase Attributable to Change in Volume
2008 vs. 2007			
Interest income	$ (1,404)	$ (3,163)	$ 1,759
Interest expense	(1,181)	(2,402)	1,221
Net interest income	$ (223)	$ (761)	$ 538
2007 vs. 2006			
Interest income	$ 2,096	$ (98)	$ 2,194
Interest expense	1,962	301	1,661
Net interest income	$ 134	$ (399)	$ 533

Net Interest Margin On-Balance Sheet

The following table reflects the net interest margin of on-balance sheet interest-earning assets, before provisions for loan losses. (Certain percentages do not add or subtract down as they are based on average balances.)

	Years Ended December 31, 2008	2007	2006
Student loan spread[1][2]	1.28%	1.44%	1.68%
Other asset spread[1][3]	(.27)	(.16)	.27
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[1]	1.17	1.26	1.53
Less: 2008 Asset-Backed Financing Facilities fees	(.24)		
Net interest margin	.93%	1.26%	1.53%

(1) Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the 2008 Asset-Backed Financing Facilities fees (see LIQUIDITY AND CAPITAL RESOURCES Additional Funding Sources for General Corporate Purposes for a further discussion).

(2) Composition of student loan spread:

Student loan yield, before Floor Income	5.60%	7.92%	7.93%
Gross Floor Income	.28	.05	.04
Consolidation Loan Rebate Fees	(.55)	(.63)	(.67)
Repayment Borrower Benefits	(.11)	(.12)	(.12)
Premium and discount amortization	(.16)	(.18)	(.14)
Student loan net yield	5.06	7.04	7.04
Student loan cost of funds	(3.78)	(5.60)	(5.36)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.28%	1.44%	1.68%

(3) Comprised of investments, cash and other loans.

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Student Loan Spread On-Balance Sheet

The student loan spread is impacted by changes in its various components, as reflected in footnote (2) to the *Net Interest Margin On-Balance Sheet* table above. Gross Floor Income is impacted by interest rates and the percentage of the FFELP portfolio eligible to earn Floor Income. The spread impact from Consolidation Loan Rebate Fees fluctuates as a function of the percentage of FFELP Consolidation Loans on our balance sheet. Repayment Borrower Benefits are generally impacted by the terms of the Repayment Borrower Benefits being offered as well as the payment behavior of the underlying loans. Premium and discount amortization is generally impacted by the prices previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also impacted by prepayment behavior of the underlying loans.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for 2008 decreased 16 basis points from the prior year. The decrease was primarily due to an increase in our cost of funds, which was partially offset by an increase in Floor Income due to a decrease in interest rates in 2008 compared to 2007. The cost of funds for on-balance sheet student loans excludes the impact of basis swaps that are intended to economically hedge the re-pricing and basis mismatch between our funding and student loan asset indices; these swaps do not receive hedge accounting treatment under SFAS No. 133. We extensively use basis swaps to manage our basis risk associated with our interest rate sensitive assets and liabilities. These swaps generally do not qualify as accounting hedges, and as a result, are required to be accounted for in the gains (losses) on derivatives and hedging activities, net line on the income statement, as opposed to being accounted for in interest expense. As a result, these basis swaps are not considered in the calculation of the cost of funds in the table above and therefore, in times of volatile movements of interest rates like those experienced in 2008, the student loan spread can significantly change. See *Core Earnings Net Interest Margin* in the following table, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps.

The decrease in our student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for 2007 versus 2006 was primarily due to an increase in our cost of funds. The increase in the cost of funds is due to the same reason discussed above related to 2008. See *Core Earnings Net Interest Margin Core Earnings Basis Student Loan Spread,* which reflects these basis swaps in interest expense, and demonstrates the economic hedge effectiveness of these basis swaps. The decrease in the student loan spread was also due to an increase in the estimate of uncollectible accrued interest related to our Private Education Loans (see *Core Earnings Net Interest Margin Core Earnings Basis Student Loan Spread*).

Other Asset Spread On-Balance Sheet

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread decreased 11 basis points from 2007 to 2008, and decreased 43 basis points from 2006 to 2007. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under SFAS No. 133 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the Core Earnings basis other asset spread discussed below.

Net Interest Margin On-Balance Sheet

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for 2008 decreased 9 basis points from the year-ago period and decreased 27 basis points from 2006 to 2007. The increase in the student loan portfolio as a percentage of the overall interest-earning asset portfolio from 2007 to 2008 resulted in an increase to net interest margin of 7 basis points due to the student loan portfolio earning a higher spread than the other asset portfolio. A decrease of 16 basis points relates primarily to the previous discussions of changes

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in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest earning asset portfolio did not change substantially from 2006 to 2007. The decrease in spread from 2006 to 2007 primarily related to the previously discussed changes in the on-balance sheet student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date.

Core Earnings Net Interest Margin

The following table analyzes the earnings from our portfolio of Managed interest-earning assets on a Core Earnings basis (see BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment*). The *Core Earnings Net Interest Margin* presentation and certain components used in the calculation differ from the *Net Interest Margin On-Balance Sheet* presentation. The Core Earnings presentation, when compared to our on-balance sheet presentation, is different in that it:

includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;

includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as SFAS No. 133 hedges are recorded as part of the gain (loss) on derivative and hedging activities, net line on the income statement and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our Core Earnings net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;

excludes unhedged Floor Income earned on the Managed student loan portfolio; and

includes the amortization of upfront payments on Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

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The following table reflects the Core Earnings net interest margin, before provisions for loan losses. (Certain percentages do not add or subtract down as they are based on average balances.)

	Years Ended December 31, 2008	2007	2006
Core Earnings basis student loan spread[1]			
FFELP loan spread	.83%	.96%	1.25%
Private Education Loan spread[2]	5.09	5.12	5.13
Total Core Earnings basis student loan spread[3]	1.63	1.67	1.84
Core Earnings basis other asset spread[1][4]	(.51)	(.11)	.30
Core Earnings net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.49	1.49	1.69
Less: 2008 Asset-Backed Financing Facilities fees	(.19)		
Core Earnings net interest margin[5]	1.30%	1.49%	1.69%

(1) Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the 2008 Asset-Backed Financing Facilities fees (see LIQUIDITY AND CAPITAL RESOURCES Additional Funding Sources for General Corporate Purposes for a further discussion).

(2) Core Earnings basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses	2.41%	.41%	3.75%
(3) Composition of Core Earnings basis student loan spread:			
Core Earnings basis student loan yield	5.77%	8.12%	8.10%
Consolidation Loan Rebate Fees	(.52)	(.57)	(.56)
Repayment Borrower Benefits	(.11)	(.11)	(.09)
Premium and discount amortization	(.14)	(.17)	(.16)
Core Earnings basis student loan net yield	5.00	7.27	7.29
Core Earnings basis student loan cost of funds	(3.37)	(5.60)	(5.45)
Core Earnings basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.63%	1.67%	1.84%

(4) Comprised of investments, cash and other loans

(5) The average balances of our Managed interest-earning assets for the respective periods are:

FFELP loans	$ 141,647	$ 127,940	$ 111,469

Private Education Loans	32,597	26,190	19,723
Total student loans	174,244	154,130	131,192
Other interest-earning assets	12,403	17,455	14,148
Total Managed interest-earning assets	$ 186,647	$ 171,585	$ 145,340

Core Earnings Basis Student Loan Spread

The Core Earnings basis student loan spread, before the 2008 Asset Backed Financing Facilities fees, for 2008 decreased 4 basis points from the prior year which was primarily due to an increase in the Company s cost of funds. The increase in the Company s cost of funds was due to an increase in the credit spreads on the Company s debt issued during the past year due to the current credit environment. These decreases to the student loan spread were partially offset by the growth in the Private Education Loan portfolio which earns a higher margin than FFELP.

The Core Earnings basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for 2007 decreased 17 basis points from the prior year primarily due to the interest income reserve on our Private Education loans. We estimate the amount of Private Education Loan accrued interest on our balance sheet that is not reasonably expected to be collected in the future using a methodology consistent with the

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status-based migration analysis used for the allowance for Private Education Loans. We use this estimate to offset accrued interest in the current period through a charge to student loan interest income. As our provision for loan losses increased significantly in 2007 compared to 2006, we had a similar rise in the estimate of uncollectible accrued interest receivable. The Company also experienced a higher cost of funds in 2007 primarily due to the disruption in the credit markets, as previously discussed.

The Core Earnings basis FFELP loan spread for 2008 declined from 2007 and 2006 primarily as a result of the increase in the cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007 which have lower yields as a result of the CCRAA. The Core Earnings basis Private Education Loan spread before provision for loan losses for 2008 was relatively consistent with 2007 and 2006. The changes in the Core Earnings basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see Private Education Loan Losses *Activity in the Allowance for Private Education Loan Losses*).

Core Earnings Basis Other Asset Spread

The Core Earnings basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The Core Earnings basis other asset spread for 2008 decreased 40 basis points from 2007. The 2007 spread decreased by 41 basis points from 2006. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

Core Earnings Net Interest Margin

The Core Earnings net interest margin, before 2008 Asset-Backed Financing Facilities fees, for 2008 was unchanged from the prior year and decreased 20 basis points from 2006 to 2007. The increase in the Managed student loan portfolio as a percentage of the overall Managed interest-earning asset portfolio from 2007 to 2008 resulted in an increase to Core Earnings net interest margin of 6 basis points due to the Managed student loan portfolio earning a higher spread than the Managed other interest-earning asset portfolio. This was offset by a decrease of 6 basis points primarily due to the previously discussed changes in the student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest earning asset portfolio did not change substantially from 2006 to 2007. The decrease in spread from 2006 to 2007 primarily related to the previously discussed changes in the on-balance sheet student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date.

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Summary of our Managed Student Loan Portfolio

The following tables summarize the components of our Managed student loan portfolio and show the changing composition of our portfolio.

Ending Managed Student Loan Balances, net

	December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 18,961	$	$ 18,961	$ 7,972	$ 26,933
Grace and repayment	32,455	70,511	102,966	14,231	117,197
Total on-balance sheet, gross	51,416	70,511	121,927	22,203	144,130
On-balance sheet unamortized premium/(discount)	1,151	1,280	2,431	(535)	1,896
On-balance sheet receivable for partially charged-off loans				222	222
On-balance sheet allowance for losses	(91)	(47)	(138)	(1,308)	(1,446)
Total on-balance sheet, net	52,476	71,744	124,220	20,582	144,802
Off-balance sheet:					
In-school	473		473	1,629	2,102
Grace and repayment	6,583	15,078	21,661	12,062	33,723
Total off-balance sheet, gross	7,056	15,078	22,134	13,691	35,825
Off-balance sheet unamortized premium/(discount)	105	462	567	(361)	206
Off-balance sheet receivable for partially charged-off loans				92	92
Off-balance sheet allowance for losses	(18)	(9)	(27)	(505)	(532)
Total off-balance sheet, net	7,143	15,531	22,674	12,917	35,591
Total Managed	$ 59,619	$ 87,275	$ 146,894	$ 33,499	$ 180,393
% of on-balance sheet FFELP	42%	58%	100%		
% of Managed FFELP	41%	59%	100%		
% of total	33%	48%	81%	19%	100%

(1) FFELP category is primarily Stafford loans and also includes federally insured PLUS and HEAL loans.

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	December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 14,390	$	$ 14,390	$ 6,735	$ 21,125
Grace and repayment	20,469	72,306	92,775	9,437	102,212
Total on-balance sheet, gross	34,859	72,306	107,165	16,172	123,337
On-balance sheet unamortized premium/(discount)	915	1,344	2,259	(468)	1,791
On-balance sheet receivable for partially charged-off loans				118	118
On-balance sheet allowance for losses	(48)	(41)	(89)	(1,004)	(1,093)
Total on-balance sheet, net	35,726	73,609	109,335	14,818	124,153
Off-balance sheet:					
In-school	1,004		1,004	3,117	4,121
Grace and repayment	8,334	15,968	24,302	11,082	35,384
Total off-balance sheet, gross	9,338	15,968	25,306	14,199	39,505
Off-balance sheet unamortized premium/(discount)	154	482	636	(355)	281
Off-balance sheet receivable for partially charged-off loans				28	28
Off-balance sheet allowance for losses	(20)	(9)	(29)	(362)	(391)
Total off-balance sheet, net	9,472	16,441	25,913	13,510	39,423
Total Managed	$ 45,198	$ 90,050	$ 135,248	$ 28,328	$ 163,576
% of on-balance sheet FFELP	33%	67%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	55%	83%	17%	100%

[1] FFELP category is primarily Stafford loans and also includes federally insured PLUS and HEAL loans.

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

The following tables summarize the components of our Managed student loan portfolio and show the changing composition of our portfolio.

	Year Ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 44,291	$ 73,091	$ 117,382	$ 19,276	$ 136,658
Off-balance sheet	8,299	15,966	24,265	13,321	37,586
Total Managed	$ 52,590	$ 89,057	$ 141,647	$ 32,597	$ 174,244
% of on-balance sheet FFELP	38%	62%	100%		
% of Managed FFELP	37%	63%	100%		
% of total	30%	51%	81%	19%	100%

	Year Ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 31,294	$ 67,918	$ 99,212	$ 12,507	$ 111,719
Off-balance sheet	11,533	17,195	28,728	13,683	42,411
Total Managed	$ 42,827	$ 85,113	$ 127,940	$ 26,190	$ 154,130
% of on-balance sheet FFELP	32%	68%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	55%	83%	17%	100%

	Year Ended December 31, 2006				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 21,152	$ 55,119	$ 76,271	$ 8,585	$ 84,856
Off-balance sheet	19,546	15,652	35,198	11,138	46,336

Total Managed	$ 40,698	$ 70,771	$ 111,469	$ 19,723	$ 131,192
% of on-balance sheet FFELP	28%	72%	100%		
% of Managed FFELP	37%	63%	100%		
% of total	31%	54%	85%	15%	100%

(1) FFELP category is primarily Stafford loans and also includes federally insured PLUS and HEAL loans.

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Floor Income Managed Basis

The following table analyzes the ability of the FFELP loans in our Managed portfolio to earn Floor Income after December 31, 2008 and 2007, based on interest rates as of those dates.

	December 31, 2008			December 31, 2007		
(Dollars in billions)	**Fixed Borrower Rate**	**Variable Borrower Rate**	**Total**	**Fixed Borrower Rate**	**Variable Borrower Rate**	**Total**
Student loans eligible to earn Floor Income:						
On-balance sheet student loans	$ 104.9	$ 16.1	$ 121.0	$ 89.3	$ 17.1	$ 106.4
Off-balance sheet student loans	15.0	7.0	22.0	15.9	9.2	25.1
Managed student loans eligible to earn Floor Income	119.9	23.1	143.0	105.2	26.3	131.5
Less: post-March 31, 2006 disbursed loans required to rebate Floor Income	(64.3)	(1.3)	(65.6)	(45.9)	(1.5)	(47.4)
Less: economically hedged Floor Income Contracts	(28.6)		(28.6)	(15.7)	(17.4)	(33.1)
Net Managed student loans eligible to earn Floor Income	$ 27.0	$ 21.8	$ 48.8	$ 43.6	$ 7.4	$ 51.0
Net Managed student loans earning Floor Income as of December 31,	$ 4.3	$ 4.8	$ 9.1	$ 1.3	$ 7.4	$ 8.7

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

The following table presents a projection of the average Managed balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has already been economically hedged through Floor Income Contracts for the period January 1, 2009 to September 30, 2013. These loans are both on and off-balance sheet and the related hedges do not qualify under SFAS No. 133 accounting as effective hedges.

	Years Ended December 31,				
(Dollars in billions)	**2009**	**2010**	**2011**	**2012**	**2013**
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged (Managed Basis)	$ 21	$ 19	$ 16	$ 16	$ 4

Private Education Loan Losses

On-Balance Sheet versus Managed Basis Presentation

All Private Education Loans are initially acquired on-balance sheet. The securitization of Private Education Loans to date has been accounted for off-balance sheet under SFAS No. 140. For our Managed Basis presentation in the table below, when loans are securitized, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then increase the allowance for loan losses for these loans off-balance sheet, with the total of both on-balance sheet and off-balance sheet being the Managed Basis allowance for loan losses.

When Private Education Loans in our securitized trusts settling before September 30, 2005, became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We account for these loans in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. Revenue is recognized over the anticipated remaining life of the loan based upon the amount and timing of anticipated cash flows. Beginning in October 2008, the Company decided to no longer exercise its contingent call option. On a Managed Basis, the losses recorded under GAAP for loans repurchased at day 180 are reversed and the full amount is charged-off at day 212. We do not hold the contingent call option for any trusts settled after September 30, 2005.

When measured as a percentage of ending loans in repayment, the off-balance sheet allowance for loan losses percentage is lower than the on-balance sheet percentage because of the different mix of loans on-balance sheet and off-balance sheet.

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Private Education Loan Delinquencies and Forbearance

The table below presents our Private Education Loan delinquency trends as of December 31, 2008, 2007 and 2006. Delinquencies have the potential to adversely impact earnings as they are an initial indication of the borrower s potential to possibly default and as a result command a higher loan loss reserve than loans in current status. Delinquent loans also require increased servicing and collection efforts, resulting in higher operating costs.

	On-Balance Sheet Private Education Loan Delinquencies					
	December 31, 2008		December 31, 2007		December 31, 2006	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 10,159		$ 8,151		$ 5,218	
Loans in forbearance[2]	862		974		359	
Loans in repayment and percentage of each status:						
Loans current	9,748	87.2%	6,236	88.5%	4,214	86.9%
Loans delinquent 31-60 days[3]	551	4.9	306	4.3	250	5.1
Loans delinquent 61-90 days[3]	296	2.6	176	2.5	132	2.7
Loans delinquent greater than 90 days[3]	587	5.3	329	4.7	255	5.3
Total Private Education Loans in repayment	11,182	100%	7,047	100%	4,851	100%
Total Private Education Loans, gross	22,203		16,172		10,428	
Private Education Loan unamortized discount	(535)		(468)		(365)	
Total Private Education Loans	21,668		15,704		10,063	
Private Education Loan receivable for partially charged-off loans	222		118		64	
Private Education Loan allowance for losses	(1,308)		(1,004)		(372)	
Private Education Loans, net	$ 20,582		$ 14,818		$ 9,755	
Percentage of Private Education Loans in repayment		50.4%		43.6%		46.5%
Delinquencies as a percentage of Private Education Loans in repayment		12.8%		11.5%		13.1%
Loans in forbearance as a percentage of loans in repayment and forbearance		7.2%		12.1%		6.9%

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on 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 established loan program servicing policies and procedures.

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

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	Off-Balance Sheet Private Education Loan Delinquencies					
	December 31, 2008		December 31, 2007		December 31, 2006	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 3,461		$ 4,963		$ 5,608	
Loans in forbearance[2]	700		1,417		822	
Loans in repayment and percentage of each status:						
Loans current	8,843	92.8%	7,403	94.7%	6,419	94.5%
Loans delinquent 31-60 days[3]	315	3.3	202	2.6	222	3.3
Loans delinquent 61-90 days[3]	121	1.3	84	1.1	60	.9
Loans delinquent greater than 90 days[3]	251	2.6	130	1.6	91	1.3
Total Private Education Loans in repayment	9,530	100%	7,819	100%	6,792	100%
Total Private Education Loans, gross	13,691		14,199		13,222	
Private Education Loan unamortized discount	(361)		(355)		(303)	
Total Private Education Loans	13,330		13,844		12,919	
Private Education Loan receivable for partially charged-off loans	92		28			
Private Education Loan allowance for losses	(505)		(362)		(86)	
Private Education Loans, net	$ 12,917		$ 13,510		$ 12,833	
Percentage of Private Education Loans in repayment		69.6%		55.1%		51.4%
Delinquencies as a percentage of Private Education Loans in repayment		7.2%		5.3%		5.5%
Loans in forbearance as a percentage of loans in repayment and forbearance		6.8%		15.3%		10.8%

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on 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 established loan program servicing policies and procedures.

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

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	Managed Basis Private Education Loan Delinquencies					
	December 31, 2008		December 31, 2007		December 31, 2006	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 13,620		$ 13,114		$ 10,826	
Loans in forbearance[2]	1,562		2,391		1,181	
Loans in repayment and percentage of each status:						
Loans current	18,591	89.8%	13,639	91.7%	10,633	91.3%
Loans delinquent 31-60 days[3]	866	4.2	508	3.4	472	4.0
Loans delinquent 61-90 days[3]	417	2.0	260	1.8	192	1.7
Loans delinquent greater than 90 days[3]	838	4.0	459	3.1	346	3.0
Total Private Education Loans in repayment	20,712	100%	14,866	100%	11,643	100%
Total Private Education Loans, gross	35,894		30,371		23,650	
Private Education Loan unamortized discount	(896)		(823)		(668)	
Total Private Education Loans	34,998		29,548		22,982	
Private Education Loan receivable for partially charged-off loans	314		146		64	
Private Education Loan allowance for losses	(1,813)		(1,366)		(458)	
Private Education Loans, net	$ 33,499		$ 28,328		$ 22,588	
Percentage of Private Education Loans in repayment		57.7%		48.9%		49.2%
Delinquencies as a percentage of Private Education Loans in repayment		10.2%		8.3%		8.7%
Loans in forbearance as a percentage of loans in repayment and forbearance		7.0%		13.9%		9.2%

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on 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 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.

Activity in the Allowance for Private Education Loan Losses

As discussed in detail under CRITICAL ACCOUNTING POLICIES AND ESTIMATES, the provisions for student loan losses represent the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, incurred in the portfolio of Private Education Loans.

The Company is changing its methodology used to present charge-offs related to Private Education Loans to more clearly reflect the expected loss. Net income, provision for loan loss expense, the net loan balance, default rate and expected recovery rate assumptions are not impacted by this change. Based on our historic experience, we expect to recover a portion of loans that default. This expected recovery is taken into account in arriving at our periodic provision for loan loss expense. Previously, once a loan has been delinquent for

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212 days, we have charged off 100 percent of the loan balance, even though we had provisioned for the estimated loss of the defaulted loan balance, comprised of the full loan balance less the expected recovery.

The Company is changing its methodology to charge off the estimated loss of the defaulted loan balance to be consistent with the amount included in the provision. Actual recoveries are applied against the remaining loan balance that was not charged off. If actual periodic recoveries are less than originally expected, the difference results in immediate additional provision expense and charge off of such amount.

This revised methodology results in a charge-off equal to the amount provided for through the allowance for loan loss. As a result, the Company believes that this methodology better reflects the actual events occurring. Although there is diversity in practice on how charge-offs are presented, this method is more comparable to other financial institutions in how charge-offs and the related charge-off and allowance ratios are presented. The Company emphasizes that although the presentation improves the various charge-off and allowance ratios, the change does not reflect an improvement in the collectability of the Company s loan portfolio.

As a result of this change, a $314 million receivable on a Managed basis ($222 million for GAAP) as of December 31, 2008, is being reclassified from the allowance for loan loss to the Private Education Loan balance. This amount represents the expected future recoveries related to previously defaulted loans (i.e., the amount not charged off when a loan defaults that has not yet been collected). As of December 31, 2008, the Company assumes it will collect, on average, 27 percent of a defaulted loan s balance over an extended period of time. This recovery assumption is based on historic recovery rates achieved and is updated, as appropriate, on a quarterly basis.

The Company believes this change to be an immaterial correction of previous disclosures. Following are tables depicting the Allowance for Private Education Loan Losses as previously presented and as corrected for this change.

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The following table summarizes changes in the allowance for Private Education Loan losses for the years ended December 31, 2008, 2007 and 2006 as previously reported.

Activity in the Allowance for Private Education Loan Losses Prior Presentation

	Activity in Allowance for Private Education Loans								
	On-Balance Sheet Years Ended December 31,			Off-Balance Sheet Years Ended December 31,			Managed Basis Years Ended December 31,		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
wance at nning of od	$ 886	$ 308	$ 204	$ 334	$ 86	$ 78	$ 1,220	$ 394	$ 28
ision for ate cation Loan s	586	884	258	288	349	15	874	1,233	27
ge-offs	(460)	(332)	(160)	(226)	(107)	(24)	(686)	(439)	(18
overies	36	32	23	9			45	32	2
charge-offs	(424)	(300)	(137)	(217)	(107)	(24)	(641)	(407)	(16
assification terest ve[1]	38			8			46		
nce before ritization of ate cation s	1,086	892	325	413	328	69	1,499	1,220	39
ction for ritization of ate cation s		(6)	(17)		6	17			
wance at of period	$ 1,086	$ 886	$ 308	$ 413	$ 334	$ 86	$ 1,499	$ 1,220	$ 39
charge-offs percentage erage loans payment	4.98%	5.04%	3.22%	2.68%	1.46%	.43%	3.86%	3.07%	1.6
charge-offs percentage erage loans	4.39%	4.54%	2.99%	2.31%	1.27%	.38%	3.37%	2.71%	1.4

payment forbearance wance as a entage of ng total s, gross	4.89%	5.48%	2.96%	3.02%	2.35%	.65%	4.18%	4.02%	1.6
wance as a entage of ng loans in yment	9.71%	12.57%	6.36%	4.34%	4.28%	1.26%	7.24%	8.21%	3.3
rage rage of net ge-offs	2.56	2.95	2.25	1.91	3.13	3.46	2.34	3.00	2.4
ng total s, gross	$ 22,203	$ 16,172	$ 10,428	$ 13,691	$ 14,199	$ 13,222	$ 35,894	$ 30,371	$ 23,65
rage loans payment	$ 8,533	$ 5,949	$ 4,257	$ 8,088	$ 7,305	$ 5,721	$ 16,621	$ 13,254	$ 9,97
ng loans in yment	$ 11,182	$ 7,047	$ 4,851	$ 9,530	$ 7,819	$ 6,792	$ 20,712	$ 14,866	$ 11,64

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the year ended December 31, 2007, this amount was $21 million and $27 million on an On-Balance Sheet Basis and a Managed Basis, respectively, and for the year ended December 31, 2006, this amount was $12 million and $15 million on an On-Balance Sheet Basis and a Managed Basis, respectively.

