SLM CORP
Form 10-Q
July 24, 2014

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
or
c TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-13251

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

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

(302) 283-8000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer	x	Accelerated filer	c
Non-accelerated filer	c (Do not check if a smaller reporting company)	Smaller reporting company	c

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

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

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

Class	Outstanding at June 30, 2014
Common Stock, $0.20 par value	422,936,478 shares

SLM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
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SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$1,524,176	$2,182,865
Available-for-sale investments at fair value (cost of $150,117 and $106,977, respectively)	149,399	102,105
Loans held for investment (net of allowance for losses of $60,527 and $68,081, respectively)	8,793,971	7,931,377
Other interest-earning assets	45,417	4,355
Accrued interest receivable	453,461	356,283
Premises and equipment, net	77,833	74,188
Acquired intangible assets, net	4,241	6,515
Tax indemnification receivable	270,198	—
Other assets	60,643	48,976
Total assets	$11,379,339	$10,706,664
Liabilities		
Deposits	$8,890,209	$9,001,550
Income taxes payable, net	323,467	162,205
Upromise related liabilities	301,160	307,518
Other liabilities	126,239	69,248
Total liabilities	9,641,075	9,540,521
Commitments and contingencies		
Equity		
Preferred stock, par value $0.20 per share, 20 million shares authorized		
Series A: 3.3 million and 0 shares issued, respectively, at stated value of $50 per share	165,000	—
Series B: 4 million and 0 shares issued, respectively, at stated value of $100 per share	400,000	—
Common stock, par value $0.20 per share, 1.125 billion shares authorized: 423 million and 0 shares issued, respectively	84,659	—
Additional paid-in capital	1,071,916	—
Navient's subsidiary investment	—	1,164,495
Accumulated other comprehensive (loss) income (net of tax (benefit) expense of ($354) and ($1,849), respectively)	(365)	(3,024)
Retained earnings	20,167	—
Total SLM Corporation stockholders' equity before treasury stock	1,741,377	1,161,471
Less: Common stock held in treasury at cost: 359 million and 0 shares, respectively	(3,113)	—
Noncontrolling interest	—	4,672
Total equity	1,738,264	1,166,143
Total liabilities and equity	$11,379,339	$10,706,664

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Loans	$162,238	$122,212	$322,273	$253,781
Investments	2,236	5,638	3,204	11,624
Cash and cash equivalents	1,099	1,038	1,965	1,770
Total interest income	165,573	128,888	327,442	267,175
Interest expense:				
Deposits	21,034	21,439	43,624	44,008
Other interest expense	—	32	41	49
Total interest expense	21,034	21,471	43,665	44,057
Net interest income	144,539	107,417	283,777	223,118
Less: provisions for loan losses	1,014	(1,015)	40,173	19,677
Net interest income after provisions for loan losses	143,525	108,432	243,604	203,441
Noninterest income:				
Gains on sales of loans to affiliates, net	1,928	73,441	35,816	148,663
(Losses) gains on derivatives and hedging activities, net	(9,458)	(52)	(10,222)	558
Other	15,229	8,665	23,365	16,465
Total noninterest income	7,699	82,054	48,959	165,686
Expenses:				
Compensation and benefits	31,667	26,821	61,334	56,585
Other operating expenses	28,812	39,772	62,744	70,602
Total operating expenses	60,479	66,593	124,078	127,187
Acquired intangible asset impairment and amortization expense	1,156	714	2,995	1,428
Restructuring and other reorganization expenses	13,520	84	13,749	107
Total expenses	75,155	67,391	140,822	128,722
Income before income tax expense	76,069	123,095	151,741	240,405
Income tax expense	31,941	46,973	60,599	91,738
Net income	44,128	76,122	91,142	148,667
Less: net loss attributable to noncontrolling interest	—	(347)	(434)	(686)
Net income attributable to SLM Corporation	44,128	76,469	91,576	149,353
Preferred stock dividends	3,228	—	3,228	—
Net income attributable to SLM Corporation common stock	$40,900	$76,469	$88,348	$149,353
Basic earnings per common share attributable to SLM Corporation	$0.10	$0.17	$0.21	$0.34
Average common shares outstanding	422,805	439,972	424,751	445,309
Diluted earnings per common share attributable to SLM Corporation	$0.09	$0.17	$0.20	$0.33
Average common and common equivalent shares outstanding	430,750	448,064	432,689	453,231

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$44,128	$76,122	$91,142	$148,667
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	2,749	(15,625)	4,155	37,769
Total unrealized gains (losses) on investments	2,749	(15,625)	4,155	37,769
Income tax (expense) benefit	(962)	5,955	(1,496)	(14,327)
Other comprehensive income (loss), net of tax benefit (expense)	1,787	(9,670)	2,659	23,442
Comprehensive income	45,915	66,452	93,801	172,109
Less: comprehensive loss attributable to