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The following table provides the detail for our traditional and non-traditional Managed Private Education Loans at December 31, 2008, 2007 and 2006 as previously presented.

	December 31, 2008			December 31, 2007			December 31, 2006		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
nding total ans, gross	$ 30,949	$ 4,945	$ 35,894	$ 25,791	$ 4,580	$ 30,371	$ 20,006	$ 3,644	$ 23,650
nding loans repayment	17,715	2,997	20,712	12,711	2,155	14,866	9,821	1,822	11,643
ivate ducation oan lowance for sses	707	792	1,499	438	782	1,220	179	215	394
et harge-offs as percentage average ans in payment[1]	2.1%	14.3%	3.9%	1.5%	11.9%	3.1%	.6%	7.2%	1.6%
llowance as percentage ending total ans, gross	2.3%	16.0%	4.2%	1.7%	17.1%	4.0%	.9%	5.9%	1.7%
llowance as percentage ending ans in payment	4.0%	26.4%	7.2%	3.5%	36.3%	8.2%	1.8%	11.8%	3.4%
verage overage of et harge-offs[1]	2.4	2.3	2.3	2.6	3.3	3.0	3.3	2.0	2.4
elinquencies a rcentage of ivate ducation oans in payment	7.1%	28.9%	10.2%	5.2%	26.3%	8.3%	5.4%	26.0%	8.7%
elinquencies eater than 0 days as a rcentage of ivate	2.6%	12.7%	4.0%	1.7%	11.1%	3.1%	1.5%	10.6%	3.0%

ducation oans in payment oans in rbearance as percentage loans in payment and rbearance	6.7%	9.0%	7.0%	12.8%	19.4%	13.9%	8.7%	11.9%	9.2%

(1) Full year actuals for the years ended December 31, 2008, 2007 and 2006.

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Activity in the Allowance for Private Education Loan Losses Corrected Presentation

The following table summarizes changes in the allowance for Private Education Loan losses for the years ended December 31, 2008, 2007 and 2006 as corrected and discussed above.

	Activity in Allowance for Private Education Loans								
	On-Balance Sheet Years Ended December 31,			Off-Balance Sheet Years Ended December 31,			Managed Basis Years Ended December 31,		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
wance at nning of od	$ 1,004	$ 372	$ 250	$ 362	$ 86	$ 78	$ 1,366	$ 458	$ 32
ision for ate cation Loan es	586	884	258	288	349	15	874	1,233	27
ge-offs	(320)	(246)	(119)	(153)	(79)	(24)	(473)	(325)	(14
assification terest ve[1]	38			8			46		
nce before ritization of ate cation ns	1,308	1,010	389	505	356	69	1,813	1,366	45
uction for ritization of ate cation ns		(6)	(17)		6	17			
wance at of period	$ 1,308	$ 1,004	$ 372	$ 505	$ 362	$ 86	$ 1,813	$ 1,366	$ 45
ge-offs as a entage of age loans in yment	3.75%	4.14%	2.79%	1.90%	1.09%	.43%	2.85%	2.46%	1.4
ge-offs as a entage of age loans in yment and earance	3.31%	3.72%	2.59%	1.64%	.94%	.38%	2.49%	2.17%	1.3
wance as a entage of	5.83%	6.16%	3.55%	3.66%	2.54%	.66%	5.01%	4.48%	1.9

nding total balance[2]									
wance as a entage of ng loans in yment	11.70%	14.25%	7.68%	5.29%	4.63%	1.26%	8.75%	9.19%	3.9
rage rage of ge-offs	4.08	4.08	3.14	3.29	4.56	3.46	3.83	4.19	3.1
ng total s[2]	$ 22,426	$ 16,290	$ 10,492	$ 13,782	$ 14,227	$ 13,222	$ 36,208	$ 30,517	$ 23,71
rage loans payment	$ 8,533	$ 5,949	$ 4,257	$ 8,088	$ 7,305	$ 5,721	$ 16,621	$ 13,254	$ 9,97
ng loans in yment	$ 11,182	$ 7,047	$ 4,851	$ 9,530	$ 7,819	$ 6,792	$ 20,712	$ 14,866	$ 11,64

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the year ended December 31, 2007, this amount was $21 million and $27 million on an On-Balance Sheet Basis and a Managed Basis, respectively, and for the year ended December 31, 2006, this amount was $12 million and $15 million on an On-Balance Sheet Basis and a Managed Basis, respectively.

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

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The following table provides the detail for our traditional and non-traditional Managed Private Education Loans at December 31, 2008, 2007 and 2006 as corrected and discussed above.

	December 31, 2008			December 31, 2007			December 31, 2006		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
nding total ans[2]	$ 31,101	$ 5,107	$ 36,208	$ 25,848	$ 4,669	$ 30,517	$ 20,037	$ 3,677	$ 23,714
nding loans repayment	17,715	2,997	20,712	12,711	2,155	14,866	9,821	1,822	11,643
ivate ducation oan lowance for sses	859	954	1,813	495	871	1,366	209	249	458
harge-offs as percentage average ans in payment[1]	1.4%	11.1%	2.9%	1.2%	9.5%	2.5%	.6%	6.3%	1.4%
llowance as percentage ending total an balance[2]	2.8%	18.7%	5.0%	1.9%	18.7%	4.5%	1.0%	6.8%	1.9%
llowance as percentage ending ans in payment	4.8%	31.8%	8.8%	3.9%	40.4%	9.2%	2.1%	13.7%	3.9%
verage overage of harge-offs[1]	4.2	3.5	3.8	3.6	4.6	4.2	4.2	2.7	3.2
elinquencies a rcentage of ivate ducation oans in payment	7.1%	28.9%	10.2%	5.2%	26.3%	8.3%	5.4%	26.0%	8.7%
elinquencies eater than 0 days as a rcentage of ivate ducation oans in	2.6%	12.7%	4.0%	1.7%	11.1%	3.1%	1.5%	10.6%	3.0%

payment oans in rbearance as percentage loans in payment and rbearance	6.7%	9.0%	7.0%	12.8%	19.4%	13.9%	8.7%	11.9%	9.2%

(1) Full year actuals for the years ended December 31, 2008, 2007 and 2006.

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

Due to the seasoning of the Managed Private Education Loan portfolio, shifts in its mix, the continued weakening of the U.S. economy, and other operational factors, the Company expected and has seen charge-off rates increase from the historically low levels experienced prior to 2007.

Managed provision expense decreased to $874 million in 2008 from $1.2 billion in 2007. In the fourth quarter of 2007, the Company recorded provision expense of $667 million for the Managed Private Education Loan portfolio. This significant level of provision expense compared to prior and subsequent quarters primarily related 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 Company has terminated these non-traditional loan programs because the performance of these loans was found to be materially different from original expectations. The non-traditional portfolio is particularly impacted by the weakening U.S. economy and an underlying borrower s ability to repay.

Although provision expense decreased from 2007 to 2008, provision expense remained elevated in 2008 due to an increase in delinquencies and charge-offs and the continued weakening of the U.S. economy. Managed delinquencies as a percentage of Private Education Loans in repayment increased from 8.3 percent at December 31, 2007 to 10.2 percent at December 31, 2008. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 13.9 percent at December 31, 2007 to 7.0 percent at December 31, 2008.

Borrowers use the proceeds of Private Education Loans to obtain higher education, which increases the likelihood of obtaining employment at higher income levels than would be available without the additional education. As a result, borrowers repayment capability is expected to improve between the time the loan is made and the time they enter the post-education work force. Consistent with FFELP loans, we generally allow the loan repayment period on higher education Private Education Loans to begin six months after the borrower

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graduates (or grace period). This provides the borrower time after graduation to obtain a job to service the debt. For borrowers that need more time or experience hardships, we offer periods of forbearance similar to that provided to borrowers in the FFELP.

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

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status. As a result, the balance of loans in a forbearance status as of month end has decreased over the course of 2008, while the monthly average amount of loans granted forbearance in the fourth quarter of 2008 was consistent with the year-ago quarter at 6.5 percent of loans in repayment and forbearance. As of December 31, 2008, 3 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current during December. The majority of these borrowers would have previously received a forbearance which resulted in their loan being reflected in the forbearance status at month end, and eventually entering repayment status as current at the end of the forbearance period. These borrowers are now being placed in repayment status earlier than they previously would have been.

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The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, over 70 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 12 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

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

	Status distribution 36 months after being granted forbearance for the first time	Status distribution 36 months after entering repayment (all loans)	Status distribution 36 months after entering repayment for loans never entering forbearance
In-school/grace/deferment	7.9%	8.1%	2.5%
Current	55.9	60.6	66.8
Delinquent 31-60 days	3.1	1.9	.4
Delinquent 61-90 days	1.6	.9	.2
Delinquent greater than 90 days	2.8	1.7	.3
Forbearance	7.1	4.9	
Defaulted	12.0	5.9	4.4
Paid	9.6	16.0	25.4
Total	100%	100%	100%

The tables below show the composition and status of the Managed Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At December 31, 2008, loans in forbearance status as a percentage of loans in repayment and forbearance are 8.9 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 2.1 percent for loans that have been in active repayment status for more than 48 months. Approximately 90 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

	Monthly Scheduled Payments Due			Not Yet in	
December 31, 2008	**0 to 24**	**25 to 48**	**More than 48**	**Repayment**	**Total**
Loans in-school/grace/deferment	$	$	$	$ 13,620	$ 13,620
Loans in forbearance	1,406	106	50		1,562
Loans in repayment current	12,551	3,798	2,242		18,591
Loans in repayment delinquent 31-60 days	728	93	45		866
	351	44	22		417

Loans in repayment 61-90 days	delinquent				
Loans in repayment than 90 days	delinquent greater	691	97	50	838
Total		$ 15,727	$ 4,138	$ 2,409	$ 13,620	35,894
Unamortized discount						(896)
Receivable for partially charged-off loans						314
Allowance for loan losses						(1,813)
Total Managed Private Education Loans, net						$ 33,499
Loans in forbearance as a percentage of loans in repayment and forbearance		8.9%	2.6%	2.1%	%	7.0%

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December 31, 2007	Monthly Scheduled Payments Due 0 to 24	25 to 48	More than 48	Not Yet in Repayment	Total
Loans in-school/grace/deferment	$	$	$	$ 13,114	$ 13,114
Loans in forbearance	2,228	118	45		2,391
Loans in repayment current	9,184	2,807	1,648		13,639
Loans in repayment delinquent 31-60 days	407	64	37		508
Loans in repayment delinquent 61-90 days	221	25	14		260
Loans in repayment delinquent greater than 90 days	376	52	31		459
Total	$ 12,416	$ 3,066	$ 1,775	$ 13,114	30,371
Unamortized discount					(823)
Receivable for partially charged-off loans					146
Allowance for loan losses					(1,366)
Total Managed Private Education Loans, net					$ 28,328
Loans in forbearance as a percentage of loans in repayment and forbearance	17.9%	3.8%	2.5%	%	13.9%

December 31, 2006	Monthly Scheduled Payments Due 0 to 24	25 to 48	More than 48	Not Yet in Repayment	Total
Loans in-school/grace/deferment	$	$	$	$ 10,826	$ 10,826
Loans in forbearance	1,106	50	25		1,181
Loans in repayment current	7,181	2,151	1,301		10,633
Loans in repayment delinquent 31-60 days	366	66	40		472
Loans in repayment delinquent 61-90 days	149	27	16		192
Loans in repayment delinquent greater than 90 days	254	60	32		346
Total	$ 9,056	$ 2,354	$ 1,414	$ 10,826	23,650
Unamortized discount					(668)
Receivable for partially charged-off loans					64
Allowance for loan losses					(458)
Total Managed Private Education Loans, net					$ 22,588

Loans in forbearance as a percentage of loans in repayment and forbearance	12.2%	2.1%	1.8%	%	9.2%

The table below stratifies the portfolio of Managed Private Education Loans in forbearance by the cumulative number of months the borrower has used forbearance as of the dates indicated. As detailed in the table below, 8 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

	December 31, 2008		December 31, 2007		December 31, 2006	
	Forbearance Balance	% of Total	Forbearance Balance	% of Total	Forbearance Balance	% of Total
Cumulative number of months borrower has used forbearance						
Up to 12 months	$ 1,075	69%	$ 1,641	69%	$ 870	74%
13 to 24 months	368	23	629	26	262	22
More than 24 months	119	8	121	5	49	4
Total	$ 1,562	100%	$ 2,391	100%	$ 1,181	100%

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FFELP Loan Losses

FFELP Delinquencies and Forbearance

The tables below present our FFELP loan delinquency trends as of December 31, 2008, 2007 and 2006. Delinquencies have the potential to adversely impact earnings as they are an initial indication of the borrower s potential to possibly default and as a result command a higher loan loss reserve than loans in current status. Delinquent loans also require increased servicing and collection efforts, resulting in higher operating costs.

	On-Balance Sheet FFELP Loan Delinquencies December 31,					
	2008		2007		2006	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 39,270		$ 31,200		$ 23,171	
Loans in forbearance[2]	12,483		10,675		8,325	
Loans in repayment and percentage of each status:						
Loans current	58,811	83.8%	55,128	84.4%	45,664	86.0%
Loans delinquent 31-60 days[3]	4,044	5.8	3,650	5.6	2,787	5.2
Loans delinquent 61-90 days[3]	2,064	2.9	1,841	2.8	1,468	2.8
Loans delinquent greater than 90 days[3]	5,255	7.5	4,671	7.2	3,207	6.0
Total FFELP loans in repayment	70,174	100%	65,290	100%	53,126	100%
Total FFELP loans, gross	121,927		107,165		84,622	
FFELP loan unamortized premium	2,431		2,259		1,563	
Total FFELP loans	124,358		109,424		86,185	
FFELP loan allowance for losses	(138)		(89)		(20)	
FFELP loans, net	$ 124,220		$ 109,335		$ 86,165	
Percentage of FFELP loans in repayment		57.6%		60.9%		62.8%
Delinquencies as a percentage of FFELP loans in repayment		16.2%		15.6%		14.0%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		15.1%		14.1%		13.5%

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

during employment transition or who have temporarily ceased making full payments due to hardship or other factors.

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

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

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Off-Balance Sheet FFELP Loan Delinquencies
December 31,

(Dollars in millions)	2008 Balance	2008 %	2007 Balance	2007 %	2006 Balance	2006 %
Loans in-school/grace/deferment[1]	$ 4,115		$ 5,060		$ 7,392	
Loans in forbearance[2]	2,821		2,950		3,789	
Loans in repayment and percentage of each status:						
Loans current	12,441	81.9%	13,703	79.2%	16,655	77.7%
Loans delinquent 31-60 days[3]	881	5.8	1,017	5.9	1,278	6.0
Loans delinquent 61-90 days[3]	484	3.2	577	3.3	777	3.6
Loans delinquent greater than 90 days[3]	1,392	9.1	1,999	11.6	2,721	12.7
Total FFELP loans in repayment	15,198	100%	17,296	100%	21,431	100%
Total FFELP loans, gross	22,134		25,306		32,612	
FFELP loan unamortized premium	567		636		741	
Total FFELP loans	22,701		25,942		33,353	
FFELP loan allowance for losses	(27)		(29)		(14)	
FFELP loans, net	$ 22,674		$ 25,913		$ 33,339	
Percentage of FFELP loans in repayment		68.7%		68.4%		65.7%
Delinquencies as a percentage of FFELP loans in repayment		18.1%		20.8%		22.3%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		15.7%		14.6%		15.0%

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as, loans for borrowers who have requested extension of grace period during employment transition or who have temporarily ceased making full payments due to hardship or other factors.

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

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

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(Dollars in millions)	Managed Basis FFELP Loan Delinquencies December 31, 2008 Balance	2008 %	2007 Balance	2007 %	2006 Balance	2006 %
Loans in-school/grace/deferment[1]	$ 43,385		$ 36,260		$ 30,563	
Loans in forbearance[2]	15,304		13,625		12,114	
Loans in repayment and percentage of each status:						
Loans current	71,252	83.5%	68,831	83.3%	62,319	83.6%
Loans delinquent 31-60 days[3]	4,925	5.8	4,667	5.7	4,065	5.5
Loans delinquent 61-90 days[3]	2,548	2.9	2,418	2.9	2,245	3.0
Loans delinquent greater than 90 days[3]	6,647	7.8	6,670	8.1	5,928	7.9
Total FFELP loans in repayment	85,372	100%	82,586	100%	74,557	100%
Total FFELP loans, gross	144,061		132,471		117,234	
FFELP loan unamortized premium	2,998		2,895		2,304	
Total FFELP loans	147,059		135,366		119,538	
FFELP loan allowance for losses	(165)		(118)		(34)	
FFELP loans, net	$ 146,894		$ 135,248		$ 119,504	
Percentage of FFELP loans in repayment		59.3%		62.3%		63.6%
Delinquencies as a percentage of FFELP loans in repayment		16.5%		16.7%		16.4%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		15.2%		14.2%		14.0%

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as, loans for borrowers who have requested extension of grace period during employment transition or who have temporarily ceased making full payments due to hardship or other factors.

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

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

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Activity in the Allowance for FFELP Loan Losses

The provision for student loan losses represents the periodic expense of maintaining an allowance sufficient to absorb incurred Risk Sharing losses, in the portfolio of FFELP loans.

The following table summarizes changes in the allowance for FFELP loan losses for the years ended December 31, 2008, 2007 and 2006.

	Activity in Allowance for FFELP Loans								
	On-Balance Sheet Years Ended December 31,			Off-Balance Sheet Years Ended December 31,			Managed Basis Years Ended December 31,		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
ance at ing of	$ 89	$ 20	$ 14	$ 29	$ 14	$ 11	$ 118	$ 34	$
ion for P Loan	106	89	14	21	32	3	127	121	
e-offs	(58)	(21)	(5)	(21)	(15)	(3)	(79)	(36)	
t loan nd ization y	1	1	(3)	(2)	(2)	3	(1)	(1)	
ance at period	$ 138	$ 89	$ 20	$ 27	$ 29	$ 14	$ 165	$ 118	$
e-offs									
tage of e loans yment e-offs	.09%	.04%	.01%	.13%	.08%	.01%	.10%	.05%	
tage of e loans yment									
rance ance as entage ending oans,	.07%	.03%	.01%	.11%	.07%	.01%	.08%	.04%	
ance as entage	.11%	.08%	.02%	.12%	.11%	.04%	.11%	.09%	
	.20%	.14%	.04%	.18%	.17%	.06%	.19%	.14%	

ng									
n									
nent									
ge									
ge of									
-offs	2.39	4.18	4.03	1.27	1.90	4.73	2.09	3.23	4
g total									
gross	$ 121,927	$ 107,165	$ 84,622	$ 22,134	$ 25,306	$ 32,612	$ 144,061	$ 132,471	$ 117,
ge									
n									
nent	$ 66,392	$ 58,999	$ 47,155	$ 16,086	$ 18,624	$ 21,630	$ 82,478	$ 77,623	$ 68,
g loans									
yment	$ 70,174	$ 65,290	$ 53,126	$ 15,198	$ 17,296	$ 21,431	$ 85,372	$ 82,586	$ 74,

Total Provisions for Loan Losses

The following tables summarize the total loan provisions on both an on-balance sheet and on a Managed Basis for the years ended December 31, 2008, 2007 and 2006.

Total on-balance sheet loan provisions

	Years Ended December 31,		
	2008	**2007**	**2006**
Private Education Loans	$ 586	$ 884	$ 258
FFELP Loans	106	89	14
Mortgage and consumer loans	28	42	15
Total on-balance sheet provisions for loan losses	$ 720	$ 1,015	$ 287

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Total Managed Basis loan provisions

	Years Ended December 31,		
	2008	2007	2006
Private Education Loans	$ 874	$ 1,233	$ 273
FFELP Loans	127	121	17
Mortgage and consumer loans	28	40	13
Total Managed Basis provisions for loan losses	$ 1,029	$ 1,394	$ 303

Provision expense for Private Education Loans was previously discussed above (see *Activity in the Allowance for Private Education Loan Losses*).

The 2008 provision for FFELP loans is up slightly over the prior year, but up significantly from 2006. The increase in provision over 2006 related primarily to legislative changes (the change to a lower rate of insurance on loans disbursed after June 30, 2006 and the repeal of the Exceptional Performer program in 2007) which increased our Risk Sharing percentage on the portfolio. Additionally, growth in the repayment portion of the portfolio and a rise in delinquencies and charge-offs led to an increase in future default expectations.

The increase in provision related to mortgage and consumer loans for the years ended December 31, 2008 and 2007 compared to the year ended December 31, 2006, primarily related to a weakening U.S. economy and the deterioration of certain real estate markets related to our mortgage portfolio. As of December 31, 2008, our mortgage portfolio totaled $242 million.

Total Loan Charge-offs Corrected Presentation

The following tables summarize the charge-offs for all loan types on-balance sheet and on a Managed Basis for the years ended December 31, 2008, 2007 and 2006, as corrected, for Private Education Loans.

Total on-balance sheet loan charge-offs Corrected Presentation

	Years Ended December 31,		
	2008	2007	2006
Private Education Loans	$ 320	$ 246	$ 119
FFELP Loans	58	21	5
Mortgage and consumer loans	17	11	5
Total on-balance sheet loan charge-offs	$ 395	$ 278	$ 129

Total Managed Basis loan charge-offs Corrected Presentation

	Years Ended December 31,		
	2008	2007	2006
Private Education Loans	$ 473	$ 325	$ 143
FFELP Loans	79	36	8
Mortgage and consumer loans	17	11	5
Total Managed loan charge-offs	$ 569	$ 372	$ 156

The increase in charge-offs on FFELP loans from 2006 through 2008 was primarily the result of legislative changes occurring in 2006 (the reduction in the federal guaranty on new loans to 97 percent) and 2007 (the repeal of the Exceptional Performer designation, under which claims were paid at 99 percent). The majority of our FFELP loans now possess a federal guaranty level on claims filed to either 97 percent or

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98 percent depending on date of disbursement. The increase in charge-offs is also due to the continued weakening of the U.S. economy. See Private Education Loan Losses *Activity in the Allowance for Private Education Loan Losses* above for a discussion of net charge-offs related to our Private Education Loans.

Student Loan Premiums as a Percentage of Principal

The following table presents student loan premiums paid as a percentage of the principal balance of student loans acquired for the respective periods.

	Years Ended December 31,					
	2008		2007		2006	
	Volume	Rate	Volume	Rate	Volume	Rate
Student loan premiums paid:						
Internal lending brands FFELP	$ 13,272	1.69%	$ 8,544	2.67%	$ 6,339	1.81%
Internal lending brands Private	5,749		7,193		5,932	.01
Lender Partners FFELP	6,622	3.00	9,033	3.14	10,059	2.29
Lender Partners Private	688		695	.02	1,679	.01
Total	26,331	1.61	25,465	2.01	24,009	1.44
Other purchases[1]	907	1.26	8,473	4.16	6,228	4.39
Subtotal base purchases	27,238	1.59	33,938	2.54	30,237	2.05
Consolidation originations	611	1.98	2,441	2.72	4,188	2.54
Total	$ 27,849	1.60%	$ 36,379	2.56%	$ 34,425	2.11%

(1) Primarily includes spot purchases (including Wholesale Consolidation Loans for the year ended December 31, 2007), other commitment clients, and subsidiary acquisitions.

Premiums paid as a percentage of principal balance for both internal lending brands and lender partner volume can be impacted by Front-End Borrower Benefits where we pay the origination fee and/or federal guaranty fee on behalf of borrowers. Historically, this offered benefit had the impact of increasing the effective premium rate on the loan volume over time as this benefit was offered to a larger segment of our loan originations. During the first half of 2008, the Company suspended participation in the federal consolidation loan program and also discontinued subsidizing on behalf of borrowers the federally mandated Stafford loan origination fee for loans guaranteed after May 2, 2008. As a result, we expect and have seen our premiums decline on this volume in 2008. Declines in lender partner premiums will lag those of internal lending brands since acquisitions of lender partner volume may relate to loans originated in prior periods when the Front-End Borrower Benefits were still being offered.

Included in consolidation originations is the 0.5 percent FFELP Consolidation Loan origination fee paid on the total balance of new FFELP Consolidation Loans made prior to October 1, 2007 (and 1.0 percent for FFELP Consolidation Loans made after October 1, 2007), including internally consolidated loans from our existing portfolio. The consolidation originations premium paid percentage is calculated on only consolidation volume that is incremental to our portfolio. This percentage is largely driven by the mix of internal consolidations. As previously discussed, the Company suspended participation in the federal consolidation loan program in April 2008.

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Student Loan Acquisitions

The following tables summarize the components of our student loan acquisition activity for the years ended December 31, 2008, 2007 and 2006.

	Year Ended December 31, 2008		
	FFELP	Private	Total
Internal lending brands and Lender Partners	$ 19,894	$ 6,437	$ 26,331
Other commitment clients	701		701
Spot purchases	206		206
Consolidations from third parties	462	149	611
Consolidations and clean-up calls of off-balance sheet securitized loans	986	280	1,266
Capitalized interest, premiums and discounts	2,446	921	3,367
Total on-balance sheet student loan acquisitions	24,695	7,787	32,482
Consolidations and clean-up calls of off-balance sheet securitized loans	(986)	(280)	(1,266)
Capitalized interest, premiums and discounts off-balance sheet securitized loans	457	741	1,198
Total Managed student loan acquisitions	$ 24,166	$ 8,248	$ 32,414

	Year Ended December 31, 2007		
	FFELP	Private	Total
Internal lending brands and Lender Partners	$ 17,577	$ 7,888	$ 25,465
Wholesale Consolidations	7,048		7,048
Other commitment clients	248	57	305
Spot purchases	1,120		1,120
Consolidations from third parties	2,206	235	2,441
Consolidations and clean-up calls of off-balance sheet securitized loans	3,744	582	4,326
Capitalized interest, premiums and discounts	2,279	444	2,723
Total on-balance sheet student loan acquisitions	34,222	9,206	43,428
Consolidations and clean-up calls of off-balance sheet securitized loans	(3,744)	(582)	(4,326)
Capitalized interest, premiums and discounts off-balance sheet securitized loans	539	703	1,242
Total Managed student loan acquisitions	$ 31,017	$ 9,327	$ 40,344

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	Year Ended December 31, 2006		
	FFELP	Private	Total
Internal lending brands and Lender Partners	$ 16,398	$ 7,611	$ 24,009
Other commitment clients	457	61	518
Spot purchases	5,710		5,710
Consolidations from third parties	4,092	96	4,188
Consolidations and clean-up calls of off-balance sheet securitized loans	7,141	255	7,396
Capitalized interest, premiums and discounts	1,716	146	1,862
Total on-balance sheet student loan acquisitions	35,514	8,169	43,683
Consolidations and clean-up calls of off-balance sheet securitized loans	(7,141)	(255)	(7,396)
Capitalized interest, premiums and discounts off-balance sheet securitized loans	658	472	1,130
Total Managed student loan acquisitions	$ 29,031	$ 8,386	$ 37,417

As shown in the above tables, off-balance sheet FFELP Stafford loans that consolidate with us become an on-balance sheet interest earning asset. This activity results in impairments of our Retained Interests in securitizations, but this is offset by an increase in on-balance sheet interest earning assets, for which we do not record an offsetting gain.

The following table includes on-balance sheet asset information for our Lending business segment.

	December 31,		
	2008	2007	2006
FFELP Stafford and Other Student Loans, net	$ 44,025	$ 35,726	$ 24,841
FFELP Stafford Loans Held-for-Sale	8,451		
FFELP Consolidation Loans, net	71,744	73,609	61,324
Managed Private Education Loans, net	20,582	14,818	9,755
Other loans, net	729	1,174	1,309
Investments[1]	8,445	14,870	8,175
Retained Interest in off-balance sheet securitized loans	2,200	3,044	3,341
Other[2]	9,947	8,953	4,859
Total assets	$ 166,123	$ 152,194	$ 113,604

(1) Investments include cash and cash equivalents, short and long-term investments, restricted cash and investments, leveraged leases, and municipal bonds.

(2) Other assets include accrued interest receivable, goodwill and acquired intangible assets and other non-interest earning assets.

Loan Originations

The Company originates loans under its own brand names, which we refer to as internal lending brands, and also through Lender Partners under forward contracts to purchase loans at contractual prices. In the past, we referred to these combined channels as Preferred Channel Originations. As discussed at the beginning of this LENDING BUSINESS SEGMENT, legislative changes and credit market conditions have resulted in other FFELP lenders reducing their participation in the FFELP program.

As a result of the impacts described above, our FFELP internal brand originations were up sharply in 2008, increasing 48 percent from the prior year. Our FFELP lender partner originations declined 49 percent from 2007 to 2008. A number of these Lender Partners, including some of our largest originators representing

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approximately 49 percent of the decline in Lender Partner originations from the year ended December 31, 2007 have converted to third-party servicing arrangements in which we service loans on behalf of these parties.

Consistent with our announcement in the first quarter that we were tightening our private credit lending standards and ceasing non-traditional lending, Private Education Loan originations declined 20 percent to $6.3 billion in the year ended December 31, 2008.

At December 31, 2008, the Company was committed to purchase $2.3 billion of loans originated by our lender partners ($1.6 billion of FFELP loans and $.7 billion of Private Education Loans). Approximately $.8 billion of these FFELP loans were originated prior to CCRAA. Approximately $.5 billion of these FFELP loans are eligible for ED s Purchase and Participation Programs (see LIQUIDITY AND CAPITAL RESOURCES ED Funding Programs).

The following tables summarize our loan originations by type of loan and source.

	Years Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Loan Originations Internal lending brands			
Stafford	$ 11,593	$ 7,404	$ 5,398
PLUS	1,437	1,439	1,349
GradPLUS	801	498	192
Total FFELP	13,831	9,341	6,939
Private Education Loans	5,791	7,267	6,129
Total	$ 19,622	$ 16,608	$ 13,068

	Years Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Loan Originations Lender Partners			
Stafford	$ 3,652	$ 6,963	$ 7,786
PLUS	362	855	1,191
GradPLUS	62	103	54
Total FFELP	4,076	7,921	9,031
Private Education Loans	545	648	1,282
Total	$ 4,621	$ 8,569	$ 10,313

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Student Loan Activity

The following tables summarize the activity in our on-balance sheet, off-balance sheet and Managed portfolios of FFELP student loans and Private Education Loans and highlight the effects of FFELP Consolidation Loan activity on our FFELP portfolios.

	On-Balance Sheet Year Ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 35,726	$ 73,609	$ 109,335	$ 14,818	$ 124,153
Net consolidations:					
Incremental consolidations from third parties		462	462	149	611
Consolidations to third parties	(703)	(392)	(1,095)	(41)	(1,136)
Net consolidations	(703)	70	(633)	108	(525)
Acquisitions	21,889	1,358	23,247	7,357	30,604
Net acquisitions	21,186	1,428	22,614	7,465	30,079
Internal consolidations[2]	(409)	529	120	228	348
Off-balance sheet securitizations					
Repayments/claims/resales/other	(4,027)	(3,822)	(7,849)	(1,929)	(9,778)
Ending balance	$ 52,476	$ 71,744	$ 124,220	$ 20,582	$ 144,802

	Off-Balance Sheet Year Ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 9,472	$ 16,441	$ 25,913	$ 13,510	$ 39,423
Net consolidations:					
Incremental consolidations from third parties					
Consolidations to third parties	(311)	(83)	(394)	(57)	(451)
Net consolidations	(311)	(83)	(394)	(57)	(451)
Acquisitions	246	211	457	742	1,199

Net acquisitions	(65)	128	63	685	748
Internal consolidations[2]	(84)	(36)	(120)	(228)	(348)
Off-balance sheet securitizations					
Repayments/claims/resales/other	(2,180)	(1,002)	(3,182)	(1,050)	(4,232)
Ending balance	$ 7,143	$ 15,531	$ 22,674	$ 12,917	$ 35,591

	Managed Portfolio Year Ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$ 45,198	$ 90,050	$ 135,248	$ 28,328	$ 163,576
Net consolidations:					
Incremental consolidations from third parties		462	462	149	611
Consolidations to third parties	(1,014)	(475)	(1,489)	(98)	(1,587)
Net consolidations	(1,014)	(13)	(1,027)	51	(976)
Acquisitions	22,135	1,569	23,704	8,099	31,803
Net acquisitions	21,121	1,556	22,677	8,150	30,827
Internal consolidations[2]	(493)	493			
Off-balance sheet securitizations					
Repayments/claims/resales/other	(6,207)	(4,824)	(11,031)	(2,979)	(14,010)
Ending balance[3]	$ 59,619	$ 87,275	$ 146,894	$ 33,499	$ 180,393
Total Managed Acquisitions[4]	$ 22,135	$ 2,031	$ 24,166	$ 8,248	$ 32,414

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) As of December 31, 2008, the ending balance includes $13.7 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

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	On-Balance Sheet Year Ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 24,841	$ 61,324	$ 86,165	$ 9,755	$ 95,920
Net consolidations:					
Incremental consolidations from third parties		2,206	2,206	235	2,441
Consolidations to third parties	(2,352)	(801)	(3,153)	(45)	(3,198)
Net consolidations	(2,352)	1,405	(947)	190	(757)
Acquisitions	19,835	8,437	28,272	8,388	36,660
Net acquisitions	17,483	9,842	27,325	8,578	35,903
Internal consolidations	(4,413)	6,652	2,239	536	2,775
Off-balance sheet securitizations				(1,871)	(1,871)
Repayments/claims/resales/other	(2,185)	(4,209)	(6,394)	(2,180)	(8,574)
Ending balance	$ 35,726	$ 73,609	$ 109,335	$ 14,818	$ 124,153

	Off-Balance Sheet Year Ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 15,028	$ 18,311	$ 33,339	$ 12,833	$ 46,172
Net consolidations:					
Incremental consolidations from third parties					
Consolidations to third parties	(933)	(207)	(1,140)	(93)	(1,233)
Net consolidations	(933)	(207)	(1,140)	(93)	(1,233)
Acquisitions	330	209	539	704	1,243
Net acquisitions	(603)	2	(601)	611	10
Internal consolidations[2]	(1,494)	(745)	(2,239)	(536)	(2,775)
Off-balance sheet securitizations				1,871	1,871
Repayments/claims/resales/other	(3,459)	(1,127)	(4,586)	(1,269)	(5,855)

Ending balance	$ 9,472	$ 16,441	$ 25,913	$ 13,510	$ 39,423

	Managed Portfolio Year Ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$ 39,869	$ 79,635	$ 119,504	$ 22,588	$ 142,092
Net consolidations:					
Incremental consolidations from third parties		2,206	2,206	235	2,441
Consolidations to third parties	(3,285)	(1,008)	(4,293)	(138)	(4,431)
Net consolidations	(3,285)	1,198	(2,087)	97	(1,990)
Acquisitions	20,165	8,646	28,811	9,092	37,903
Net acquisitions	16,880	9,844	26,724	9,189	35,913
Internal consolidations[2]	(5,907)	5,907			
Off-balance sheet securitizations					
Repayments/claims/resales/other	(5,644)	(5,336)	(10,980)	(3,449)	(14,429)
Ending balance[3]	$ 45,198	$ 90,050	$ 135,248	$ 28,328	$ 163,576
Total Managed Acquisitions[4]	$ 20,165	$ 10,852	$ 31,017	$ 9,327	$ 40,344

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) As of December 31, 2007, the ending balance includes $1.3 billion of FFELP Stafford and Other Loans and $1.4 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

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	On-Balance Sheet Year Ended December 31, 2006				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 19,988	$ 54,859	$ 74,847	$ 7,757	$ 82,604
Net consolidations:					
Incremental consolidations from third parties		4,092	4,092	96	4,188
Consolidations to third parties	(2,201)	(2,078)	(4,279)	(14)	(4,293)
Net consolidations	(2,201)	2,014	(187)	82	(105)
Acquisitions	19,585	4,697	24,282	7,818	32,100
Net acquisitions	17,384	6,711	24,095	7,900	31,995
Internal consolidations	(5,973)	11,931	5,958	254	6,212
Off-balance sheet securitizations	(5,034)	(9,638)	(14,672)	(4,737)	(19,409)
Repayments/claims/resales/other	(1,524)	(2,539)	(4,063)	(1,419)	(5,482)
Ending balance	$ 24,841	$ 61,324	$ 86,165	$ 9,755	$ 95,920

	Off-Balance Sheet Year Ended December 31, 2006				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 20,670	$ 10,575	$ 31,245	$ 8,680	$ 39,925
Net consolidations:					
Incremental consolidations from third parties					
Consolidations to third parties	(2,258)	(672)	(2,930)	(32)	(2,962)
Net consolidations	(2,258)	(672)	(2,930)	(32)	(2,962)
Acquisitions	424	233	657	472	1,129
Net acquisitions	(1,834)	(439)	(2,273)	440	(1,833)
Internal consolidations[2]	(5,366)	(592)	(5,958)	(254)	(6,212)
Off-balance sheet securitizations	5,034	9,638	14,672	4,737	19,409
Repayments/claims/resales/other	(3,476)	(871)	(4,347)	(770)	(5,117)

Ending balance	$ 15,028	$ 18,311	$ 33,339	$ 12,833	$ 46,172

	Managed Portfolio Year Ended December 31, 2006				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$ 40,658	$ 65,434	$ 106,092	$ 16,437	$ 122,529
Net consolidations:					
Incremental consolidations from third parties		4,092	4,092	96	4,188
Consolidations to third parties	(4,459)	(2,750)	(7,209)	(46)	(7,255)
Net consolidations	(4,459)	1,342	(3,117)	50	(3,067)
Acquisitions	20,009	4,930	24,939	8,290	33,229
Net acquisitions	15,550	6,272	21,822	8,340	30,162
Internal consolidations[2]	(11,339)	11,339			
Off-balance sheet securitizations					
Repayments/claims/resales/other	(5,000)	(3,410)	(8,410)	(2,189)	(10,599)
Ending balance	$ 39,869	$ 79,635	$ 119,504	$ 22,588	$ 142,092
Total Managed Acquisitions[3]	$ 20,009	$ 9,022	$ 29,031	$ 8,386	$ 37,417

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents FFELP/Stafford loans that we either own on-balance sheet or in our off-balance sheet securitization trusts that we consolidate.

(3) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

The significant amount of consolidations to third parties in 2006 reflects FFELP lenders reconsolidating FFELP Consolidation Loans using the FDLP as a pass-through entity, a practice which was severely restricted by The Higher Education Reconciliation Act of 2005 as of July 1, 2006. Additionally, the increases in 2006

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and 2007 also reflect the effect of the repeal of the single-holder rule, which was effective for applications received on or after June 15, 2006. The single-holder rule had previously required that when a lender held all of the FFELP Stafford loans of a particular borrower whose loans were held by a single lender, in most cases that borrower could only obtain a FFELP Consolidation Loan from that lender.

During 2006, Private Education Loan consolidations were introduced as a separate product line. We expect this product line to grow in the future and will aggressively protect our portfolio against third-party consolidation of Private Education Loans.

Other Income Lending Business Segment

The following table summarizes the components of other income, net, for our Lending business segment for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	**2007**	**2006**
Late fees and forbearance fees	$ 143	$ 134	$ 119
Gains on sales of mortgages and other loan fees	3	11	15
Gains (losses) on sales of student loans	(51)	24	2
Other	85	25	41
Total other income, net	$ 180	$ 194	$ 177

The Company periodically sells student loans. The timing and amount of loan sales impacts the amount of recognized gains on sales of student loans. The $51 million loss in 2008 primarily relates to the sale of approximately $1.0 billion of FFELP loans sold to ED under ECASLA. (See LIQUIDITY AND CAPITAL RESOURCES ED Funding Programs for further discussion.)

The increase in other income of $60 million from 2007 to 2008 primarily related to approximately $68 million of gains recognized on the Company s repurchase of a portion of its unsecured debt with short-term maturities.

Operating Expenses Lending Business Segment

The following table summarizes the components of operating expenses for our Lending business segment for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	**2007**	**2006**
Sales and originations	$ 241	$ 351	$ 327
Servicing	237	227	201
Corporate overhead	111	112	117

Total operating expenses	$ 589	$ 690	$ 645

Operating expenses for our Lending business segment include costs incurred to service our Managed student loan portfolio and acquire student loans, as well as other general and administrative expenses.

2008 versus 2007

Operating expenses for the year ended December 31, 2008, decreased by 15 percent from the prior year. The decrease is primarily due to the impact of our cost reduction initiatives and to the suspension of certain student loan programs.

2007 versus 2006

Operating expenses for the year ended December 31, 2007, increased by 7 percent over the prior year. The increase is primarily due to increased consolidation and higher education sales and marketing expenses, Private Education Loan collection costs, and severance-related expenses.

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ASSET PERFORMANCE GROUP (APG) BUSINESS SEGMENT

In our APG business segment, we provide 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 as well as sub-performing and non-performing mortgage loans. In the purchased receivables business, we focus on a variety of consumer debt types with emphasis on charged off credit card receivables and distressed mortgage receivables. We purchase these portfolios at a discount to their face value, and then use both our internal collection operations coupled with third-party collection agencies to maximize the recovery on these receivables.

An overview of this segment and recent developments that have significantly impacted this segment are included in the Item 1. Business section of this document. The private sector collections industry is highly fragmented with few large public companies and a large number of small scale privately-held companies. The collections industry is highly competitive. We are responding to these competitive challenges through enhanced servicing efficiencies and by continuing to build on customer relationships through value added services and financings.

Condensed Statements of Income

The following tables include Core Earnings results of operations for our APG business segment.

	Year Ended December 31, 2008			
	Purchased Paper Non-Mortgage	Purchased Paper Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 10	$	$ 330	$ 340
Collections revenue (loss)	129	(192)		(63)
Total income (loss)	139	(192)	330	277
Restructuring expenses	6	1	5	12
Operating expenses	193	38	167	398
Total expenses	199	39	172	410
Net interest expense	13	4	8	25
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(73)	(235)	150	(158)
Income tax expense (benefit)	(26)	(83)	53	(56)
Income (loss) before minority interest in net earnings of subsidiaries	(47)	(152)	97	(102)
Minority interest in net earnings of subsidiaries	4			4
Core Earnings net income (loss)	$ (51)	$ (152)	$ 97	$ (106)

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	Year Ended December 31, 2007			
	Purchased Paper Non-Mortgage	Purchased Paper Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 9	$	$ 327	$ 336
Collections revenue	217	52		269
Total income	226	52	327	605
Restructuring expenses	1		1	2
Operating expenses	164	28	196	388
Total expenses	165	28	197	390
Net interest expense	13	5	9	27
Income before income taxes and minority interest in net earnings of subsidiaries	48	19	121	188
Income tax expense	18	7	45	70
Income before minority interest in net earnings of subsidiaries	30	12	76	118
Minority interest in net earnings of subsidiaries	2			2
Core Earnings net income	$ 28	$ 12	$ 76	$ 116

	Year Ended December 31, 2006			
	Purchased Paper Non-Mortgage	Purchased Paper Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 24	$	$ 373	$ 397
Collections revenue	199	40		239
Total income	223	40	373	636
Restructuring expenses				
Operating expenses	145	19	194	358
Total expenses	145	19	194	358
Net interest expense	10	4	9	23
Income before income taxes and minority interest in net earnings of subsidiaries	68	17	170	255

Income tax expense	25	6	63	94
Income before minority interest in net earnings of subsidiaries	43	11	107	161
Minority interest in net earnings of subsidiaries	4			4
Core Earnings net income	$ 39	$ 11	$ 107	$ 157

Collections Revenue

The Company has concluded that its APG purchased paper businesses no longer produce a mutual strategic fit. The Company finalized the sale of its international Purchased Paper Non-Mortgage business in the first quarter of 2009. At December 31, 2008, the net assets of this business were classified as held-for-sale. Accordingly, in 2008, the Company wrote down the net assets to their estimated fair value and recognized a $51 million loss on the sale of this business in 2008.

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The Company continues to wind down the domestic side of its Purchased Paper Non-Mortgage and Purchased Paper Mortgage/Properties businesses. The Company will continue to consider opportunities to sell these businesses at acceptable prices in the future.

The Company s domestic Purchased Paper Non-Mortgage business has certain forward purchase obligations under which the Company is committed to buy purchased paper from January 2009 through April 2009 at a purchase price of approximately $28 million. The Company will not buy any additional purchased paper in excess of these obligations. Due to the continued weakening of the U.S. economy, the Company lowered its assumed collection rates it expects to achieve related to this portfolio in the third quarter of 2008. This assumption change resulted in impairments of $55 million in 2008 versus $17 million in 2007.

The Company s Purchased Paper Mortgage/Properties business will not purchase any new mortgage/property assets and will work-out and liquidate its portfolio as quickly and economically as possible. In 2008, real estate values declined significantly as a result of the weakening U.S. economy and expected future resolution time-frames were extended, resulting in impairments of $262 million in 2008 versus $4 million in 2007.

Contingency Fee Income

The contingency fee income for the year ended December 31, 2008 was relatively unchanged compared to 2007. The $61 million decrease in contingency fee income for the year ended December 31, 2007 versus 2006 was primarily due to a 2006 legislative change that reduced fees paid for collections via loan consolidation and direct cash collections. In addition, the 2006 legislation changed the policy governing rehabilitated loans by reducing the number of consecutive payments to qualify for a loan rehabilitation from twelve months to nine months. This accelerated process added approximately $36 million of incremental revenue in 2006. To a lesser extent, 2007 was negatively impacted by lower performance in default prevention.

Purchased Paper Non-Mortgage

	Years Ended December 31,		
	2008	**2007**	**2006**
Face value of purchases for the period	$ 5,353	$ 6,111	$ 3,438
Purchase price for the period	483	556	278
% of face value purchased	9.0%	9.1%	8.1%
Gross cash collections (GCC)	$ 655	$ 463	$ 348
Collections revenue	129	217	199
Collections revenue as a % of GCC	20%	47%	56%
Carrying value of purchased paper	$ 544	$ 587	$ 274

The decrease in collections revenue as a percentage of gross cash collections (GCC) in 2008 compared to 2007 and 2006 was primarily due to the significant impairment recognized in 2008.

Purchased Paper Mortgage/Properties

	Years Ended December 31,

	2008	2007	2006
Face value of purchases for the period	$ 39	$ 1,307	$ 556
Collections revenue, net of impairments	(192)	52	40
Collateral value of purchases	29	1,171	607
Purchase price for the period	19	855	462
Purchase price as a % of collateral value	66%	73%	76%
Carrying value of purchases	$ 675	$ 1,162	$ 518
Carrying value of purchased paper as a % of collateral value	69%	77%	75%

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The carrying value of purchased paper (the basis we carry on our balance sheet) as a percentage of collateral fair value has decreased in 2008 as a result of the significant impairment recognized during the year.

Contingency Inventory

The following table presents the outstanding inventory of receivables serviced through our APG business segment. These assets are not on our balance sheet.

	Years Ended December 31,		
	2008	**2007**	**2006**
Contingency:			
Student loans	$ 9,852	$ 8,195	$ 6,971
Other	1,726	1,509	1,667
Total	$ 11,578	$ 9,704	$ 8,638

Operating Expenses APG Business Segment

For the years ended December 31, 2008, 2007 and 2006, operating expenses for the APG contingency and other businesses totaled $167 million, $196 million and $194 million, respectively. The decrease in operating expenses in 2008 versus prior years is primarily due to the Company s cost reduction initiatives.

For the years ended December 31, 2008, 2007 and 2006, operating expenses for the APG purchased paper businesses totaled $231 million, $192 million and $164 million, respectively. The increase over the prior year is primarily due to higher collection costs.

At December 31, 2008, 2007 and 2006, the APG business segment had total assets of $2.0 billion, $2.6 billion and $1.5 billion, respectively.

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CORPORATE AND OTHER BUSINESS SEGMENT

Our Corporate and Other reportable segment reflects the aggregate activity of our smaller operating units including our Guarantor Servicing and Loan Servicing operating units, Upromise (acquired in August 2006), other products and services, as well as corporate expenses that do not pertain directly to our operating segments.

In our Guarantor Servicing operating unit, we provide a full complement of administrative services to FFELP guarantors, including guarantee issuance, processing, account maintenance and guarantee fulfillment. In our Loan Servicing operating unit, we originate and service student loans on behalf of lenders who are unrelated to SLM Corporation. In our Upromise operating unit, we provide 529 college-savings plan program management, transfer and servicing agent, and administration services and operate a consumer savings network.

Condensed Statements of Income

The following tables include Core Earnings results of operations for our Corporate and Other business segment.

	Years Ended December 31,			% Increase (Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Net interest income (loss) after provisions for losses	$ 6	$ (1)	$ (5)	700%	80%
Guarantor servicing fees	121	156	132	(22)	18
Loan servicing fees	26	23	29	13	(21)
Upromise	108	110	42	(2)	162
Other	65	85	84	(24)	1
Total fee and other income	320	374	287	(14)	30
Restructuring expenses	23	2		1,050	100
Operating expenses	277	339	250	(18)	36
Total expenses	300	341	250	(12)	36
Income before income taxes	26	32	32	(19)	
Income tax expense	9	12	12	(25)	
Core Earnings net income	$ 17	$ 20	$ 20	(15)%	%

USA Funds, the nation s largest guarantee agency, accounted for 85 percent, 86 percent and 83 percent, respectively, of guarantor servicing fees and 11 percent, 16 percent and 25 percent, respectively, of revenues associated with other products and services for the years ended December 31, 2008, 2007 and 2006.

2008 versus 2007

The decrease in guarantor servicing fees from 2007 to 2008 was primarily due to the recognition of $15 million in the fourth quarter of 2007 of previously deferred guarantee account maintenance fee revenue related to a negotiated

settlement with USA Funds as discussed further below, as well as to a decrease in the account maintenance fees earned in 2008 due to the legislative changes effective October 1, 2007 as a result of CCRAA.

2007 versus 2006

The increase in guarantor servicing fees from 2006 to 2007 was primarily due to the recognition of $15 million of previously deferred guarantee account maintenance fee revenue related to a negotiated settlement with USA Funds in the second quarter of 2006. The negotiated settlement with USA Funds would have resulted in the Company having to return the $15 million to USA Funds, if certain events occurred prior

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to December 31, 2007. These events did not occur prior to December 31, 2007, as stipulated in the negotiated settlement. As a result, all such contingencies were removed, resulting in the recognition of this deferred revenue in 2007. This amount is non-recurring in nature.

The increase in fees from Upromise for the year ended December 31, 2007 versus the year-ago period was primarily due to 2007 having a full year of fees from Upromise, which was acquired in August 2006.

Operating Expenses Corporate and Other Business Segment

The following table summarizes the components of operating expenses for our Corporate and Other business segment.

	Years Ended December 31,		
	2008	**2007**	**2006**
Operating expenses	$ 90	$ 109	$ 148
Upromise	91	94	33
General and administrative expenses	96	136	69
Total	$ 277	$ 339	$ 250

Operating expenses for our Corporate and Other business segment include direct costs incurred to service loans for unrelated third parties, perform guarantor servicing on behalf of guarantor agencies, and operate our Upromise subsidiary, as well as information technology expenses related to these functions. Operating expenses also include unallocated corporate overhead expenses for centralized headquarters functions.

2008 versus 2007

The decrease in operating expenses in 2008 compared to 2007 was primarily due to $56 million of non-recurring Proposed Merger-related expenses in 2007, as well as the Company s cost reduction initiatives.

2007 versus 2006

Operating expenses decreased $39 million in 2007 due primarily to the sale of the Noel Levitz subsidiary in the second half of 2007. General and administrative expenses increased $67 million in 2007 compared to the year-ago period, primarily due to Proposed Merger-related expenses of $56 million. The increase in Upromise expenses from 2006 to 2007 was primarily due to 2007 having a full year of expenses for Upromise, which was acquired in August 2006.

At December 31, 2008, 2007 and 2006, the Corporate and Other business segment had total assets of $685 million, $780 million and $999 million, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

The following LIQUIDITY AND CAPITAL RESOURCES discussion concentrates on our Lending business segment. Our APG contingency collections and Corporate and Other business segments are not capital intensive businesses and as such, a minimal amount of debt capital is allocated to these segments.

Historically, we funded new loan originations with a combination of unsecured debt and student loan asset-backed securities. Following the Proposed Merger announcement in April 2007, we temporarily suspended issuance of unsecured debt and began funding loan originations primarily through the issuance of student loan asset-backed securities and secured student loan financing facilities. In June 2008, the Company re-entered the corporate bond market with a $2.5 billion issue of 10-year senior unsecured notes. In August 2008, we began funding new FFELP Stafford and PLUS student loan originations for AY 2008-2009 pursuant to ED s Loan Participation Program, as described below. During the fourth quarter of 2008, the Company began retaining its Private Education Loan originations in our banking subsidiary, Sallie Mae Bank, and funding these assets with term bank deposits. In the near term, we expect to continue to use ED s Purchase and Participation Programs to fund future FFELP Stafford and PLUS loan originations and to use deposits to fund Private Education Loan originations. We plan to use term asset-backed securities, asset-backed financing facilities, cash flow provided by earnings and repayment of principal on our unencumbered student loan assets, as well as other sources, to refinance maturing debt and provide cash for operations and other needs.

ED Funding Programs

In August 2008, ED implemented the Loan Purchase Commitment Program (Purchase Program) and the Loan Participation Program (Participation Program) pursuant to ECASLA. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under the Participation Program, ED provides interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged at a rate of commercial paper plus 0.50 percent on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Purchase Program prior to its expiration on September 30, 2009. Given the state of the credit markets, we currently expect to sell all of the loans we fund under the Participation Program to ED on or before the program s expiration date. Loans eligible for the Participation or Purchase Programs were originally limited to FFELP Stafford or PLUS, first disbursed between May 1, 2008 and July 1, 2009, with no ongoing borrower benefits, other than permitted rate reductions of 0.25 percent for automatic payment processing. On October 7, 2008, legislation was enacted extending ED s authority to address FFELP Stafford and PLUS loans made for AY s 2009-2010, and allowing for the extension of ED s Purchase and Participation Programs from September 30, 2009 to September 30, 2010. On November 8, 2008, ED formally announced new purchase and participation programs which cover eligible loans originated for the AY 2009-2010. On January 15, 2009, ED announced that the terms of the programs for AY 2009-2010 will replicate in all material respects the terms of the programs for AY 2008-2009.

On August 14, 2008, the Company received its initial advance under the Participation Program. As of December 31, 2008, the Company had $7.4 billion of advances outstanding under the Participation Program.

The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. Held-for-sale loans are carried at the lower of cost or market with no premium amortization or provision expenses. At December 31, 2008, the Company had approximately $8.0 billion of FFELP loans classified as held-for-sale related to this program. These loans are included in the FFELP Stafford Loans Held-for-Sale line on the consolidated balance sheets.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the ED Conduit Program). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before June 30, 2009, and meet certain other requirements including with respect to borrower benefits. Funding for the ED

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Conduit Program will be provided by the capital markets at a cost based on market rates. The ED Conduit Program will have a term of five years. An estimated $16.0 billion of our Stafford and PLUS loans (excluding loans currently in the Participation Program) were eligible for funding under the ED Conduit Program as of December 31, 2008. We expect to utilize the ED Conduit Program to fund a significant percentage of these assets over time. The initial funding under the ED Conduit Program is expected to occur in the first quarter of 2009.

On November 20, 2008, ED announced it was using its authority under ECASLA to directly purchase certain eligible FFELP Stafford and PLUS loans originated during AY 2007-2008. This purchase program began in December 2008 and will end the earlier of the date the ED Conduit Program becomes operational or February 28, 2009. Pursuant to this program, ED proposed to purchase up to a total of $6.5 billion of loans, in increments of up to $500 million per week, at a price of 97 percent of principal and unpaid interest. In late December 2008, we sold to ED approximately $494 million (principal and accrued interest) of qualifying FFELP loans and realized $480 million in net proceeds. In early January 2009, we executed an additional asset sale under the program of approximately $486 million (principal and accrued interest) and received $472 million in net proceeds. The related loss was recognized in the fourth quarter and year ended December 31, 2008, as the loans were classified as held-for-sale under GAAP. Our servicing rights on the loans were released upon sale.

Additional Funding Sources for General Corporate Purposes

The Company has encountered many challenges to its business model over the course of the last several years. In order to continue to meet our mission of providing access to higher education we have worked with Congress, ED and the Treasury Department to find solutions to those challenges that have been created by market conditions.

In addition to funding FFELP loans through ED s Participation and Purchase Programs, the Company employs other financing sources for general corporate purposes, which includes originating Private Education Loans and repayments of unsecured debt obligations.

During the fourth quarter of 2008, Sallie Mae Bank, our Utah banking subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered CD market. From the period October 1, 2008 to December 31, 2008, Sallie Mae Bank raised $1.6 billion of term bank deposits with a weighted average life of 2.2 years and a weighted average cost of approximately three-month LIBOR plus 0.97 percent. As of December 31, 2008, total term bank deposits were $2.3 billion. We expect Sallie Mae Bank to fund newly originated Private Education Loans by continuing to raise term bank deposits. We ultimately expect to raise long-term financing, through Private Education Loan securitizations or otherwise, to fund these loans.

We completed nine FFELP term ABS transactions totaling $18.5 billion during the nine months ended September 30, 2008. We did not complete an ABS transaction during the fourth quarter of 2008. Although we expect ABS financing to remain our primary source of funding over the long term, we expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors. All-in costs of our new issue FFELP term ABS averaged LIBOR plus 1.25 percent for the full year ended December 31, 2008.

Since late September 2008, there has been severe dislocation in the financial markets. At present, we are unable to predict when market conditions will allow for more regular and reliable access to the term ABS market.

During the first quarter of 2008, the Company entered into three new asset-backed financing facilities (the 2008 Asset-Backed Financing Facilities): (i) a $26.0 billion FFELP student loan 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 initial term of the 2008 Asset-Backed Financing Facilities is 364 days. The underlying cost of borrowing under the 2008

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ABCP Facilities is approximately LIBOR plus 0.68 percent for the FFELP loan facilities and LIBOR plus 1.55 percent for the Private Education Loan facility, excluding up-front and unused commitment fees. All-in pricing on the 2008 ABCP Facilities varies based on usage. For the full year 2008, the combined, all-in cost of borrowings related to the 2008 Asset-Backed Financing Facilities, including amortized up-front fees and unused commitment fees, was three-month LIBOR plus 2.47 percent. The primary use of the 2008 Asset-Backed Financing Facilities was to refinance comparable asset-backed commercial paper facilities incurred in connection with the Proposed Merger, with the expectation that outstanding balances under the 2008 Asset- Backed Financing Facilities would be reduced through securitization of the underlying student loan collateral in the term ABS market. Funding under the 2008 Asset-backed Financing Facilities is subject to usual and customary conditions.

In the third quarter of 2008, the Company reduced the commitments under its Private Education Loan ABCP conduit facility by approximately $2.2 billion to $3.7 billion and the commitments under its FFELP ABCP Facilities by $4.1 billion to $21.9 billion. There were no changes to interest rates, maturity or other terms of the facilities made in connection with the reductions. The Company reduced these commitments after an analysis of its ongoing liquidity needs and following its acceptance and funding under ED s Participation and Purchase Programs.

The maximum amount the Company may borrow under the 2008 ABCP Facilities is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of December 31, 2008, the maximum borrowing amount was approximately $20.9 billion under the FFELP ABCP Facilities and $3.0 billion under the Private Education Loan ABCP Facility. The 2008 Asset-Backed Financing Facilities are subject to termination under certain circumstances, including the Company s failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

On February 2, 2009, the Company extended the maturity date of the 2008 ABCP Facilities from February 28, 2009 to April 28, 2009 for a $61 million upfront fee. The other terms of the facilities remain materially unchanged. The Company expects to refinance the 2008 ABCP Facilities at a lower aggregate commitment than the $25.6 billion committed as of December 31, 2008. If the Company does not pay off all outstanding amounts of the 2008 ABCP Facilities at maturity, the facilities will extend by 90 days with the interest rate increasing each month during the 90-day period. The total increase in interest rates during this period is 1.5 percent to 2.0 percent depending on the facility. On February 27, 2009, the Company extended the maturity date of the 2008 Asset-Backed Loan Facility from February 28, 2009 to April 28, 2009 for a $4 million upfront fee. The other terms of this facility remain materially unchanged.

Borrowings under the 2008 Asset-Backed Financing Facilities are nonrecourse to the Company. As of December 31, 2008, the Company had $24.8 billion outstanding in connection with the 2008 Asset Backed Financing Facilities. The book basis of the assets securing these facilities as of December 31, 2008 was $33.2 billion.

On January 6, 2009 we closed a $1.5 billion, 12.5 year asset-backed securities based facility. This facility will be used to provide up to $1.5 billion term financing for Private Education Loans. The fully utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent.

Secured borrowings, including securitizations, asset-backed commercial paper (ABCP) borrowings and indentured trusts, comprised 78 percent of our Managed debt outstanding at December 31, 2008 versus 75 percent at December 31, 2007.

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business asset-backed securities (ABS) at lower interest rate spreads. As proposed, the U.S. Government s Term Asset-Backed Securities Loan Facility (TALF) will provide investors with funding of up to three years for eligible ABS rated by two or more rating agencies in the highest

investment-grade rating category. Eligible ABS include AAA rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of December 31, 2008, we had approximately $14 billion of student loans eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. The Federal Reserve Bank

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expects to announce in the first quarter of 2009 when lending under TALF will commence. While we expect TALF to improve our access to and reduce our cost of ABS funding, we are unable to predict, at this time, the impact TALF will ultimately have on our funding activities.

At December 31, 2008, we had $3.3 billion of taxable and $1.4 billion of tax-exempt auction rate securities outstanding in on-balance sheet securitizations and indentured trusts, respectively, on a Managed Basis. Since February 2008, an imbalance of supply and demand in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of our auction rate securities interest rates are set. As a result, all of the Company s auction rate securities as of December 31, 2008 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on our $3.3 billion of taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company s $1.4 billion of tax-exempt auction rate securities was amended to LIBOR plus 2.00 percent through May 31, 2008. After May 31, 2008, the maximum allowable rate on these securities reverted to a formula driven rate, which produced various maximum rates up to 14 percent during 2008 but averaged 1.60 percent at December 31, 2008.

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. The Company also has the option to repurchase the reset rate note prior to a failed remarketing and hold it as an investment until such time it can be remarketed. In the event a reset rate note cannot be remarketed on its remarketing date, and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or repurchased. The Company s repurchase of a reset rate note requires additional funding, the availability and pricing of which may be less favorable to the Company than it was at the time the reset rate note was originally issued. Unlike the repurchase of a reset rate note, the occurrence of a failed remarketing does not require additional funding. As a result of the ongoing dislocation in the capital markets, at December 31, 2008, $407 million of our reset rate notes, representing a single tranche of a single ABS issue, bore interest at LIBOR plus 0.75 percent due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. As of December 31, 2008, on a Managed Basis, the Company had $3.7 billion and $2.5 billion of reset rate notes due to be remarketed in 2009 and 2010, respectively, and an additional $8.5 billion to be remarketed thereafter.

Primary Sources of Liquidity and Available Capacity

We expect to fund our ongoing liquidity needs, including the origination of new loans and the repayment of $6.8 billion of senior unsecured notes maturing in 2009, through our current cash and investment portfolio, cash flow provided by earnings and repayment of principal on unencumbered student loan assets, the liquidity facilities made available by ED, TALF, the 2008 Asset-Backed Financing Facilities, the issuance of term ABS, term bank deposits, and, to a lesser extent, if possible, unsecured debt and other sources.

To supplement our funding sources, we maintained an additional $5.2 billion in unsecured revolving credit facilities as of December 31, 2008. These facilities include a $1.4 billion revolving credit facility maturing in October 2009; $1.9 billion maturing in October 2010; and $1.9 billion maturing in October 2011. They do not include a $0.3 billion commitment from a subsidiary of Lehman Brothers Holding, Inc. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.2 billion as of December 31, 2008. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters adjusted Core Earnings financial performance. The Company was compliant with the minimum net adjusted revenue test as of the quarter ended December 31, 2008. In the past, we have not relied upon our unsecured revolving credit facilities as a primary source of liquidity. Although we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

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The following table details our primary sources of primary and stand-by liquidity and the available capacity at December 31, 2008 and 2007.

	December 31, 2008 Available Capacity	December 31, 2007 Available Capacity
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:		
ED Purchase and Participation Programs[1]	*Unlimited*[1]	
Sources of primary liquidity for general corporate purposes:		
Unrestricted cash and liquid investments:		
Cash and cash equivalents	$ 4,070	$ 7,582
U.S. Treasury-backed securities		643
Commercial paper and asset-backed commercial paper	801	1,349
Certificates of deposit		600
Other[2]	133	83
Total unrestricted cash and liquid investments[3][4][5]	5,004	10,257
Unused commercial paper and bank lines of credit [6]	5,192	6,500
2008 FFELP ABCP Facilities	807	
2008 Private Credit ABCP Facilities	332	
ABCP borrowing capacity		5,933
Interim ABCP Facility borrowing capacity		4,040
Total sources of primary liquidity for general corporate purposes	11,335	26,730
Sources of stand-by liquidity:		
Unencumbered FFELP loans [7]	5,222	18,731
Total sources of primary and stand-by liquidity for general corporate purposes[8]	$ 16,557	$ 45,461

(1) The ED Purchase and Participation Programs provide unlimited funding for eligible FFELP Stafford and PLUS loans made by the Company with first disbursements between May 1, 2008 through June 30, 2010. See ED Funding Programs discussed earlier in this section.

(2) At December 31, 2008, includes $97 million due from The Reserve Primary Fund (see Counterparty Exposure below).

(3) Excludes $26 million and $196 million of investments pledged as collateral related to certain derivative positions and $82 million and $93 million of other non-liquid investments classified at December 31, 2008 and December 31, 2007, respectively, as cash and investments on our balance sheet in accordance with GAAP.

(4)

Includes $1.6 billion and $1.3 billion at December 31, 2008 and December 31, 2007, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.

(5) At December 31, 2008, includes $1.1 billion of cash and liquid investments at Sallie Mae Bank, which Sallie Mae Bank was not authorized to dividend to the Company without FDIC approval. This cash primarily will be used to originate Private Education Loans in the first quarter of 2009.

(6) At December 31, 2008, excludes commitments of $308 million from Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings, Inc. Lehman Brothers Holdings, Inc. declared bankruptcy on September 15, 2008. The Company s line of credit commitments decreased by $1.0 billion effective October 23, 2008.

(7) At December 31, 2008, includes $486 million (face amount and accrued interest) of student loans committed to be sold to ED, but not settled until January 2009. Also includes approximately $241 million of unencumbered FFELP student loans qualified to be financed by ED s Participation Program that were subsequently financed under that program.

(8) General corporate purposes primarily include originating Private Education Loans and repaying unsecured debt as it matures.

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In addition to the assets listed in the table above, we hold on-balance sheet a number of other unencumbered assets, consisting primarily of Private Education Loans, Retained Interests and other assets. At December 31, 2008, we had a total of $36.1 billion (including assets in the table above) of unencumbered assets, including goodwill and acquired intangibles. Student loans, net, comprised $21.1 billion of this unencumbered asset total.

As disclosed, we have extended the 2008 Asset-Backed Financing Facilities to mature on April 28, 2009. We believe that we will be successful in our effort to refinance the facility at a lower balance at such time. If we are unable to refinance the 2008 Asset-Backed Financing Facilities and if our obligation was settled through the lenders possession of posted collateral we would incur a charge of $8.4 billion, ($5.3 billion after tax) representing the difference between our cost basis in the collateral and current borrowings under the facility as of December 31, 2008. As a result, we would no longer meet the covenants related to our lines of credit and our ability to conduct business could be materially changed. While we would still be able to originate loans into the ED Participation and Purchase program, our ability to originate private credit loans could be limited or curtailed. However, even if we are unsuccessful in this renegotiation, we believe that our current investment portfolio, when combined with our net expected cash inflows (principally from loan repayments) and the ED Conduit Program borrowing we expect to begin using in the first quarter of 2009 will provide sufficient liquidity to meet our short term obligations.

Counterparty Exposure

As of December 31, 2008, the Company had certain exposures to counterparties impacted by the ongoing credit market dislocation. Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to the Company.

Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc., is a party to the Company s unsecured revolving credit facilities under which they provide the Company with a $308 million commitment. Lehman Brothers Holdings Inc., declared bankruptcy on September 15, 2008. The Company is operating under the assumption that the lending commitment of Lehman Brothers Bank, FSB, will not be honored if drawn upon. While the Company continues to explore various options, it does not anticipate replacing its commitment from Lehman Brothers Bank, FSB.

To provide liquidity for future cash needs, SLM invests in high quality money market investments. At December 31, 2008, the Company had investments of $97 million with The Reserve Primary Fund (The Fund). In September 2008, the Company requested redemption of all monies invested in The Fund prior to The Fund s announcement that it suspended distributions as a result of The Fund s exposure to Lehman Brothers Holdings Inc. s bankruptcy filing and The Fund s net asset value being below one dollar per share. The Company was originally informed by The Fund that the Company would receive its entire investment amount. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. The Company has received, to date, a total of $394 million of an initial investment of $500 million from The Fund. The Company anticipates further delay of remaining distributions and a potential loss on its investments, even though the Company is legally entitled to receive 100 percent of its remaining investment amount. In the fourth quarter of 2008, we recorded an impairment of $8 million related to our investment in the Fund.

Protection against counterparty risk in derivative transactions is generally provided by the International Swaps and Derivatives Association, Inc. (ISDA) Credit Support Annexes (CSAs). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. The Company is a party to derivative contracts for its corporate purposes and also within its securitization trusts. The Company has CSAs and collateral requirements with all of its corporate derivative counterparties requiring collateral to be exchanged based on the net fair value of derivatives with each counterparty above a threshold. Additionally, credit downgrades below a preset level can

eliminate this threshold. The Company s securitization trusts require collateral in all cases if the counterparty s credit rating is withdrawn or downgraded below a certain level. If the counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity

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that has the required credit ratings. Failure to post the collateral or find a replacement counterparty could result in a termination event under the derivative contract. The Company considers counterparties credit risk when determining the fair value of derivative positions on its exposure net of collateral. Securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative regardless of credit rating. The trusts are not required to post collateral to the counterparties. If we were unable to collect from a counterparty related to SLM Corporation and on-balance sheet trust derivatives, we would have a loss equal to the amount the derivative is recorded on our balance sheet. If we were unable to collect from a counterparty related to an off-balance sheet trust derivative, the value of our Residual Interest on our balance sheet would be reduced through earnings.

The Company has liquidity exposure related to collateral movements between SLM Corporation and its derivative counterparties. The collateral movements can increase or decrease our primary liquidity depending on the nature of the collateral (whether cash or securities), and on movements in the value of the derivatives, which are primarily impacted by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral posted or may require the Company to access primary liquidity to post collateral to counterparties. Additionally, when securities are posted as collateral to the Company, the Company generally has the right to re-pledge or sell the security. As of December 31, 2008, the Company held $1.6 billion of cash collateral in unrestricted cash accounts.

The table below highlights exposure related to our derivative counterparties at December 31, 2008.

		On-Balance Sheet	Off-Balance Sheet
	SLM Corporation Contracts	Securitizations Contracts	Securitizations Contracts
Exposure, net of collateral	$ 234	$ 926	$ 716
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody s Aa3	60%	42%	42%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody s A3	0%	0%	0%

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Managed Borrowings

The following tables present the ending and average balances and average interest rates of our Managed borrowings for the years ended December 31, 2008, 2007 and 2006. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment under SFAS No. 133. (See BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAA by Business Segment* Derivative Accounting *Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities*.)

Ending Balances

	Years Ended December 31,								
	2008 Ending Balance			2007 Ending Balance			2006 Ending Balance		
	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Tota Manag Basis
ecured borrowings	$ 6,794	$ 31,182	$ 37,976	$ 8,297	$ 36,796	$ 45,093	$ 3,187	$ 45,501	$ 48,6
n bank deposits	1,148	1,108	2,256	254		254			
ntured trusts balance sheet)[1]	31	1,972	2,003	100	2,481	2,581	93	2,852	2,9
P borrowings balance sheet)[1][2]	24,768		24,768	25,960	67	26,027		4,953	4,9
Participation ram facility balance sheet)[1][3]	7,365		7,365						
ritizations balance sheet)[1]		80,601	80,601		68,048	68,048		50,147	50,
ritizations balance sheet)		37,159	37,159		42,088	42,088		49,865	49,8
r	1,827		1,827	1,342		1,342	248		2
l	$ 41,933	$ 152,022	$ 193,955	$ 35,953	$ 149,480	$ 185,433	$ 3,528	$ 153,318	$ 156,8

[1] The book basis of the assets that secure the on-balance sheet secured financings is approximately $128.8 billion in total at December 31, 2008.

[2] Includes $1.9 billion outstanding in the 2008 Asset-Backed Loan Facility at December 31, 2008.

[3] The Company has the option of paying off this amount with cash or by putting the loans to ED as previously discussed.

Average Balances

	Years Ended December 31,					
	2008		2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Unsecured borrowings	$ 39,794	3.65%	$ 46,095	5.58%	$ 43,754	5.50%
Term bank deposits	854	4.07	166	5.26	1	4.98
Indentured trusts (on-balance sheet)	2,363	3.90	2,768	4.90	3,252	4.57
ABCP borrowings (on-balance sheet)[1]	24,855	5.27	13,938	5.85	4,874	5.36
ED Participation Program facility (on-balance sheet)	1,727	3.43				
Securitizations (on-balance sheet)	76,028	3.26	62,765	5.55	43,310	5.40
Securitizations (off-balance sheet)	39,625	3.11	45,733	5.68	50,112	5.49
Other	2,063	2.35	637	4.85	172	5.03
Total	$ 187,309	3.58%	$ 172,102	5.60%	$ 145,475	5.44%

[1] Includes the 2008 Asset-Backed Loan Facility.

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Unsecured On-Balance Sheet Financing Activities

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of February 27, 2009.

	Moody s	S&P	Fitch
Short-term unsecured debt	P-2[1]	A-3	F3
Long-term senior unsecured debt	Baa2[1]	BBB-	BBB

[1] Under review for potential downgrade.

The table below presents our unsecured on-balance sheet funding by funding source for the years ended December 31, 2008 and 2007.

	Debt Issued For The Years Ended December 31,		Outstanding at December 31,	
	2008	2007	2008	2007
Convertible debentures	$	$	$	$
Retail notes		59	3,914	4,192
Foreign currency denominated notes[1]		161	12,127	12,805
Extendible notes			1,464	5,749
Global notes (Institutional)	2,437	1,348	19,874	21,750
Medium-term notes (Institutional)			597	597
Total unsecured corporate borrowings	2,437	1,568	37,976	45,093
Term bank deposits	2,845	552	2,256	254
Total	$ 5,282	$ 2,120	$ 40,232	$ 45,347

[1] All foreign currency denominated notes are hedged using derivatives that exchange the foreign denomination for U.S. dollars.

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Securitization Activities

Securitization Program

The following table summarizes our securitization activity for the years ended December 31, 2008, 2007 and 2006. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Years Ended December 31,											
	2008				2007				2006			
	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
uritizations sales:												
ELP Stafford/PLUS ns		$	$	%		$	$	%	2	$ 5,004	$ 17	.3
ELP Consolidation ans									4	9,503	55	.6
vate Education Loans					1	2,001	367	18.4	3	5,088	830	16.3
al securitizations sales			$	%	1	2,001	$ 367	18.4%	9	19,595	$ 902	4.6
uritizations financings:												
ELP Stafford/PLUS ns[1]	9	18,546			3	8,955						
ELP Consolidation ans[1]					5	14,476			4	12,506		
al securitizations ancings	9	18,546			8	23,431			4	12,506		
al securitizations	9	$ 18,546			9	$ 25,432			13	$ 32,101		

(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 variable interest entities (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 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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Residual Interest in Securitized Receivables

The following tables summarize the fair value of our Residual Interests and the assumptions used to value such Residual Interests, along with the underlying off-balance sheet student loans that relate to those securitizations in securitization transactions that were treated as sales as of December 31, 2008 and 2007.

	As of December 31, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 250	$ 918	$ 1,032	$ 2,200
Underlying securitized loan balance	7,057	15,077	13,690	35,824
Weighted average life	3.0 yrs.	8.1 yrs.	6.4 yrs	
Prepayment speed (annual rate)[3]				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan repayment status	12%	4%	6%	
Expected credit losses (% of student loan principal)[4]	.11%	.23%	5.22%	
Residual cash flows discount rate	13.1%	11.9%	26.3%	

	As of December 31, 2007			
	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	9,338	15,968	14,199	39,505
Weighted average life	2.7 yrs.	7.4 yrs.	7.0 yrs	
Prepayment speed (annual rate)[3]				
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 student loan principal)[4]	.11%	.21%	5.28%	
Residual cash flows discount rate	12.0%	9.8%	12.9%	

(1) Includes $762 million and $283 million related to the fair value of the Embedded Floor Income as of December 31, 2008 and 2007, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the pay down of the underlying loans.

(2)

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

(3) 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.

(4) Remaining expected credit losses as of the respective balance sheet date.

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Off-Balance Sheet Net Assets

The following table summarizes our off-balance sheet net assets at December 31, 2008 and 2007 on a basis equivalent to our GAAP on-balance sheet trusts, which presents the assets and liabilities in the off-balance sheet trusts as if they were being accounted for on-balance sheet rather than off-balance sheet. This presentation, therefore, includes a theoretical calculation of the premiums on student loans, the allowance for loan losses, and the discounts and deferred financing costs on the debt. This presentation is not, nor is it intended to be, a liquidation basis of accounting. (See also LENDING BUSINESS SEGMENT Summary of our Managed Student Loan Portfolio *Ending Managed Student Loan Balances, net* and LIQUIDITY AND CAPITAL RESOURCES Managed Borrowings *Ending Balances,* earlier in this section.)

	December 31, 2008	December 31, 2007
Off-Balance Sheet Assets:		
Total student loans, net	$ 35,591	$ 39,423
Restricted cash and investments	1,557	2,706
Accrued interest receivable	937	1,413
Total off-balance sheet assets	38,085	43,542
Off-Balance Sheet Liabilities:		
Debt, par value	37,228	42,192
Debt, unamortized discount and deferred issuance costs	(69)	(104)
Total debt	37,159	42,088
Accrued interest payable	166	305
Total off-balance sheet liabilities	37,325	42,393
Off-Balance Sheet Net Assets	$ 760	$ 1,149

Servicing and Securitization Revenue

Servicing and securitization revenue, the ongoing revenue from securitized loan pools accounted for off-balance sheet as QSPEs, includes the interest earned on the Residual Interest and the revenue we receive for servicing the loans in the securitization trusts.

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The following table summarizes the components of servicing and securitization revenue for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	2007	2006
Servicing revenue	$ 247	$ 285	$ 336
Securitization revenue, before Net Embedded Floor Income, impairment and unrealized fair value adjustment	323	419	368
Servicing and securitization revenue, before Net Embedded Floor Income, impairment and unrealized fair value adjustment	570	704	704
Embedded Floor Income	191	20	14
Less: Floor Income previously recognized in gain calculation	(76)	(9)	(8)
Net Embedded Floor Income	115	11	6
Servicing and securitization revenue, before impairment and unrealized fair value adjustment	685	715	710
Gain/(loss) on consolidation of off-balance sheet trusts	2		
Unrealized fair value adjustment	(425)	(24)	
Retained Interest impairment		(254)	(157)
Total servicing and securitization revenue	$ 262	$ 437	$ 553
Average off-balance sheet student loans	$ 37,586	$ 42,411	$ 46,336
Average balance of Retained Interest	$ 2,596	$ 3,385	$ 3,101
Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans	.70%	1.03%	1.19%

Servicing and securitization revenue is primarily driven by the average balance of off-balance sheet student loans, the amount of and the difference in the timing of Embedded Floor Income recognition on off-balance sheet student loans and the fair value adjustment related to those Residual Interests where the Company has elected to carry such Residual Interests at fair value through earnings under SFAS No. 159.

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 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.

As of December 31, 2008, the Company had changed the following significant assumptions compared to those used as of December 31, 2007, to determine the fair value of the Residual Interests:

Prepayment speed assumptions were decreased for all three asset types primarily as a result of a significant reduction in prepayment activity experienced which is expected to continue into the foreseeable future. The decrease in prepayment speeds is primarily due to a reduction in third-party consolidation activity as a result of the CCRAA (for FFELP only) and the current U.S. economic and credit environment. This resulted in a $114 million unrealized mark-to-market gain.

Life of loan default rate assumptions for Private Education loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $79 million unrealized mark-to-market loss.

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Cost of funds assumptions related to the underlying auction rate securities bonds ($2.3 billion face amount of bonds) within FFELP loan ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts were increased to take into account the expectations these auction rate securities will continue to reset at higher rates for an extended period of time. This resulted in a $116 million unrealized mark-to-market loss.

The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate for the purpose of arriving at a discount rate, in light of the current economic and credit uncertainty that exists in the market as of December 31, 2008. 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 1,550 basis points and 390 basis points for Private Education and FFELP, respectively, to take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Residual Interests. This resulted in a $904 million unrealized mark-to-market loss.

The Company recorded net unrealized mark-to-market losses related to the Residual Interests of $425 million during the year ended December 31, 2008. The mark-to-market losses were primarily related to the increase in the discount rate assumptions discussed above which resulted in a $904 million mark-to-market loss. This was partially offset by an unrealized mark-to-market gain of $555 million related to the Floor Income component of the Residual Interest primarily due to the significant decrease in interest rates from December 31, 2007 to December 31, 2008.

The Company recorded impairments to the Retained Interests of $254 million and $157 million, respectively, for the years ended December 31, 2007 and 2006. The impairment charges were the result of FFELP loans prepaying faster than projected through loan consolidations ($110 million and $104 million for the years ended December 31, 2007 and 2006, respectively), impairment to the Floor Income component of the Company s Retained Interest due to increases in interest rates during the period ($24 million and $53 million for the years ended December 31, 2007 and 2006, respectively), and increases in prepayments, defaults, and the discount rate related to Private Education Loans ($120 million for the year ended December 31, 2007). In addition, the Company recorded an unrealized mark-to-market loss under SFAS No. 155 of $25 million for the year ended December 31, 2007.

CONTRACTUAL CASH OBLIGATIONS

The following table provides a summary of our obligations associated with long-term notes at December 31, 2008. For further discussion of these obligations, see Note 7, Borrowings, to the consolidated financial statements. The Company has no outstanding equity forward positions outstanding after the contract settlement on January 9, 2008. See Note 11, Stockholders Equity, to the consolidated financial statements.

	1 Year or Less	2 to 3 Years	4 to 5 Years	Over 5 Years	Total
Long-term notes:					
Unsecured borrowings	$	$ 14,184	$ 5,324	$ 11,674	$ 31,182
Term bank deposits		727	381		1,108
Secured borrowings[1]	6,722	14,390	13,262	48,199	82,573
Total contractual cash obligations[2]	$ 6,722	$ 29,301	$ 18,967	$ 59,873	$ 114,863

(1) Includes Financial Interpretation (FIN) No. 46(R) long-term beneficial interests of $80.6 billion of notes issued by consolidated variable interest entities in conjunction with our on-balance sheet securitization transactions and included in long-term notes in the consolidated balance sheet. Timing of obligations is estimated based on the Company s current projection of prepayment speeds of the securitized assets.

(2) Only includes principal obligations and specifically excludes SFAS No. 133 derivative market value adjustments of $3.4 billion for long-term notes. Interest obligations on notes is predominantly variable in nature, resetting quarterly based on 3 month LIBOR.

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The Company also records unrecognized tax benefits in accordance with FIN No. 48. Unrecognized tax benefits were $81 million and $176 million for the years ended December 31, 2008 and 2007, respectively. For additional information, see Note 19, Income Taxes, to the consolidated financial statements.

OFF-BALANCE SHEET LENDING ARRANGEMENTS

The following table summarizes the contractual amounts related to off-balance sheet lending-related financial instruments at December 31, 2008.

	1 Year or Less	2 to 3 Years	Total
Lines of credit	$ 221	$ 800	$ 1,021

We have issued lending-related financial instruments including lines of credit to meet the financing needs of our institutional customers. In connection with these agreements, the Company also enters into a participation agreement with the institution to participate in the loans as they are originated. In the event that a line of credit is drawn upon, the loan is collateralized by underlying student loans and is usually participated on the same day. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment, the Company does not participate in the loan, and the counterparty subsequently fails to perform according to the terms of our contract. The remaining total contractual amount available to be borrowed under these commitments is $1.0 billion. We do not believe that these instruments are representative of our actual future credit exposure. To the extent that the lines of credit are drawn upon, the balance outstanding is collateralized by student loans. At December 31, 2008, outstanding draws on lines of credit were approximately $9 million, and are reflected in other loans in the consolidated balance sheet. For additional information, see Note 17, Commitments, Contingencies and Guarantees, to the consolidated financial statements.

The Company maintains forward contracts to purchase loans from our lending partners at contractual prices. These contracts typically have a maximum amount we are committed to buy, but lack a fixed or determinable amount as it ultimately is based on the lending partner s origination activity. FFELP forward purchase contracts typically contain language relieving us of most of our responsibilities under the contract due to, among other things, changes in student loan legislation. These commitments are not accounted for as derivatives under SFAS No. 133 as they do not meet the definition of a derivative due to the lack of a fixed and determinable purchase amount. At December 31, 2008, there were $2.3 billion originated loans (FFELP and Private Education Loans) in the pipeline that the Company is committed to purchase.

MANAGEMENT OF RISKS

Significant risks that affect the Company may be grouped in the following categories: financial and funding, credit, operations, legislation and regulation, and market competition. These risks are discussed in the Item 1A. Risk Factors section of this document. Management s strategies for managing some of these risks are discussed below.

Risk Management Processes

Risk management is a shared responsibility throughout the Company. The Board of Directors and its committees oversee risk and risk management practices. Executive management is responsible for monitoring and assessing risks. Managers of individual lines of business have direct and primary responsibility and accountability to manage risks

specific in their operations by identifying and assessing risks, implementing internal controls and reporting control issues to the Company s Risk Assessment Department. The Risk Assessment Department monitors these efforts, identifies areas that require increased focus and resources, and reports significant control issues to executive management and the Audit Committee of the Board. The Company s centralized staff functions, such as accounting, human resources and legal, further strengthen our risk controls.

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At least annually, the Risk Assessment Department conducts a survey to identify the Company s top risks, which supports the development of the internal audit plan. The survey solicits information from over 200 managers and seeks their input on issues such as entity level controls, compliance with laws and regulations, anti-fraud programs and the internal audit plan. Identified risks are rated on significance and the likelihood of occurrence. Risks with the greatest significance and highest likelihood of occurrence receive the most attention and resources from management. Top risks are mapped to the appropriate management committee for problem resolution and to the appropriate committee of the Board for oversight.

Management risk committees and their primary responsibility are as follows:

Credit Committee: establishes and enforces credit lending policies;

Compliance Committee: advises on and reviews regulatory compliance;

Asset/Liability Committee: manages market, interest rate and balance sheet risk;

Disclosure Committee: manages risk of compliance with SEC disclosure obligations;

Critical Accounting Assumptions Committee: reviews key critical accounting assumptions, judgments and estimates; manages risk of compliance with financial reporting requirements;

Information Technology Steering Committee: manages security and confidentially of information and effectiveness of IT infrastructure;

Business Continuity Steering Committee: manages risk of emergency loss of IT and other infrastructure resources;

Internal Controls Excellence Steering Committee: monitors internal controls and compliance with the Sarbanes-Oxley Act;

New Product Advisory Committee: approves new loan products and services.

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

Liquidity Risk Management

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events. Sources of liquidity include wholesale market-based funding and deposits at Sallie Mae Bank.

Through the Company s Asset and Liability Management Policy, the Finance Committee of the Board of Directors is responsible for establishing our liquidity policy and monitoring liquidity on an ongoing basis. The Corporate Finance

Department is responsible for planning and executing our funding activities and strategy.

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, we conduct our liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include maintaining direct relationships with wholesale market funding providers and maintaining the ability to liquefy certain assets when, and if, requirements warrant.

For a further discussion of our liquidity and capital resources and the sources and uses of liquidity see the LIQUIDITY AND CAPITAL RESOURCES section of this Form 10-K.

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Credit Risk Management

We bear the full risk of loss on our Private Education Loan portfolio. These loans are underwritten and priced according to risk, generally determined by a consumer credit scoring system, FICO. Because our borrowers often have limited repayment history on other loan products and the addition of our loans increases the debt burden of our borrowers, the origination of our loans generally results in an initial decrease in borrowers FICO scores. After this initial decrease, borrowers FICO scores generally improve over time as the financial positions of our borrowers become more established and their repayment history on all loans becomes more seasoned. Additionally, for borrowers who do not meet our lending requirements or who desire more favorable terms, we generally require credit-worthy cosigners.

We have defined underwriting and collection policies, and ongoing risk monitoring and review processes for all Private Education Loans. Potential credit losses are considered in our risk-based pricing model. The performance of the Private Education Loan portfolio may be affected by borrowers who fail to complete their education and by the economy; a prolonged economic downturn may have an adverse effect on our credit performance. This is taken into account when establishing allowances to cover the incurred losses.

We have credit risk exposure to the various counterparties with whom we have entered into derivative contracts. We review the credit standing of these companies. Our credit policies place limits on the amount of exposure we may take with any one party and in most cases, require collateral to secure the position. The credit risk associated with derivatives is measured based on the replacement cost should the counterparties with contracts in a gain position to the Company fail to perform under the terms of the contract.

Credit risk in our investment portfolio is minimized by only investing in paper with highly rated issuers. Additionally, limits per issuer are determined by our internal credit and investment guidelines to limit our exposure to any one issuer. We also have credit risk with several higher education institutions related to academic facilities loans secured by real estate.

Market and Interest Rate Risk Management

We measure interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for interest-earning assets, interest-bearing liabilities and derivatives used to hedge interest rate risk. Many assumptions are utilized by management to calculate the impact that changes in interest rates may have on net interest income, the more significant of which are related to student loan volumes and pricing, the timing of cash flows from our student loan portfolio, particularly the impact of Floor Income and the rate of student loan consolidations, basis risk, credit spreads and the maturity of our debt and derivatives.

Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of December 31, 2008. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective SFAS No. 133 hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the gains/(losses) on derivatives and hedging activities, net line on the income statement). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

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Management analyzes interest rate risk on a Managed basis, which consists of both on-balance sheet and off-balance sheet assets and liabilities and includes all derivatives that are economically hedging our debt whether they qualify as effective hedges under SFAS No. 133 or not. Accordingly, we are also presenting the asset and liability funding gap on a Managed basis in the table that follows the GAAP presentation.

GAAP Basis

Index (Dollars in billions)	Frequency of Variable Resets	Assets	Funding[1]	Funding Gap
3-month Commercial paper[2]	daily	$ 114.7	$ 7.4	$ 107.3
3-month Treasury bill	weekly	7.2	.1	7.1
Prime	annual	.5		.5
Prime	quarterly	1.5		1.5
Prime	monthly	17.5		17.5
PLUS Index	annual	.5		.5
3-month LIBOR	daily			
3-month LIBOR	quarterly	.1	109.8	(109.7)
1-month LIBOR[3]	monthly	2.3	2.0	.3
CMT/CPI index	monthly/quarterly		3.1	(3.1)
Non Discrete reset[4]	monthly		25.3	(25.3)
Non Discrete reset[5]	daily/weekly	8.5	2.1	6.4
Fixed Rate[6]		16.0	19.0	(3.0)
Total		$ 168.8	$ 168.8	$

(1) Funding includes all derivatives that qualify as hedges under SFAS No. 133.

(2) Funding includes $7.4 billion of ED Purchase and Participation Program.

(3) Funding includes the 2008 Asset-Backed Loan Facility.

(4) Funding includes auction rate securities and the 2008 ABCP Facilities.

(5) Assets include restricted and non-restricted cash equivalents and other overnight-type instruments.

(6) Assets include receivables and other assets (including Retained Interests, goodwill and acquired intangibles). Funding includes other liabilities and stockholders equity (excluding Series B Preferred Stock).

The Funding Gaps in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that typically convert quarterly three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges under SFAS No. 133 and as a result the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

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Managed Basis

Index (Dollars in billions)	Frequency of Variable Resets	Assets	Funding[1]	Funding Gap
3 month Commercial paper[2]	daily	$ 134.7	$ 7.5	$ 127.2
3 month Treasury bill	weekly	9.8	6.7	3.1
Prime	annual	1.0	.3	.7
Prime	quarterly	6.6	3.5	3.1
Prime	monthly	25.0	15.3	9.7
PLUS Index	annual	.6	.1	.5
3-month LIBOR[3]	daily		116.1	(116.1)
3-month LIBOR	quarterly		11.8	(11.8)
1-month LIBOR[4]	monthly	2.3	2.0	.3
Non Discrete reset[5]	monthly		22.0	(22.0)
Non Discrete reset[6]	daily/weekly	10.1	1.6	8.5
Fixed Rate[7]		12.4	15.6	(3.2)
Total		$ 202.5	$ 202.5	$

(1) Funding includes all derivatives that management considers economic hedges of interest rate risk and reflects how we internally manage our interest rate exposure.

(2) Funding includes $7.4 billion of ED Purchase and Participation Program.

(3) Funding includes $2.5 billion of auction rate securities.

(4) Funding includes the 2008 Asset-Backed Loan Facility.

(5) Funding includes auction rate securities and the 2008 ABCP Facility.

(6) Assets include restricted and non-restricted cash equivalents and other overnight-type instruments.

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

We use interest rate swaps and other derivatives to achieve our risk management objectives. To the extent possible, we fund our assets with debt (in combination with derivatives) that has the same underlying index (index type and index reset frequency). When it is more economical, we also fund our assets with debt that has a different index and/or reset frequency than the asset, but only in instances where we believe there is a high degree of correlation between the interest rate movement of the two indices. For example, we use daily reset three-month LIBOR to fund a large portion of our daily reset three-month commercial paper indexed assets. In addition, we use quarterly reset three-month LIBOR to fund a portion of our quarterly reset Prime rate indexed Private Education Loans. We also use our monthly Non Discrete reset and 1-month LIBOR funding to fund various asset types. In using different index types and different index reset frequencies to fund our assets, we are exposed to interest rate risk in the form of basis risk and

repricing risk, which is the risk that the different indices that may reset at different frequencies will not move in the same direction or at the same magnitude. While we believe that this risk is low as all of these indices are short-term with rate movements that are highly correlated over a long period of time, market disruptions can lead to a temporary divergence between indices as was experienced with the commercial paper and LIBOR indices beginning in the second half of 2007 and becoming more volatile in the second half of 2008. As of December 31, 2008, on a Managed Basis, we have approximately $127.2 billion of FFELP loans indexed to three-month commercial paper (3M CP) that are funded with debt indexed to LIBOR. We believe there is broad market recognition that, due to the unintended consequences of government action in other areas of the capital markets and virtually no issuances of qualifying commercial paper, the 3M CP index and its relationship to LIBOR is broken. The relationship between the indices has been volatile. See Item 1. Business, for a discussion of this CP/LIBOR issue and government actions to date.

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When compared with the GAAP presentation, the Managed basis presentation includes all of our off-balance sheet assets and funding, and also includes basis swaps that primarily convert quarterly three-month LIBOR to other indices that are more correlated to our asset indices.

Weighted Average Life

The following table reflects the weighted average life for our Managed earning assets and liabilities at December 31, 2008 and 2007.

	December 31, 2008		December 31, 2007	
(Averages in Years)	**On-Balance Sheet**	**Managed**	**On-Balance Sheet**	**Managed**
Earning assets				
Student loans	7.8	7.9	9.0	8.9
Other loans	5.7	5.7	5.0	5.0
Cash and investments	.2	.1	.2	.2
Total earning assets	7.4	7.5	8.0	8.0
Borrowings				
Short-term borrowings	.3	.3	.2	.2
Long-term borrowings	6.8	6.7	6.6	6.4
Total borrowings	5.0	5.3	5.0	5.2

Long-term debt issuances likely to be called by us or putable by the investor have been categorized according to their call or put dates rather than their maturity dates.

Foreign Currency Exchange Rate Exposure

Foreign currency exchange rate exposure is primarily the result of foreign denominated liabilities issued by the Company. Cross-currency interest rate swaps are used to lock-in the exchange rate for the term of the liability. In addition, the Company has foreign exchange rate exposure as a result of international operations; however, the exposure is minimal at this time.

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COMMON STOCK

The following table summarizes the Company s common share repurchases and issuances for the years ended December 31, 2008, 2007 and 2006. Equity forward activity for the years ended December 31, 2007 and 2006 is also reported.

	Years Ended December 31,		
(Shares in millions)	**2008**	**2007**	**2006**
Common shares repurchased:			
Open market		1.8	2.2
Equity forward contracts		4.2	5.4
Equity forward contracts agreed to be settled[1]		44.0	
Benefit plans[2]	1.0	3.3	1.6
Total shares repurchased	1.0	53.3	9.2
Average purchase price per share	$ 24.51	$ 44.59	$ 52.41
Common shares issued	1.9	109.2	6.7
Equity forward contracts:			
Outstanding at beginning of period		48.2	42.7
New contracts			10.9
Settlements		(4.2)	(5.4)
Agreed to be settled[1]		(44.0)	
Outstanding at end of period			48.2
Authority remaining at end of period for repurchases	38.8	38.8	15.7

(1) On December 31, 2007, the Company and Citibank agreed to physically settle the contract as detailed below. Consequently, the common shares outstanding and shareholders equity on the Company s year-end balance sheet reflect the physical settlement of the equity forward contract. As of December 31, 2007, the 44 million shares under this equity forward contract are reflected in treasury stock.

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

Beginning on November 29, 2007, the Company amended or closed out certain equity forward contracts. On December 19, 2007, the Company entered into a series of transactions with its equity forward counterparties and Citibank to assign all of its remaining equity forward contracts, covering 44,039,890 shares, to Citibank. In connection with the assignment of the equity forward contracts, the Company and Citibank amended the terms of the equity forward contract to eliminate all stock price triggers (which had previously allowed the counterparty to terminate the contracts prior to their scheduled maturity date) and termination events based on the Company s credit ratings. The strike price of the equity forward contract on December 19, 2007, was $45.25 with a maturity date of February 22,

2008. The new Citibank equity forward contract was 100 percent collateralized with cash. On December 31, 2007, the Company and Citibank agreed to physically settle the contract and the Company paid Citibank approximately $1.1 billion, the difference between the contract purchase price and the previous market closing price on the 44,039,890 shares. Consequently, the common shares outstanding and shareholders equity on the Company s year-end balance sheet reflect the shares issued in the public offerings and the physical settlement of the equity forward contract. As of December 31, 2007, the 44 million shares under this equity forward contract are reflected in treasury stock. The Company paid Citibank the remaining balance of approximately $0.9 billion due under the contract on January 9, 2008. The Company now has no outstanding equity forward positions.

On December 31, 2007, the Company issued 101,781,170 shares of its common stock at a price of $19.65 per share. Net proceeds from the sale were approximately $1.9 billion. The Company used approximately $2.0 billion of the net proceeds from the sale of Series C Preferred Stock and the sale of its common stock to

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settle its outstanding equity forward contract (see Note 11, Stockholders Equity, for further discussion). The remaining proceeds are used for general corporate purposes. The Company issued 9,781,170 shares of the 102 million share offering from its treasury stock. These shares were removed from treasury stock at an average cost of $43.13, resulting in a $422 million decrease to the balance of treasury stock with an offsetting $235 million decrease to retained earnings.

The closing price of the Company s common stock on December 31, 2008 was $8.90.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 2 to the consolidated financial statements, Significant Accounting Policies *Recently Issued Accounting Pronouncements*.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity Analysis

The Company s interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the effect on earnings for the years ended December 31, 2008 and 2007 and the effect on fair values at December 31, 2008 and 2007, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 25 basis points while holding the asset index constant, if the funding index is different that the asset index. Both of these analyses do not consider any potential impairment to our Residual Interests that may result from asset and funding basis divergence or a higher discount rate that would be used to compute the present value of the cash flows if long-term interest rates increased. See Note 8, Student Loan Securitization, which details the potential decrease to the fair value of the Residual Interest that could occur under the referenced interest rate environment.

	Year Ended December 31, 2008					
	Interest Rates:				Asset and Funding Index Mismatches[1]	
(Dollars in millions, except per share amounts)	Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points		Increase of 25 Basis Points	
	$	%	$	%	$	%
Effect on Earnings						
Increase/(decrease) in pre-tax net income before unrealized gains (losses) on derivative and hedging activities	$ (6)	(3)%	$ 13	7%	$ (297)	(162)%
Unrealized gains (losses) on derivative and hedging activities	460	82	956	171	95	17
Increase in net income before taxes	$ 454	121%	$ 969	258%	$ (202)	(54)%
Increase in diluted earnings per common share	$ .974	141%	$ 2.076	301%	$ (.433)	(63)%

	Year Ended December 31, 2007					
	Interest Rates:				Asset and Funding Index Mismatches[1]	
(Dollars in millions, except per share amounts)	Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points		Increase of 25 Basis Points	
	$	%	$	%	$	%

Effect on Earnings						
Increase/(decrease) in pre-tax net income before unrealized gains (losses) on derivative and hedging activities	$ 11	1%	$ 32	4%	$ (229)	(27)%
Unrealized gains (losses) on derivative and hedging activities	213	16	375	28	80	6
Increase in net income before taxes	$ 224	46%	$ 407	85%	$ (149)	(31)%
Increase in diluted earnings per common share	$ .361	16%	$ .674	30%	$ (.361)	(16)%

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

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(Dollars in millions)	Fair Value	At December 31, 2008 Interest Rates: Change from Increase of 100 Basis Points $	%	Change from Increase of 300 Basis Points $	%
Effect on Fair Values					
Assets					
Total FFELP student loans	$ 107,319	$ (758)	(1)%	$ (1,602)	(1)%
Private Education Loans	14,141				
Other earning assets	9,265	(9)		(25)	
Other assets	14,590	(848)	(6)	(2,108)	(14)
Total assets	$ 145,315	$ (1,615)	(1)%	$ (3,735)	(3)%
Liabilities					
Interest bearing liabilities	$ 135,070	$ (837)	(1)%	$ (2,500)	(2)%
Other liabilities	3,604	(293)	(8)	(273)	(8)
Total liabilities	$ 138,674	$ (1,130)	(1)%	$ (2,773)	(2)%

(Dollars in millions)	Fair Value	At December 31, 2007 Interest Rates: Change from Increase of 100 Basis Points $	%	Change from Increase of 300 Basis Points $	%
Effect on Fair Values					
Assets					
Total FFELP student loans	$ 111,552	$ (303)	%	$ (603)	(1)%
Private Education Loans	17,289				
Other earning assets	16,321	(20)		(59)	
Other assets	15,092	(887)	(6)	(1,566)	(10)
Total assets	$ 160,254	$ (1,210)	(1)%	$ (2,228)	(1)%
Liabilities					
Interest bearing liabilities	$ 141,055	$ (1,424)	(1)%	$ (3,330)	(2)%
Other liabilities	3,285	392	12	1,471	45

Total liabilities	$ 144,340	$ (1,032)	(1)%	$ (1,859)	(1)%

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, as discussed under LENDING BUSINESS SEGMENT Summary of our Managed Student Loan Portfolio *Floor Income Managed Basis*, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating. In addition, we can have a mismatch in the index of floating rate debt versus floating rate assets.

During the years ended December 31, 2008 and 2007, certain FFELP student loans were earning Floor Income and we locked in a portion of that Floor Income through the use of interest rate swaps and Floor Income Contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

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In the above table, under the scenario where interest rates increase 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our off-balance sheet hedged FFELP Consolidation Loan securitizations and the related Embedded Floor Income recognized as part of the gain on sale, which results in a decrease in payments on the written Floor contracts that more than offset impairment losses on the Embedded Floor Income in the Residual Interest; (ii) in low interest rate environments, our unhedged on-balance sheet loans being in a fixed-rate mode due to Embedded Floor Income while being funded with a variable debt; (iii) a portion of our fixed rate assets being funded with variable debt and (iv) a portion of our variable assets being funded with fixed debt. Items (i) and (iv) will generally cause income to increase when interest rates increase from a low interest rate environment, whereas, items (ii) and (iii) will generally offset this increase. In the 100 basis point scenario for the year ended December 31, 2008, item (ii) had a greater impact than items (i) and (iv) resulting in a net loss. However, in the 300 basis point scenario, the impact of item (ii) was less relative to item (iv). In the 100 and 300 basis point scenario for the year ended December 31, 2007, items (i) and (iv) had a greater impact than item (ii) resulting in a net gain.

Under the scenario in the tables above, called Asset and Funding Index Mismatches, the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities is the result of LIBOR-based debt funding commercial paper-indexed assets. See Market and Interest Rate Risk Management Asset and Liability Funding Gap for a further discussion. Increasing the spread between indices will also impact the unrealized gains (losses) on derivatives and hedging activities as it relates to basis swaps. Basis swaps used to convert LIBOR-based debt to indices that we believe are economic hedges of the indices of the assets being funded resulted in unrealized losses of $(134) million and $(175) million for the years ended December 31, 2008 and 2007, respectively. Offsetting this unrealized loss are basis swaps that economically hedge our off-balance sheet Private Credit securitization trusts. Unrealized gains for these basis swaps totaled $229 million and $255 million for the years ended December 31, 2008 and 2007, respectively. The net impact of both of these items was an unrealized gain for all periods presented.

In addition to interest rate risk addressed in the preceding tables, the Company is also exposed to risks related to foreign currency exchange rates. Foreign currency exchange risk is primarily the result of foreign denominated debt issued by the Company. As it relates to the Company s corporate unsecured and securitization debt programs used to fund the Company s business, the Company s policy is to use cross currency interest rate swaps to swap all foreign denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging instrument and hedged items matching. The balance sheet interest bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross currency interest rate swaps in other assets or other liabilities. In addition, the Company has foreign exchange risk as a result of international operations; however, the exposure is minimal at this time.

Item 8. Financial Statements and Supplementary Data

Reference is made to the financial statements listed under the heading (a) 1.A. Financial Statements of Item 15 hereof, which financial statements are incorporated by reference in response to this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Nothing to report.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of December 31, 2008. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of

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December 31, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (b) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the fiscal quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Nothing to report.

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PART III.

Item 10. Directors, Executive Officers and Corporate Guidance

The information regarding directors and executive officers set forth under the headings Proposal 1: Election of Directors and Executive Officers in the Proxy Statement to be filed on schedule 14A relating to the Company s Annual Meeting of Stockholders scheduled to be held on May 22, 2009 (the 2009 Proxy Statement) is incorporated by reference in this section.

The information regarding reports filed under Section 16 of the Securities and Exchange Act of 1934 set forth under the heading Section 16(a) Beneficial Ownership Reporting Compliance of our 2009 Proxy Statement is incorporated by reference in this section.

The information regarding the Company s Code of Business Conduct set forth under the heading Code of Business Conduct of our 2009 Proxy Statement is incorporated by reference in this section.

The information regarding the Company s process regarding nominees to the board of directors and the identification of the audit committee financial experts set forth under the heading Corporate Governance of our 2009 Proxy Statement is incorporated by reference in this section.

Item 11. Executive Compensation

The information set forth under the caption Executive and Director Compensation in the Proxy Statement is incorporated into this Annual Report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth in Note 13, Stock-Based Compensation Plans and Arrangements, to the consolidated financial statements, and listed under the heading (a) 1.A. Financial Statements of Item 15 hereof and the information set forth under the captions Stock Ownership and General Information Principal Shareholders in the Proxy Statement is incorporated by reference in this section. There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth under the caption Related-Party Transactions and, regarding director independence, Corporate Governance in the Proxy Statement is incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information set forth under the caption Ratification of the Appointment of Independent Registered Public Accounting Firm in the Proxy Statement is incorporated by reference in this section.

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PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements

A. The following consolidated financial statements of SLM Corporation and the Report of the Independent Registered Public Accounting Firm thereon are included in Item 8 above:

Management s Annual Report on Internal Control over Financial Reporting	F-2
Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-4
Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006	F-5
Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2008, 2007 and 2006	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	F-8
Notes to Consolidated Financial Statements	F-9

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report.

The Company will furnish at cost a copy of any exhibit filed with or incorporated by reference into this Annual Report. Oral or written requests for copies of any exhibits should be directed to the Corporate Secretary.

4. Appendices

Appendix A Federal Family Education Loan Program

(b) Exhibits

2	Agreement and Plan of Reorganization by and among the Student Loan Marketing Association, SLM Holding Corporation, and Sallie Mae Merger Company incorporated by reference to the correspondingly numbered exhibits to the Company s Registration Statement on Form S-4, as amended.
3.1	Amended and Restated Certificate of Incorporation of the Company , incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K filed on January 2, 2008
3.2	Amended By-Laws of the Company incorporated by reference to Exhibit 3.1(ii) of the Company s Current Report on Form 8-K filed on August 6, 2008.
10.1	Board of Directors Stock Option Plan (Incorporated by reference to the Company Definitive Proxy Statement on Schedule 14A, as filed with the Securities and Exchange Commission on April 10, 1998.

10.2 SLM Holding Corporation Management Incentive Plan, incorporated by reference to Exhibit B of the Company s Definitive Proxy Statement on Schedule 14A, as filed on April 10, 1998.

10.3 Stock Option Agreement, SLM Corporation Incentive Plan, ISO, Price-Vested with Replacements 2004, incorporated by reference to Exhibit 10.2 of the Company s Quarterly Report on Form 10-Q filed on November 9, 2004.

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10.4	Stock Option Agreement, SLM Corporation Incentive Plan, Non-Qualified, Price-Vested Options-2004, incorporated by reference to Exhibit 10.3 of the Company s Quarterly Report on Form 10-Q filed on November 9, 2004.
10.5	Terms of Performance Stock Grant, incorporated by reference to Exhibit 10.4 of the Company s Quarterly Report on Form 10-Q filed on November 9, 2004.
10.6	Settlement Agreement and Release (1) (Filed with the Securities and Exchange Commission with the Company Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.7	First Amendment to Settlement Agreement and Release (1) (Filed with the Securities and Exchange Commission with the Company Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.8	Second Amendment to Settlement Agreement and Release (1) (Filed with the Securities and Exchange Commission with the Company Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.9	Amended and Restated SLM Corporation Incentive Plan, incorporated by reference to Exhibit 10.24 of the Company s Current Report on Form 8-K filed on May 25, 2005.
10.10	Director s Stock Plan, incorporated by reference to Exhibit 10.25 of the Company s Current Report on Form 8-K filed on May 25, 2005.
10.11	Employment Agreement between the Company and Thomas J. Fitzpatrick, President and Chief Executive Officer, effective as of June 1, 2005, incorporated by reference to Exhibit 10.23 of the Company s Quarterly Report on Form 10-Q filed on November 8, 2005.
10.12	SLM Corporation Incentive Plan Performance Stock Term Sheet Core Net Income Target, incorporated by reference to Exhibit 10.25 of the Company s Annual Report on Form 10-K filed on March 9, 2006.
10.13	Stock Option Agreement SLM Corporation Incentive Plan Net-Settled, Price-Vested Options 1 year minimum 2006, incorporated by reference to Exhibit 10.25 of the Company s Annual Report on Form 10-K filed on March 9, 2006.
10.14	SLM Corporation Change in Control Severance Plan for Senior Officers, incorporated by reference to Exhibit 10.27 of the Company s Annual Report on Form 10-K filed on March 9, 2006.
10.15	Participation Purchase and Security Agreement between Mustang Funding I LLC, Bank of American, JP Morgan Chase, Chase Bank USA, Sallie Mae, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on August 7, 2007.
10.16	Participation Purchase and Security Agreement between Mustang Funding II LLC, Bank of American, JP Morgan Chase, Chase Bank USA, Sallie Mae, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on August 7, 2007.
10.17	Confidential Agreement and Release between the Company and Kevin F. Moehn, dated December 19, 2007, incorporated by reference to Exhibit 10.28 of the Company s Annual Report on Form 10-K filed on February 29, 2008.
10.18	Confidential Agreement and Release between the Company and June M. McCormack, dated December 22, 2007, incorporated by reference to Exhibit 10.29 of the Company s Annual Report on Form 10-K filed on February 29, 2008.
10.19	Retainer Agreement between Anthony P. Terracciano and the Company, incorporated by reference to Exhibit 10.30 of the Company s Quarterly Report on Form 10-Q filed on May 9, 2008.
10.20	Employment Agreement between Albert L. Lord and the Company, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on May 9, 2008.
10.21	Note of Purchase and Security Agreement between Phoenix Funding I, Sallie Mae, Bank of NY Trust Company, Deutsche Bank Trust Company Americas, UBS Real Estate Securities, UBS Securities LLC, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on May 9, 2008.

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10.22	Note of Purchase and Security Agreement between Rendezvous Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on May 9, 2008.
10.23	Note of Purchase and Security Agreement between Bluemont Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on May 9, 2008.
10.24	Employment Agreement between Jack Remondi and The Company, incorporated by reference to Exhibit 10.31 of the Company s Quarterly Report on Form 10-Q filed on August 6, 2008.
10.25	Sallie Mae Deferred Compensation Plan for Key Employees Restatement Effective January 1, 2009, filed with this Form 10-K.
10.26	Sallie Mae Supplemental 401(k) Savings Plan, filed with this Form 10-K.
10.27	Sallie Mae Supplemental Cash Account Retirement Plan, filed with this Form 10-K.
10.28	Amendment to the Note of Purchase and Security Agreement between Phoenix Funding I, Sallie Mae, Bank of NY Trust Company, Deutsche Bank Trust Company Americas, UBS Real Estate Securities, UBS Securities LLC, incorporated by reference to the Company s Quarterly Report on Form 10-Q filed on May 9, 2008; filed with this Form 10-K.
10.29	Amendment to the Note of Purchase and Security Agreement between Rendezvous Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to the Company s Quarterly Report on Form 10-Q filed on May 9, 2008; filed with this Form 10-K.
10.30	Amendment to the Note of Purchase and Security Agreement between Bluemont Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to the Company s Quarterly Report on Form 10-Q filed on May 9, 2008; filed with this Form 10-K.
10.31	Amendment to Schedule of Contracts Substantially Identical to Exhibit 10.34 of the Company s Quarterly Report on Form 10-Q filed on May 9, 2008; filed with this Form 10-K.
10.32	SLM Corporation Incentive Stock Plan Stock Option Agreement, Net-Settled, Performance Vested Options, 2009, filed with this Form 10-K.
10.33	SLM Corporation Incentive Plan Performance Stock Term Sheet, Core Earnings Net Income Target -Sustained Performance, 2009, filed with this Form 10-K.
14	Code of Business Conduct (Filed with the Securities and Exchange Commission with the Company Annual Report on Form 10-K for the year ended December 31, 2003).
23	Consent of PricewaterhouseCoopers LLP (Filed with the Securities and Exchange Commission with this Form 10-K).
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K).
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K).
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K).

Management Contract or Compensatory Plan or Arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: March 2, 2009

SLM CORPORATION

By: /s/ Albert L. Lord
Albert L. Lord
Vice Chairman and Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Albert L. Lord Albert L. Lord	Vice Chairman and Chief Executive Officer (Principal Executive Officer)	March 2, 2009
/s/ John F. Remondi John F. Remondi	Vice Chairman and Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2009
/s/ Anthony P. Terracciano Anthony P. Terracciano	Chairman of the Board of Directors	March 2, 2009
/s/ Ann Torre Bates Ann Torre Bates	Director	March 2, 2009
/s/ William M. Diefenderfer, III William M. Diefenderfer, III	Director	March 2, 2009
/s/ Diane Suitt Gilleland Diane Suitt Gilleland	Director	March 2, 2009
/s/ Earl A. Goode Earl A. Goode	Director	March 2, 2009
/s/ Ronald F. Hunt	Director	March 2, 2009

Ronald F. Hunt		
/s/ Michael E. Martin	Director	March 2, 2009
Michael E. Martin		
/s/ Barry A. Munitz	Director	March 2, 2009
Barry A. Munitz		

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Signature	Title	Date
/s/ Howard H. Newman Howard H. Newman	Director	March 2, 2009
/s/ A. Alexander Porter, Jr. A. Alexander Porter, Jr.	Director	March 2, 2009
/s/ Frank C. Puleo Frank C. Puleo	Director	March 2, 2009
/s/ Wolfgang Schoellkopf Wolfgang Schoellkopf	Director	March 2, 2009
/s/ Steven L. Shapiro Steven L. Shapiro	Director	March 2, 2009
/s/ J. Terry Strange J. Terry Strange	Director	March 2, 2009
/s/ Barry L. Williams Barry L. Williams	Director	March 2, 2009

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CONSOLIDATED FINANCIAL STATEMENTS
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MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management also used an IT governance framework that is based on the COSO framework, *Control Objectives for Information and related Technology*, which was issued by the Information Systems Audit and Control Association and the IT Governance Institute. Based on our assessment and those criteria, management concluded that, as of December 31, 2008, our internal control over financial reporting is effective.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of the Company s internal control over financial reporting as of December 31, 2008, as stated in their report which appears below.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SLM Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of SLM Corporation and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for retained interests in 2008.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
McLean, VA
March 2, 2009

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

	December 31, 2008	December 31, 2007
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $90,906 and $47,518, respectively)	$ 44,025,361	$ 35,726,062
FFELP Stafford Loans Held-for-Sale	8,450,976	
FFELP Consolidation Loans (net of allowance for losses of $46,637 and $41,211, respectively)	71,743,435	73,609,187
Private Education Loans (net of allowance for losses of $1,308,043 and $1,003,963, respectively, as corrected)	20,582,298	14,817,725
Other loans (net of allowance for losses of $58,395 and $43,558, respectively)	729,380	1,173,666
Investments		
Available-for-sale	861,008	2,871,340
Other	180,397	93,040
Total investments	1,041,405	2,964,380
Cash and cash equivalents	4,070,002	7,582,031
Restricted cash and investments	3,535,286	4,600,106
Retained Interest in off-balance sheet securitized loans	2,200,298	3,044,038
Goodwill and acquired intangible assets, net	1,249,219	1,300,689
Other assets	11,140,777	10,747,107
Total assets	$ 168,768,437	$ 155,564,991
Liabilities		
ED Participation Program	$ 7,364,969	$
Term bank deposits	1,147,825	254,029
Other short-term borrowings	33,420,249	35,693,378
Total short-term borrowings	41,933,043	35,947,407
Long-term borrowings	118,224,794	111,098,144
Other liabilities	3,604,260	3,284,545
Total liabilities	163,762,097	150,330,096
Commitments and contingencies		
Minority interest in subsidiaries	7,270	11,360
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized		
Series A: 3,300 and 3,300 shares issued, respectively, at stated value of $50 per share	165,000	165,000
Series B: 4,000 and 4,000 shares issued, respectively, 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	1,149,770	1,000,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,411 and 532,493 shares issued, respectively	106,883	106,499
Additional paid-in capital	4,684,112	4,590,174
Accumulated other comprehensive income (loss) (net of tax benefit of $43,202 and expense of $124,468, respectively)	(76,476)	236,364
Retained earnings	426,175	557,204
Stockholders equity before treasury stock	6,855,464	7,055,241
Common stock held in treasury at cost: 66,958 and 65,951 shares, respectively	1,856,394	1,831,706
Total stockholders equity	4,999,070	5,223,535
Total liabilities and stockholders equity	$ 168,768,437	$ 155,564,991

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2008	**2007**	**2006**
Interest income:			
FFELP Stafford and Other Student Loans	$ 1,994,394	$ 2,060,993	$ 1,408,938
FFELP Consolidation Loans	3,178,692	4,343,138	3,545,857
Private Education Loans	1,737,554	1,456,471	1,021,221
Other loans	82,734	105,843	97,954
Cash and investments	276,264	707,577	503,002
Total interest income	7,269,638	8,674,022	6,576,972
Total interest expense	5,905,418	7,085,772	5,122,855
Net interest income	1,364,220	1,588,250	1,454,117
Less: provisions for loan losses	719,650	1,015,308	286,962
Net interest income after provisions for loan losses	644,570	572,942	1,167,155
Other income:			
Gains on student loan securitizations		367,300	902,417
Servicing and securitization revenue	261,819	437,097	553,541
Losses on sales of loans and securities, net	(186,155)	(95,492)	(49,357)
Gains (losses) on derivative and hedging activities, net	(445,413)	(1,360,584)	(339,396)
Contingency fee revenue	340,140	335,737	396,830
Collections revenue (loss)	(64,038)	271,547	239,829
Guarantor servicing fees	121,363	156,429	132,100
Other	392,076	385,075	338,307
Total other income	419,792	497,109	2,174,271
Operating expenses:			
Salaries and benefits	610,020	734,777	703,210
Other operating expenses	746,835	794,565	642,942
Restructuring expenses	83,775	22,505	
Total expenses	1,440,630	1,551,847	1,346,152
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(376,268)	(481,796)	1,995,274
Income tax expense (benefit)	(167,574)	412,283	834,311
Income (loss) before minority interest in net earnings of subsidiaries	(208,694)	(894,079)	1,160,963
Minority interest in net earnings of subsidiaries	3,932	2,315	4,007

Net income (loss)	(212,626)	(896,394)	1,156,956
Preferred stock dividends	111,206	37,145	35,567
Net income (loss) attributable to common stock	$ (323,832)	$ (933,539)	$ 1,121,389
Basic earnings (loss) per common share	$ (.69)	$ (2.26)	$ 2.73
Average common shares outstanding	466,642	412,233	410,805
Diluted earnings (loss) per common share	$ (.69)	$ (2.26)	$ 2.63
Average common and common equivalent shares outstanding	466,642	412,233	451,170
Dividends per common share	$	$ .25	$ .97

See accompanying notes to consolidated financial statements.

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

red k es	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
000	426,483,527	(13,346,717)	413,136,810	$565,000	$ 85,297	$ 2,233,647	$ 367,910	$ 1,111,743
								1,156,956
							(41,953)	
							4,990	
							(569)	
							18,733	
								(398,414)
								(11,500)
								(23,420)
	6,629,455	64,141	6,693,596		1,326	204,996		
						647		(647)
						54,522		
						71,399		

		(2,159,827)	(2,159,827)						
		(5,395,979)	(5,395,979)						
		(1,657,788)	(1,657,788)						
000	433,112,982	(22,496,170)	410,616,812	$565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718	
									(896,394)
							(101,591)		
							(15,004)		
							3,848		
									(102,658)
									(11,500)
									(24,796)
									(201)
									(8)
	99,380,099	9,816,534	109,196,633		19,876	1,940,708			(235,548)
000				1,000,000		(30,678)			(648)
						49,016			
						65,917			
									(5,761)
		(1,809,700)	(1,809,700)						
		(4,110,929)	(4,110,929)						

		(44,039,890)	(44,039,890)						
		(3,311,239)	(3,311,239)						
000	532,493,081	(65,951,394)	466,541,687	$1,565,000	$ 106,499	$ 4,590,174	$ 236,364	$	557,204

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

rred ck	Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive	Retained
res	Issued	Treasury	Outstanding	Stock	Stock	Capital	Income (Loss)	Earnings
0,000	532,493,081	(65,951,394)	466,541,687	$ 1,565,000	$ 106,499	$ 4,590,174	$ 236,364	$ 557,204
								(212,626)
							(45,360)	
							(71,412)	
							(1,413)	
								(11,501)
								(15,927)
								(83,128)
								(1,852)

	1,908,595	3,667	1,912,262		382	38,575			
0,000				150,000		(4,005)			(650)
(230)	9,595		9,595	(230)	2	228			
						(16,981)			
						76,121			
							(194,655)		194,655
		(1,010,673)	(1,010,673)						
9,770	534,411,271	(66,958,400)	467,452,871	$ 1,714,770	$ 106,883	$ 4,684,112	$ (76,476)	$	426,175

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2008	**2007**	**2006**
Operating activities			
Net income (loss)	$ (212,626)	$ (896,394)	$ 1,156,956
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Gains on student loan securitizations		(367,300)	(902,417)
Losses on loans and securities, net	186,155	95,492	49,357
Stock-based compensation cost	86,271	74,621	81,163
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	559,895	(214,963)	(128,529)
Unrealized (gains)/losses on derivative and hedging activities equity forwards		1,558,025	359,193
Provisions for loan losses	719,650	1,015,308	286,962
Minority interest, net	(2,674)	(779)	(2,461)
Mortgage loans originated	(60,927)	(546,773)	(1,291,782)
Proceeds from sales of mortgage loans	66,396	615,274	1,364,448
Decrease (increase) in purchased paper-mortgages, net	301,234	(618,117)	(214,916)
(Increase) in student loans held-for-sale	(7,787,869)		
Decrease (increase) in restricted cash other	96,617	(84,537)	71,312
(Increase) in accrued interest receivable	(279,082)	(1,046,124)	(970,580)
(Decrease) increase in accrued interest payable	(200,501)	214,401	277,617
Adjustment for non-cash (income)/loss related to Retained Interest	425,462	279,246	157,715
Decrease in other assets, goodwill and acquired intangible assets, net	559,417	761,787	730,221
(Decrease) in other liabilities	(155,768)	(890,464)	(215,838)
Total adjustments	(5,485,724)	845,097	(348,535)
Net cash (used in) provided by operating activities	(5,698,350)	(51,297)	808,421
Investing activities			
Student loans acquired	(23,337,946)	(39,303,005)	(36,364,686)
Loans purchased from securitized trusts (primarily loan consolidations)	(1,243,671)	(4,448,766)	(7,443,157)
Reduction of student loans:			
Installment payments, claims and other	10,333,901	11,413,044	10,617,867
Proceeds from securitization of student loans treated as sales		1,976,599	19,521,365
Proceeds from sales of student loans	496,183	1,013,295	101,212
Other loans originated	(1,138,355)	(3,396,501)	(2,082,670)
Other loans repaid	1,542,307	3,420,187	1,834,471
Other investing activities, net	(135,041)	(358,209)	(210,969)

Purchases of available-for-sale securities	(101,140,587)	(90,087,504)	(85,189,100)
Proceeds from sales of available-for-sale securities	328,530	73,217	25,941
Proceeds from maturities of available-for-sale securities	102,436,912	89,353,103	85,015,345
Purchases of held-to-maturity and other securities	(500,255)	(330,450)	(1,066,290)
Proceeds from maturities of held-to-maturity securities and other securities	407,180	435,468	1,278,897
Decrease (increase) in restricted cash on-balance sheet trusts	918,403	(1,293,846)	(304,749)
Return of investment from Retained Interest	403,020	276,996	140,435
Purchase of subsidiaries, net of cash acquired	(37,868)		(339,836)
Net cash used in investing activities	(10,667,287)	(31,256,372)	(14,465,924)
Financing activities			
Borrowings collateralized by loans in trust issued	17,986,955	23,943,837	12,984,937
Borrowings collateralized by loans in trust repaid	(6,299,483)	(6,429,648)	(5,578,268)
Asset-backed commercial paper conduits net activity	(1,649,287)	21,073,857	(6,173)
ED Participation Program	7,364,969		
Other short-term borrowings issued	2,592,429	594,434	15,374,178
Other short-term borrowings repaid	(1,512,031)	(2,342,953)	(15,434,264)
Other long-term borrowings issued	3,563,003	1,567,602	11,739,249
Other long-term borrowings repaid	(9,518,655)	(3,188,249)	(4,744,432)
Other financing activities, net	284,659	901,263	202,452
Excess tax benefit from the exercise of stock-based awards	281	30,316	32,985
Common stock issued	5,979	2,125,111	192,520
Net settlements on equity forward contracts		(614,217)	(66,925)
Common stock repurchased		(2,222,394)	(482,855)
Common dividends paid		(102,658)	(398,414)
Preferred stock issued	145,345	968,674	
Preferred dividends paid	(110,556)	(36,497)	(34,920)
Net cash provided by financing activities	12,853,608	36,268,478	13,780,070
Net (decrease) increase in cash and cash equivalents	(3,512,029)	4,960,809	122,567
Cash and cash equivalents at beginning of year	7,582,031	2,621,222	2,498,655
Cash and cash equivalents at end of year	$ 4,070,002	$ 7,582,031	$ 2,621,222
Cash disbursements made for:			
Interest	$ 5,721,408	$ 6,897,773	$ 4,512,737
Income taxes	$ 699,364	$ 1,097,340	$ 770,004

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts, unless otherwise stated)

1. Organization and Business

SLM Corporation (the Company) is a holding company that operates through a number of subsidiaries. The Company was formed 36 years ago as the Student Loan Marketing Association, a federally chartered government-sponsored enterprise (the GSE), with the goal of furthering access to higher education by acting as a secondary market for student loans. In 2004, the Company completed its transformation to a private company through its wind-down of the GSE. The GSE s outstanding obligations were placed into a Master Defeasance Trust Agreement as of December 29, 2004, which was fully collateralized by direct, noncallable obligations of the United States.

The Company s primary business is to originate and hold student loans by providing funding, delivery and servicing support for education loans in the United States through its participation in the Federal Family Education Loan Program (FFELP) and through offering non-federally guaranteed Private Education Loans. The Company primarily markets its FFELP Stafford and Private Education Loans through on-campus financial aid offices.

The Company has expanded into a number of fee-based businesses, most notably its Asset Performance Group (APG), formerly known as Debt Management Operations (DMO) business, which is presented as a distinct segment in accordance with the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company s APG business 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 as well as sub-performing and non-performing mortgage loans. In 2008, the Company concluded that its APG purchased paper business no longer produces a mutual strategic fit. The Company finalized the sale of its international purchased paper non-mortgage business in the first quarter of 2009 and is winding down the domestic side of its purchased paper non-mortgage and purchased paper mortgage/properties businesses.

The Company also earns fees for a number of services including student loan and guarantee servicing, loan default aversion and defaulted loan collections, and for providing processing capabilities and information technology to educational institutions, as well as, 529 college savings plan program management, transfer and servicing agent services, and administration services through Upromise Investments, Inc. (UII) and Upromise Investment Advisors, LLC (UIA). The Company also operates a consumer savings network through Upromise, Inc. (Upromise). References in this Annual Report to Upromise refer to Upromise and its subsidiaries, UII and UIA.

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. signed a definitive agreement (Merger Agreement) to acquire the Company (the Proposed Merger) for approximately $25.3 billion or $60.00 per share of common stock. 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, the lawsuit filed by the Company on October 8, 2007, related to the Proposed Merger, as well as all counterclaims, was dismissed and the Merger Agreement dated April 15, 2007, among the Company, Mustang Holding and Mustang Sub was terminated on

January 25, 2008.

On February 26, 2009, the Administration issued their 2010 budget request to Congress, which included provisions that could impact significantly the FFELP. The President s budget overview states: FFEL processors would continue to receive federal subsidies for new loans originated in the 2009-2010 academic

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts, unless otherwise stated)

1. Organization and Business (Continued)

year and prior academic years under the regular FFEL program and the emergency programs established by the Ensuring Continued Access to Student Loans Act of 2008. The budget proposal must be passed in the Congress, prior to enactment into law. The Company will work with Congress and ED to assist them in achieving the objectives outlined in the Administration s 2010 budget request.

2. Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of SLM Corporation and its subsidiaries, after eliminating the effects of intercompany accounts and transactions.

Financial Interpretation (FIN) No. 46(R), Consolidation of Variable Interest Entities, requires Variable Interest Entities (VIEs) to be consolidated by their primary beneficiaries. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity s activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

As further discussed in Note 8, Student Loan Securitization, the Company does not consolidate any qualifying special purpose entities (QSPEs) created for securitization purposes in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of SFAS No. 125. All of the Company s off-balance sheet securitizations meet the definition of a QSPE and are not consolidated. The Company s accounting treatment for its on-balance sheet securitizations, which are not QSPEs, are governed by FIN No. 46(R) and are consolidated in the accompanying financial statements as the Company is the primary beneficiary.

Use of Estimates

The Company s financial reporting and accounting policies conform to generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key accounting policies that include significant judgments and estimates include valuation and income recognition related to allowance for loan losses, loan effective interest rate method (student loan premiums and discounts), fair value measurements, securitization activities (gain on sale and the related retained interest), and derivative accounting.

Loans

Loans, consisting of federally insured student loans, Private Education Loans, student loan participations, lines of credit, academic facilities financings, and other private consumer and mortgage loans that the Company has the ability and intent to hold for the foreseeable future are classified as held for investment and are carried at amortized cost. Amortized cost includes the unamortized premiums, discounts, and capitalized origination costs and fees, all of which are amortized to interest income as further discussed below. Loans which are held-for-investment also have an allowance for loan loss as needed. Any loans the Company has the ability and intent to sell are classified as held for sale, and carried at the lower of cost or fair value. Loans

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts, unless otherwise stated)

2. Significant Accounting Policies (Continued)

which are held-for-sale do not have the associated premium, discount, and capitalized origination costs and fees amortized into interest income and there is also no related allowance for loan loss.

As market conditions warrant, the Company actively securitizes loans but securitization is viewed as one of many different sources of financing. At the time of a funding need, the most advantageous funding source is identified and, if that source is the securitization program, loans are selected based on the required characteristics to structure the desired transaction (e.g., type of loan, mix of interim vs. repayment status, credit rating, maturity dates, etc.). The Company structures securitizations to obtain the most favorable financing terms and as a result, due to some of the structuring terms, certain transactions qualify for sale treatment under SFAS No. 140 while others do not qualify for sale treatment and are recorded as financings. All student loans are initially categorized as held for investment until there is certainty as to each specific loan s ultimate financing because the Company does not securitize all loans and not all securitizations qualify as sales. It is only when the Company has selected the loans to securitize and that securitization transaction qualifies as a sale under SFAS No. 140 has the Company made the decision to sell such loans. At that time, the loans selected are transferred into the held-for-sale classification and carried at the lower of cost or fair value. If the Company anticipates recognizing a gain related to the impending securitization, then the fair value of the loans is higher than their respective cost basis and no valuation allowance is needed.

Under the Ensuring Continued Access to Student Loans Act of 2008, ED has implemented the Loan Purchase Commitment Program (Purchase Program). Under the Purchase Program, ED will purchase eligible FFELP loans at a set price by September 30, 2009 at the option of the Company. The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. The Company currently has the ability and intent to sell such loans to ED under the Purchase Program due to the current environment in the capital markets. These loans are included in the FFELP Stafford Held-for-Sale Loans line on the consolidated balance sheets.

Student Loan Income

The Company recognizes student loan interest income as earned, adjusted for the amortization of premiums and capitalized direct origination costs, accretion of discounts, and after giving effect to borrower utilization of incentives for timely payment (Repayment Borrower Benefits). These adjustments are made in accordance with SFAS No. 91, Accounting for Non-Refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, which requires income to be recognized based upon the expected yield of the loan over its life after giving effect to prepayments and extensions, and to estimates related to Repayment Borrower Benefits. As a result, for loans that are held for investment, premiums, discounts, and capitalized direct origination costs and fees are amortized over the estimated life of the loan, which includes an estimate of prepayment speeds. The estimate of the prepayment speed must consider the effect of consolidations, voluntary prepayments and student loan defaults, all of which shorten the life of loan. Prepayment speed estimates must also consider the utilization of deferment and forbearance, which lengthen the life of loan, coupled with management s expectation of future activity. For Repayment Borrower Benefits, the estimates of their effect on student loan yield are based on analyses of historical payment behavior of borrowers who are eligible for the incentives and its effect on the ultimate qualification rate for these incentives. The Company periodically evaluates the assumptions used to estimate its loan life and the qualification rates used for Repayment Borrower Benefits. In instances where there are changes to the assumptions, amortization is adjusted on a cumulative basis to reflect the change since the acquisition of the loan. The Company pays an annual 105 basis point

Consolidation Loan Rebate Fee on FFELP Consolidation Loans which is netted against student loan income. Additionally, interest earned on student loans reflects

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2. Significant Accounting Policies (Continued)

potential non-payment adjustments in accordance with the Company s non-accrual policy as discussed further in *Allowance for Student Loan Losses* below.

The Company recognizes certain fee income (primarily late fees and forbearance fees) on student loans according to the contractual provisions of the promissory notes, as well as the Company s expectation of collectability. Student loan fee income is recorded when earned in other income in the consolidated statements of income.

Allowance for Student Loan Losses

The Company has established an allowance for student loan losses that is an estimate of probable losses incurred in the FFELP and Private Education Loan portfolios at the balance sheet date. The Company presents student loans net of the allowance on the balance sheet. Estimated probable losses are expensed through the provision for loan losses in the period that the loss event occurs. Estimated probable losses contemplate expected recoveries. As further discussed in Note 4, Allowance for Loan Losses, the Company changed its charge-off policy. Prior to December 31, 2008, when a default event occurred, the face amount of the loan was charged to the allowance for loan loss and the amount attributable to expected recoveries would remain in the allowance for loan loss until received. Effective December 31, 2008, charge-offs reflect only the amount of the expected loss (i.e. face amount less expected recovery) and amounts attributable to expected recoveries remain in the balance of student loans.

In evaluating the adequacy of the allowance for losses on the Private Education Loan portfolio, the Company considers several factors including the credit profile of the borrower and/or cosigner, the loan s payment status (e.g., whether the loan is in repayment versus in a permitted non-paying status), months since initially entering repayment, delinquency status, type of program, trends in program completion/graduation rates, and trends in defaults in the portfolio based on Company, industry and economic data. When calculating the Private Education Loan allowance for losses, the Company s methodology, based on a migration analysis, divides the portfolio into categories of similar risk characteristics based on loan program type, underwriting criteria and the existence or absence of a cosigner, with a further breakdown for each of the factors mentioned above within these categories. The Company then applies default and recovery rate projections to each category. Once the quantitative calculation is performed, the Company reviews adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered. Private Education Loan principal is charged off against the allowance when the loan exceeds 212 days delinquency. The Company s collection policies allow for periods of nonpayment for borrowers experiencing temporary difficulty meeting payment obligations which are referred to as forbearance.

FFELP loans are guaranteed (subject to legislative risk sharing requirements) as to both principal and interest, and therefore continue to accrued interest until such time that they are paid by the guarantor. The Company uses a similar methodology applying the same factors (where relevant) when estimating losses for the Risk Sharing on FFELP loans.

The Company s non-accrual policy for Private Education Loans relies on the same loan status migration methodology used for its principal balances to estimate the amount of interest income recognized in the current period that the Company does not expect to collect in subsequent periods. The provision for estimated losses on accrued interest is classified as a reduction in student loan interest income.

When Private Education Loans in the Company s off-balance sheet securitized trusts settling before September 30, 2005 become 180 days delinquent, the Company previously exercised its contingent call option (the Company does not hold the contingent call option for any trusts settling after September 30, 2005) to repurchase these loans at par value and record a loss for the difference in the par value paid and the fair

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2. Significant Accounting Policies (Continued)

market value of the loan at the time of purchase, in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. Beginning in October 2008, the Company decided to no longer exercise its contingent call option. The losses recorded upon repurchase, pertaining to the contingent call option and specialty claims, for the years ended December 31, 2008, 2007, and 2006 were $141 million, $123 million, and $48 million, respectively, and were recorded in the Losses on loans and securities, net line item in the consolidated statements of income. Subsequent to buyback, the Company accounts for these loans under SOP 03-3 in the same manner as discussed under *Collections Revenue* for the Company s purchased paper portfolio. The initial valuation at buyback uses a discount rate similar to that used in valuing the Private Education Loan Residual Interests as that rate takes into account the credit and liquidity risks inherent in the loans being repurchased. Interest income recognized is recorded as part of student loan interest income.

Cash and Cash Equivalents

Cash and cash equivalents includes term federal funds, Eurodollar deposits, money market funds and bank deposits with original terms to maturity of less than three months.

Restricted Cash and Investments

Restricted cash primarily includes amounts for on-balance sheet student loan securitizations and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

In connection with the Company s tuition payment plan product, the Company receives cash from students and parents that in turn is owed to schools. This cash, a majority of which has been deposited at Sallie Mae Bank, is held in escrow for the beneficial owners. In addition, the cash rebates that Upromise members earn from qualifying purchases from Upromise s participating companies are held in trust for the benefit of the members. This cash is restricted to certain investments until distributed in accordance with the Upromise member s request and the terms of the Upromise service. Upromise, which acts as the trustee for the trust, has deposited a majority of the cash with Sallie Mae Bank pursuant to a money market deposit account agreement between Sallie Mae Bank and the trust. Subject to capital requirements and other laws, regulations and restrictions applicable to Utah industrial banks, the cash that is deposited with Sallie Mae Bank in connection with the tuition payment plan and the Upromise rebates described above is not restricted and, accordingly, is not included in restricted cash and investments in the Company s consolidated financial statements, as there is no restriction surrounding the use of funds by the Company.

Securities pledged as collateral related to the Company s derivative portfolio where the counterparty has rights of rehypothecation, are classified as restricted. When the counterparty does not have these rights, the security is recorded in investments and disclosed as pledged collateral in the notes. Cash balances that the Company s indentured trusts deposit in guaranteed investment contracts that are held in trust for the related note holders are classified as restricted investments. Finally, cash received from lending institutions that is invested pending disbursement for student loans is restricted and cannot be disbursed for any other purpose.

Investments

Investments are held to provide liquidity and to serve as a source of income. The majority of the Company s investments are classified as available-for-sale and such securities are carried at fair value, with the temporary changes in fair value carried as a separate component of stockholders equity. Changes in fair value for available-for-sale securities that have been designated as the hedged item in a SFAS No. 133 fair

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2. Significant Accounting Policies (Continued)

value hedge (as it relates to the hedged risks) are recorded in the gains (losses) on derivative and hedging activities, net line in the consolidated statements of income offsetting changes in fair value of the derivative which is hedging such investment. Temporary changes in fair value of the security as it relates to non-hedged risks are carried as a separate component of stockholders equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts, which are amortized using the effective interest rate method. Impairment is evaluated by considering several factors including the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the investment in order to allow for an anticipated recovery in fair value. If, based on the analysis, it is determined that the impairment is other than temporary, the investment is written down to fair value and a loss is recognized through earnings. Securities classified as trading are accounted for at fair value with unrealized gains and losses included in investment income. Securities that the Company has the intent and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost.

The Company also has investments in leveraged leases, primarily with U.S. commercial airlines, which are accounted for at amortized cost net of impairments in other investments, and insurance-related investments carried in other assets.

Interest Expense

Interest expense is based upon contractual interest rates adjusted for the amortization of debt issuance costs and premiums and the accretion of discounts. The Company s interest expense may also be adjusted for net payments/receipts related to interest rate and foreign currency swap agreements and interest rate futures contracts that qualify and are designated as hedges under GAAP. Interest expense also includes the amortization of deferred gains and losses on closed hedge transactions that qualified as cash flow hedges. Amortization of debt issue costs, premiums, discounts and terminated hedge basis adjustments are recognized using the effective interest rate method.

Transfer of Financial Assets

The Company accounts for the transfer of financial assets under SFAS No. 140, Accounting and Servicing of Financial Assets and Extinguishments of Liabilities. The primary activity which falls under SFAS No. 140 for the Company is securitization accounting which is further discussed below. The company s indentured trust debt, ABCP borrowings and ED Participation Program facility were accounted for as on-balance sheet secured borrowings under SFAS No. 140 as the trusts were either not QSPEs and/or the Company controlled the transferred assets. See *Securitization Accounting* below for further discussion on the criteria assessed under SFAS No. 140 to determine whether a transfer of financial assets is a sale or a secured borrowing.

Securitization Accounting

To meet the sale criteria of SFAS No. 140, the Company s securitizations use a two-step structure with a QSPE that legally isolates the transferred assets from the Company, even in the event of bankruptcy. Transactions receiving sale treatment are also structured to ensure that the holders of the beneficial interests issued by the QSPE are not constrained from pledging or exchanging their interests, and that the Company does not maintain effective control

over the transferred assets. If these criteria are not met, then the transaction is accounted for as an on-balance sheet secured borrowing under FIN No. 46(R), as the Company is the primary beneficiary of the VIE. In all cases, irrespective of whether they qualify as sales under SFAS No. 140,

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2. Significant Accounting Policies (Continued)

the Company s securitizations are structured such that legally they are sales of assets that isolate the transferred assets from the Company.

The Company assesses the financial structure of each securitization to determine whether the trust or other securitization vehicle meets the sale criteria as defined in SFAS No. 140 and accounts for the transaction accordingly. To be a QSPE, the trust must meet all of the following conditions:

It is demonstrably distinct from the Company and cannot be unilaterally dissolved by the Company and at least 10 percent of the fair value of its interests is held by independent third parties.

The permitted activities in which the trust can participate are significantly limited. These activities must be entirely specified in the legal documents at the inception of the QSPE.

There are limits to the assets the QSPE can hold; specifically, it can hold only financial assets transferred to it that are passive in nature, passive derivative instruments pertaining to the beneficial interests held by independent third parties, servicing rights, temporary investments pending distribution to security holders, and cash.

It can only dispose of its assets in automatic response to the occurrence of an event specified in the applicable legal documents and must be outside the control of the Company.

In certain securitizations there are certain terms present within the deal structure that result in such securitizations not qualifying for sale treatment by failing to meet the criteria required for the securitization entity (trust) to be a QSPE. Accordingly, these securitization trusts are accounted for as VIEs. Because the Company is considered the primary beneficiary in such VIEs, the transfer is deemed a financing and the trust is consolidated in the financial statements. The terms present in these structures that prevent sale treatment are: (1) the Company holds rights that can affect the remarketing of specific trust bonds that are not significantly limited, (2) the trust has the right to enter into interest rate cap agreements after its settlement date that do not relate to the reissuance of third-party beneficial interests and (3) the Company may hold an unconditional call option related to a certain percentage of trust assets.

Irrespective of whether a securitization receives sale treatment or not, the Company s continuing involvement with its securitization trusts is generally limited to:

Owning the equity certificates of the trust.

The servicing of the student loan assets within the securitization trusts, on both a pre- and post-default basis.

The Company s role as the administrator for the securitization transactions it sponsored, which includes remarketing certain bonds at future dates.

The Company s responsibilities relative to representation and warranty violations and the reimbursement of borrower benefits.

Certain back-to-back derivatives entered into by the Company contemporaneously with the execution of derivatives by certain Private Education Loan securitization trusts.

The option held by the Company to buy certain delinquent loans from certain Private Education Loan securitization trusts.

The option to exercise the clean-up call and purchase the student loans from the trust when the asset balance is 10 percent or less of the original loan balance.

The option (in certain trusts) to call rate reset notes in instances where the remarketing process has failed.

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2. Significant Accounting Policies (Continued)

The investors of the securitization trusts have no recourse to the Company s other assets should there be a failure of the trusts to pay when due. Generally, the only arrangements the Company has to provide financial support to the trusts are:

representation and warranty violations requiring the buybacks of loans;

the reimbursement to the trust of borrower benefits afforded the borrowers of student loans that have been securitized; or

funding specific cash accounts within certain trusts related to the remarketing of certain bonds.

Under the terms of the transaction documents of certain trusts, the Company has from time to time, exercised its options to purchase delinquent loans from Private Education Loan trusts, purchase the remaining loans from trusts once the loan balance falls below 10 percent of the original amount, or call rate reset notes. The Company has not provided any financial support to the securitization trusts that it was not contractually required to provide in the past. Certain trusts maintain financial arrangements with third parties also typical of securitization transactions, such as derivative contracts (swaps) and bond insurance policies that, in the case of a counterparty failure, could adversely impact the value of the Company s Residual Interest.

Retained Interest

The Company securitizes its student loan assets, and for transactions qualifying as sales, retains Residual Interests 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.

When the Company qualifies for sale treatment on its securitizations, it recognizes the resulting gain on student loan securitizations in the consolidated statements of income. This gain is based upon the difference between the allocated cost basis of the assets sold and the relative fair value of the assets received. The component in determining the fair value of the assets received that involves the most judgment is the valuation of the Residual Interest. The Company estimates the fair value of the Residual Interest, both initially and each subsequent quarter, based on the present value of future expected cash flows using management s best estimates of the following key assumptions credit losses, prepayment speeds and discount rates commensurate with the risks involved. Quoted market prices are not available. The Company adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement 115, effective January 1, 2008, whereby the Company elected to carry all Residual Interests at fair value with subsequent changes in fair value recorded in earnings, as further discussed below under *Recently Issued Accounting Policies* The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement 115.

The fair value of the Fixed Rate Embedded Floor Income is a component of the Residual Interest and is determined both initially at the time of the sale of the student loans and each subsequent quarter. This estimate is based on an option valuation and a discounted cash flow calculation that considers the current borrower rate, Special Allowance Payment (SAP) spreads and the term for which the loan is eligible to earn Floor Income as well as time value, forward interest rate curve and volatility factors. Variable Rate Floor Income received is recorded as earned in securitization income.

The Company also receives income for servicing the loans in its securitization trusts which is recognized as earned. The Company assesses the amounts received as compensation for these activities at inception and

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2. Significant Accounting Policies (Continued)

on an ongoing basis to determine if the amounts received are adequate compensation as defined in SFAS No. 140. To the extent such compensation is determined to be no more or less than adequate compensation, no servicing asset or obligation is recorded at the time of securitization. Servicing rights are subsequently carried at the lower of cost or market. At December 31, 2008 and 2007, the Company did not have servicing assets or liabilities recorded on the balance sheet.

Derivative Accounting

The Company accounts for its derivatives, which include interest rate swaps, cross-currency interest rate swaps, interest rate futures contracts, interest rate cap contracts, Floor Income Contracts and equity forward contracts in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. Derivative positions are recorded as net positions by counterparty based on master netting arrangements (see Note 9, Derivative Instruments, under *Risk Management Strategy*) exclusive of accrued interest and cash collateral held or pledged. The Company determines the fair value for its derivative contracts primarily using pricing models that consider current market conditions and the contractual terms of the derivative contract. These factors include interest rates, time value, forward interest rate curve, volatility factors, forward foreign exchange rates, and the closing price of the Company s stock (related to its equity forward contracts). Inputs are generally from active financial markets; however, adjustments are made to derivative valuations for inputs from illiquid markets, and for credit for both when the Company has an exposure to the counterparty net of collateral held and when the counterparty has exposure to the Company net of collateral pledged. The fair values of some derivatives are determined using counterparty valuations. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized with regard to derivatives, and the use of different pricing models or assumptions could produce different financial results. As a matter of policy, the Company compares the fair values of its derivatives that it calculates to those provided by its counterparties. Any significant differences are identified and resolved appropriately.

Many of the Company s derivatives, mainly interest rate swaps hedging the fair value of fixed rate assets and liabilities, cross-currency interest rate swaps, and certain Eurodollar futures contracts, qualify as effective hedges under SFAS No. 133. For these derivatives, the relationship between the hedging instrument and the hedged items (including the hedged risk and method for assessing effectiveness), as well as the risk management objective and strategy for undertaking various hedge transactions at the inception of the hedging relationship, is documented. Each derivative is designated to either a specific asset or liability on the balance sheet or expected future cash flows, and designated as either a fair value or a cash flow hedge. Fair value hedges are designed to hedge the Company s exposure to changes in fair value of a fixed rate or foreign denominated asset or liability, while cash flow hedges are designed to hedge the Company s exposure to variability of either a floating rate asset s or liability s cash flows or an expected fixed rate debt issuance. For effective fair value hedges, both the hedge and the hedged item (for the risk being hedged) are marked-to-market with any difference reflecting ineffectiveness and recorded immediately in the statement of income. For effective cash flow hedges, the change in the fair value of the derivative is recorded in other comprehensive income, net of tax, and recognized in earnings in the same period as the earnings effects of the hedged item. The ineffective portion of a cash flow hedge is recorded immediately through earnings. The assessment of the hedge s effectiveness is performed at inception and on an ongoing basis, generally using regression testing. When it is

determined that a derivative is not currently an effective hedge, ineffectiveness is recognized for the full change in value of the derivative with no offsetting mark-to-market of the hedged item for the current period. If it is also determined the hedge will not be effective in the future, the Company

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2. Significant Accounting Policies (Continued)

discontinues the hedge accounting prospectively, ceases recording changes in the fair value of the hedged item, and begins amortization of any basis adjustments that exist related to the hedged item.

The Company also has a number of derivatives, primarily Floor Income Contracts and certain basis swaps, that the Company believes are effective economic hedges but are not considered hedges under SFAS No. 133. These derivatives are classified as trading for GAAP purposes and as a result they are marked-to-market through GAAP earnings with no consideration for the price fluctuation of the economically hedged item.

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, equity forward contracts that allow a net settlement option either in cash or the Company s stock are required to be accounted for in accordance with SFAS No. 133 as derivatives. Prior to 2008, the Company used these contracts to lock-in the purchase price of the Company s stock related to share repurchases. As a result, the Company marks its equity forward contracts to market through earnings in the gains (losses) on derivative and hedging activities, net line item in the consolidated statements of income along with the net settlement expense on the contracts. See Note 11, Stockholders Equity, for a discussion on the change in accounting related to equity forward contracts as of December 31, 2007. As of January 2008, these contracts had been settled.

The gains (losses) on derivative and hedging activities, net line item in the consolidated statements of income includes the unrealized changes in the fair value of the Company s derivatives (except effective cash flow hedges which are recorded in other comprehensive income), the unrealized changes in fair value of hedged items in qualifying fair value hedges, as well as the realized changes in fair value related to derivative net settlements and dispositions that do not qualify for hedge accounting. Net settlement income/expense on derivatives that qualify as hedges under SFAS No. 133 are included with the income or expense of the hedged item (mainly interest expense).

Goodwill and Acquired Intangible Assets

The Company accounts for goodwill and acquired intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, pursuant to which goodwill is not amortized. Goodwill is tested for impairment annually as of September 30 at the reporting unit level, which is the same as or one level below an operating segment as defined in SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information. Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

In accordance with SFAS No. 142, Step 1 of the goodwill impairment analysis consists of a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds the fair value, Step 2 in the goodwill impairment analysis is performed to measure the amount of impairment loss, if any. Step 2 of the goodwill impairment analysis compares the implied fair value of the reporting unit s goodwill to the carrying value of the reporting unit s goodwill. The implied fair value of goodwill is determined in a manner consistent with determining goodwill in a business combination. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

Other acquired intangible assets, which include but are not limited to tradenames, customer and other relationships, and non-compete agreements, are also accounted for in accordance with SFAS No. 142. Acquired intangible assets

with definite or finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change

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2. Significant Accounting Policies (Continued)

indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of the asset (or asset group) exceeds the estimated undiscounted cash flows used to determine the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value. Indefinite-life acquired intangible assets are not amortized. They are tested for impairment annually as of September 30 or at interim periods if an event occurs or circumstances change that would indicate the carrying value of these assets may be impaired. The annual or interim impairment test of indefinite-lived acquired intangible assets is based primarily on a discounted cash flow analysis.

Guarantor Servicing Fees

The Company provides a full complement of administrative services to FFELP guarantors including guarantee issuance, process, account maintenance, and guarantee fulfillment services for guarantor agencies, the U.S. Department of Education (ED), educational institutions and financial institutions. The fees associated with these services are recognized as earned based on contractually determined rates. The Company is party to a guarantor servicing contract with United Student Aid Funds, Inc. (USA Funds), which accounted for 85 percent, 86 percent and 83 percent of guarantor servicing fees for the years ended December 31, 2008, 2007, and 2006, respectively.

Contingency Fee Revenue

The Company receives fees for collections of delinquent debt on behalf of clients performed on a contingency basis. Revenue is earned and recognized upon receipt of the borrower funds.

The Company also receives fees from guarantor agencies for performing default aversion services on delinquent loans prior to default. The fee is received when the loan is initially placed with the Company and the Company is obligated to provide such services for the remaining life of the loan for no additional fee. In the event that the loan defaults, the Company is obligated to rebate a portion of the fee to the guarantor agency in proportion to the principal and interest outstanding when the loan defaults. The Company recognizes fees received, net of actual rebates for defaults, over the service period which is estimated to be the life of the loan.

Collections Revenue

The Company has purchased delinquent and charged off receivables on various types of consumer debt with a primary emphasis on charged off credit card receivables, and sub-performing and non-performing mortgage loans. The Company accounts for its investments in charged off receivables and sub-performing and non-performing mortgage loans in accordance with AICPA s SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. Under SOP 03-3, the Company establishes static pools of each quarter s purchases and aggregates them based on common risk characteristics. The pools when formed are initially recorded at fair value, based on each pool s estimated future cash flows and internal rate of return. The Company recognizes income each month based on each static pool s effective interest rate. The static pools are tested quarterly for impairment by re-estimating the future cash flows to be received from the pools. If the new estimated cash flows result in a pool s effective interest rate increasing, then this new yield is used prospectively over the remaining life of the static pool. If the new estimated cash flows result in a pool s effective interest rate decreasing, the pool is impaired and written down through a valuation allowance to

maintain the effective interest rate. Net interest income earned, less any impairments recognized, on the purchased portfolios is recorded as collection revenue in the consolidated statements of income. When mortgage loans default and the Company forecloses and owns the underlying real estate, the Company carries

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2. Significant Accounting Policies (Continued)

such real estate at the lower of cost or fair value. Primarily due to the weakening of the U.S. economy and declines in real estate values, the Company recorded $368 million of impairment in 2008 related to the purchased paper portfolios. There is approximately $1.2 billion on the balance sheet as of December 31, 2008 related to those assets.

Restructuring Activities

The Company is restructuring its business in response to the impact of the College Cost Reduction and Access Act of 2007 (CCRAA) and 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 FASB s 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.

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 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

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2. Significant Accounting Policies (Continued)

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 year ended December 31, 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. See Note 15 Restructuring Activities, for further information on the restructuring activities.

Software Development Costs

Certain direct development costs associated with internal-use software are capitalized, including external direct costs of services and payroll costs for employees devoting time to the software projects. These costs are included in other assets and are amortized over a period not to exceed five years beginning when the asset is technologically feasible and substantially ready for use. Maintenance costs and research and development costs relating to software to be sold or leased are expensed as incurred.

During the years ended December 31, 2008, 2007 and 2006, the Company capitalized $23 million, $19 million and $16 million, respectively, in costs related to software development, and expensed $120 million, $126 million and $131 million, respectively, related to routine maintenance, betterments and amortization. At December 31, 2008 and 2007, the unamortized balance of capitalized internally developed software included in other assets was $56 million and $54 million, respectively. The Company amortizes software development costs over three to five years.

Accounting for Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and began recognizing stock-based compensation cost in its consolidated statements of income using the fair value based method. Prior to 2006, the Company accounted for its stock option plans using the intrinsic value method of accounting provided under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and no compensation cost related to its stock option grants was recognized in its consolidated statements of income.

The adoption of SFAS No. 123(R) reduced the Company s net earnings by $47 million, $36 million and $39 million for the years ended December 31, 2008, 2007 and 2006, respectively.

SFAS No. 123(R) requires that the excess (i.e., windfall) tax benefits from tax deductions on the exercise of share-based payments exceeding the deferred tax assets from the cumulative compensation cost previously recognized be classified as cash inflows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS No. 123(R), the Company presented all excess tax benefits resulting from the exercise of share-based payments as operating cash flows. The excess tax benefit for the year ended December 31, 2008 was $0.3 million.

Income Taxes

Income taxes are recorded in accordance with SFAS No. 109, Accounting for Income Taxes. The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis

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2. Significant Accounting Policies (Continued)

of the Company s assets and liabilities. To the extent tax laws change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted.

Income tax expense includes (i) deferred tax expense, which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance, and (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a tax authority plus amounts accrued for unrecognized tax benefits. Income tax expense excludes the tax effects related to adjustments recorded in equity.

The Company adopted the provisions of the FASB s FIN No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. Under FIN No. 48, an uncertain tax position is recognized only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of tax benefit recognized in the financial statements is the largest amount of benefit that is more than fifty percent likely of being sustained upon ultimate settlement of the uncertain tax position. The Company recognizes interest related to unrecognized tax benefits in income tax expense, and penalties, if any, in operating expenses.

Earnings (Loss) per Common Share

The Company computes earnings (loss) per common share (EPS) in accordance with SFAS No. 128, Earnings per Share. See Note 12, Earnings (Loss) per Common Share, for further discussion.

Foreign Currency Transactions

The Company has financial services operations in foreign countries. The financial statements of these foreign businesses have been translated into U.S. dollars in accordance with U.S. GAAP. The net investments of the parent in the foreign subsidiary are translated at the current exchange rate at each period-end through the other comprehensive income component of stockholders equity for net investments deemed to be long-term in nature or through net income if the net investment is short-term in nature. Income statement items are translated at the average exchange rate for the period through income. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the entity s functional currency are included in other operating income.

Statement of Cash Flows

Included in the Company s financial statements is the consolidated statement of cash flows. It is the policy of the Company to include all derivative net settlements, irrespective of whether the derivative is a qualifying hedge, in the same section of the statement of cash flows that the derivative is economically hedging.

As discussed above under *Restricted Cash and Investments,* the Company s restricted cash balances primarily relate to on-balance sheet securitizations. This balance is primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on the trust liabilities. As such, changes in this balance are reflected in investing activities.

Reclassifications

Certain reclassifications have been made to the balances as of and for the years ended December 31, 2007 and 2006, to be consistent with classifications adopted for 2008.

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

Recently Issued Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement was effective January 1, 2008 for the Company. 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 delayed 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 fair value until January 1, 2009.

In light of the recent economic turmoil occurring in the U.S., the FASB released FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, on October 10, 2008. This FSP clarified, among other things, that quotes and other market inputs need not be solely used to determine fair value if they do not relate to an active market. The FSP points out that when relevant observable market information is not available, an approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable (such as a discounted cash flow analysis). Regardless of the valuation technique applied, entities must include appropriate risk adjustments that market participants would make, including adjustments for nonperformance risk (credit risk) and liquidity risk.

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,

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2. Significant Accounting Policies (Continued)

2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through the statement of income. 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.

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 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.

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP SFAS No. 142-3, Determination of the Useful Life of Intangible Assets, which amends SFAS No. 142 regarding the factors that should be considered in developing the useful lives for intangible assets with renewal or extension provisions. FSP SFAS No. 142-3 requires an entity to

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2. Significant Accounting Policies (Continued)

consider its own historical experience in renewing or extending similar arrangements, regardless of whether those arrangements have explicit renewal or extension provisions, when determining the useful life of an intangible asset. In the absence of such experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for entity-specific factors. FSP SFAS No. 142-3 also requires an entity to disclose information regarding the extent to which the expected future cash flows associated with an intangible asset are affected by the entity s intent and/or ability to renew or extend the arrangement. FSP SFAS No. 142-3 will be effective for qualifying intangible assets acquired by the Company on or after January 1, 2009. The application of FSP SFAS No. 142-3 is not expected to have a material impact on the Company s results of operations, cash flows or financial positions; however, it could impact future transactions entered into by the Company.

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, the Company does not expect it to significantly impact its results of operations. The full impact of this amendment, effective January 1, 2010, as currently written, cannot be evaluated until the final statement is issued, which is expected to occur sometime in 2009.

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

In September 2008, the FASB issued two separate but related exposure drafts for comment in connection with amendments to (1) 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 (2) FASB s FIN No. 46(R), Consolidation of Variable Interest Entities an interpretation of ARB No. 51.

Based on the Company s preliminary review of these exposure drafts, it is likely that these changes will lead in general to the consolidation of certain QSPEs that are currently not consolidated by the Company. Assuming no changes to the Company s current business model, the Company would most likely consolidate its securitization trusts that are currently off-balance sheet on January 1, 2010, based on these exposure drafts as currently written. These proposed new accounting rules would also be applied to new transactions entered into from January 1, 2010 forward. 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. 46(R) which is expected sometime in 2009.

Disclosures by Public Entities about Transfers of Financial Assets and Interest in Variable Interest Entities

In December 2008, the FASB issued FSP SFAS No. 140-4 and FIN No. 46(R)-8, Disclosures by Public Entities about Transfers of Financial Assets and Interests in Variable Interest Entities. This FSP significantly increased disclosure requirements for transactions that fell under SFAS No. 140 and Fin No. 46(R). These new disclosure requirements are effective for 2008 and are included as such.

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2. Significant Accounting Policies (Continued)

Employers Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, which requires additional disclosures for employers pension and other postretirement benefit plan assets. As pension and other postretirement benefit plan assets were not included within the scope of SFAS No. 157, FSP SFAS No. 132(R)-1 requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under SFAS No. 157, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan assets. FSP SFAS No. 132(R)-1 will be effective for the Company as of December 31, 2009. As FSP SFAS No. 132(R)-1 provides only disclosure requirements, the adoption of this standard will not have a material impact on the Company s financial statements.

3. Student Loans

The FFELP is subject to comprehensive reauthorization every five years and to frequent statutory and regulatory changes. The most recent reauthorization of the student loan programs was the Higher Education Reconciliation Act of 2005 (the Reconciliation Legislation).

There are three principal categories of FFELP loans: Stafford, PLUS, and FFELP Consolidation Loans. Generally, Stafford and PLUS loans have repayment periods of between five and ten years. FFELP Consolidation Loans have repayment periods of twelve to thirty years. FFELP loans do not require repayment, or have modified repayment plans, while the borrower is in-school and during the grace period immediately upon leaving school. The borrower may also be granted a deferment or forbearance for a period of time based on need, during which time the borrower is not considered to be in repayment. Interest continues to accrue on loans in the in-school, deferment and forbearance period. FFELP loans obligate the borrower to pay interest at a stated fixed rate or a variable rate reset annually (subject to a cap) on July 1 of each year depending on when the loan was originated and the loan type. The Company earns interest at the greater of the borrower s rate or a floating rate based on the SAP formula, with the interest earned on the floating rate that exceeds the interest earned from the borrower being paid directly by ED. In low or certain declining interest rate environments when student loans are earning at the fixed borrower rate, and the interest on the funding for the loans is variable and declining, the Company can earn additional spread income that it refers to as Floor Income. 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.

FFELP loans are guaranteed as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. For loans disbursed after October 1, 1993 and before July 1, 2006, the Company receives 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, the Company receives 97 percent reimbursement. In October of 2005, the Company s loan servicing division, Sallie Mae Servicing, was designated as an Exceptional Performer (EP) by ED which enabled the Company to receive 100 percent reimbursement on default claims filed from the date of designation through June 30, 2006 for loans that were serviced by Sallie Mae Servicing for a period of at least 270 days before the date of default. Legislation passed in early 2006 decreased the rate of reimbursement under the EP program from 100 percent to 99 percent for claims filed on or after July 1, 2006. On September 27, 2007, the CCRAA was enacted which resulted in the repeal of the EP program and returned loans to their previous disbursement date-based guarantee rates of 98 percent or 97 percent.

In addition to FFELP loan programs, which place statutory limits on per year and total borrowing, the Company offers a variety of Private Education Loans. Private Education Loans for post-secondary education and loans for career training can be subdivided into two main categories: loans that supplement FFELP student loans primarily for higher and lifelong learning programs and loans for career training. For the

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3. Student Loans (Continued)

majority of the Private Education Loan portfolio, the Company bears the full risk of any losses experienced and as a result, these loans are underwritten and priced based upon standardized consumer credit scoring criteria. In addition, students who do not meet the Company s minimum underwriting standards are generally required to obtain a credit-worthy cosigner.

Forbearance involves granting the borrower a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance in this manner effectively extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While a loan is in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. The Company s forbearance policies include limits on the number of forbearance months granted consecutively and limits on the total number of forbearance months granted over the life of the loan. In some instances, the Company requires good-faith payments before granting the forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of ultimate collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a borrower s unique situation, including assumptions based on historical information and judgments. The Company combines borrower information with a risk-based segmentation model to assist in its decision making as to who will be granted forbearance based on the Company s expectation as to a borrower s ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As the Company has obtained further experience about the effectiveness of forbearance, it has reduced the amount of time a loan will spend in forbearance, thereby increasing its ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status.

The Company may charge the borrower fees on certain Private Education Loans, either at origination, when the loan enters repayment, or both. Such fees are deferred and recognized into income as a component of interest over the estimated average life of the related pool of loans.

In December 2008, the Company sold approximately $494 million (principal and accrued interest) of FFELP loans to ED at a price of 97 percent of principal and unpaid interest pursuant to ED s authority under the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) to make such purchases, and recorded a loss on the sale. Additionally, in early January 2009, the Company sold an additional $486 million (principal and accrued interest) in FFELP loans to ED under this program. The loss related to this sale in January was recognized in 2008 as the loans

were classified as held-for-sale under GAAP. The total loss recognized on these two sales for the year ended December 31, 2008 was $53 million and was recorded in Losses on sales of loans and securities, net in the consolidated statements of income.

As of December 31, 2008 and 2007, 56 percent and 58 percent, respectively, of the Company s on-balance sheet student loan portfolio was in repayment.

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3. Student Loans (Continued)

The estimated weighted average life of student loans in the Company s portfolio was approximately 7.8 years and 9.0 years at December 31, 2008 and 2007, respectively. The following table reflects the distribution of the Company s student loan portfolio by program.

	December 31, 2008		Year Ended December 31, 2008	
	Ending Balance	% of Balance	Average Balance	Average Effective Interest Rate
FFELP Stafford and Other Student Loans, net[1]	$ 52,476,337	36%	$ 44,290,909	4.50%
FFELP Consolidation Loans, net	71,743,435	50	73,091,087	4.35
Private Education Loans, net	20,582,298	14	19,276,067	9.01
Total student loans, net[2]	$ 144,802,070	100%	$ 136,658,063	5.06%

	December 31, 2007		Year Ended December 31, 2007	
	Ending Balance	% of Balance	Average Balance	Average Effective Interest Rate
FFELP Stafford and Other Student Loans, net[1]	$ 35,726,062	29%	$ 31,293,956	6.59%
FFELP Consolidation Loans, net	73,609,187	59	67,918,046	6.39
Private Education Loans, net	14,817,725	12	12,506,662	11.65
Total student loans, net[2]	$ 124,152,974	100%	$ 111,718,664	7.04%

(1) The FFELP category is primarily Stafford loans, but also includes federally insured PLUS and HEAL loans and $8.5 billion of Stafford loans held-for-sale at December 31, 2008.

(2) The total student loan ending balance includes net unamortized premiums/discounts of $1,895,220 and $1,791,153 as of December 31, 2008 and 2007, respectively.

4. 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 student loan portfolios. The evaluation of the provisions for student loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. The Company believes that the allowance for student loan losses is appropriate to cover probable losses incurred in the student loan portfolios.

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4. Allowance for Loan Losses (Continued)

The following tables summarize the total loan loss provisions for the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,		
	2008	**2007**	**2006**
Private Education Loans	$ 586,169	$ 883,474	$ 257,983
FFELP Stafford and Other Student Loans	105,568	89,083	13,907
Mortgage and consumer loans	27,913	42,751	15,072
Total provisions for loan losses	$ 719,650	$ 1,015,308	$ 286,962

The Company is changing its methodology used to present charge-offs related to Private Education Loans to more clearly reflect the expected loss. Net income, provision for loan loss expense, the net loan balance, default rate and expected recovery rate assumptions are not impacted by this change. Based on the Company s historic experience, the Company expects to recover a portion of loans that default. This expected recovery is taken into account in arriving at the Company s periodic provision for loan loss expense. Previously, once a loan has been delinquent for 212 days, the Company had charged off 100 percent of the loan balance, even though it had provisioned for the estimated loss of the defaulted loan balance, comprised of the full loan balance less the expected recovery.

The Company is changing its methodology to charge off the estimated loss of the defaulted loan balance to be consistent with the amount included in the provision. Actual recoveries are applied against the remaining loan balance that was not charged off. If actual periodic recoveries are less than originally expected, the difference results in immediate additional provision expense and charge off of such amount.

This revised methodology results in a charge-off equal to the amount provided for through the allowance for loan loss. As a result, the Company believes that this methodology better reflects the actual events occurring. Although there is diversity in practice on how charge-offs are presented, this method is more comparable to other financial institutions in how charge-offs and the related charge-off and allowance ratios are presented. The Company emphasizes that although the presentation improves the various charge-off and allowance ratios, the change does not reflect an improvement in the collectability of the Company s loan portfolio.

As a result of this change, a $222 million receivable as of December 31, 2008, is being reclassified from the allowance for loan loss to the Private Education Loan balance. This amount represents the expected future recoveries related to previously defaulted loans (i.e., the amount not charged off when a loan defaults that has not yet been collected). As of December 31, 2008, the Company assumes it will collect, on average, 27 percent of a defaulted loan s balance over an extended period of time. This recovery assumption is based on historic recovery rates achieved and is updated, as appropriate, on a quarterly basis.

The Company believes this change to be an immaterial correction of previous disclosures. Following are tables depicting the Allowance for Private Education Loan Losses as previously presented and as corrected for this change.

The following table summarizes changes in the allowance for Private Education Loan losses for the years ended December 31, 2008, 2007 and 2006 as previously reported.

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4. Allowance for Loan Losses (Continued)

Allowance for Private Education Loan Losses Prior Presentation

	Years Ended December 31,		
	2008	**2007**	**2006**
Allowance at beginning of year	$ 885,931	$ 308,346	$ 204,112
Total provision	586,169	883,474	257,983
Charge-offs	(460,214)	(332,188)	(159,560)
Recoveries	35,643	32,079	22,599
Net charge-offs	(424,571)	(300,109)	(136,961)
Reclassification of interest reserve[1]	38,151		
Balance before securitization of Private Education Loans	1,085,680	891,711	325,134
Reduction for securitization of Private Education Loans		(5,780)	(16,788)
Allowance at end of year	$ 1,085,680	$ 885,931	$ 308,346
Net charge-offs as a percentage of average loans in repayment	4.98%	5.04%	3.22%
Net charge-offs as a percentage of average loans in repayment and forbearance	4.39%	4.54%	2.99%
Allowance as a percentage of the ending total loans, gross	4.89%	5.48%	2.96%
Allowance as a percentage of the ending loans in repayment	9.71%	12.57%	6.36%
Allowance coverage of net charge-offs	2.56	2.95	2.25
Ending total loans, gross	$ 22,203,277	$ 16,171,752	$ 10,428,066
Average loans in repayment	$ 8,533,356	$ 5,949,007	$ 4,256,780
Ending loans in repayment	$ 11,182,053	$ 7,046,709	$ 4,851,305

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the years ended December 31, 2007 and 2006, this amount was $21 million and $12 million, respectively.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts, unless otherwise stated)

4. Allowance for Loan Losses (Continued)

Activity in the Allowance for Private Education Loan Losses Corrected Presentation

The following table summarizes changes in the allowance for Private Education Loan losses for the years ended December 31, 2008, 2007 and 2006 as corrected and discussed above.

	Years Ended December 31,		
	2008	**2007**	**2006**
Allowance at beginning of year	$ 1,003,963	$ 372,612	$ 250,250
Total provision	586,169	883,474	257,983
Charge-offs	(320,240)	(246,343)	(118,833)
Reclassification of interest reserve[1]	38,151		
Balance before securitization of Private Education Loans	1,308,043	1,009,743	389,400
Reduction for securitization of Private Education Loans		(5,780)	(16,788)
Allowance at end of year	$ 1,308,043	$ 1,003,963	$ 372,612
Charge-offs as a percentage of average loans in repayment	3.75%	4.14%	2.79%
Charge-offs as a percentage of average loans in repayment and forbearance	3.31%	3.72%	2.59%
Allowance as a percentage of the ending total loan balance[2]	5.83%	6.16%	3.55%
Allowance as a percentage of the ending loans in repayment	11.70%	14.25%	7.68%
Allowance coverage of charge-offs	4.08	4.08	3.14
Ending total loans[2]	$ 22,425,640	$ 16,289,784	$ 10,492,332
Average loans in repayment	$ 8,533,356	$ 5,949,007	$ 4,256,780
Ending loans in repayment	$ 11,182,053	$ 7,046,709	$ 4,851,305

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the years ended December 31, 2007 and 2006, this amount was $21 million and $12 million, respectively.

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

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4. Allowance for Loan Losses (Continued)

The table below shows the Company s Private Education Loan delinquency trends as of December 31, 2008, 2007 and 2006. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

	December 31,					
	2008		2007		2006	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 10,159		$ 8,151			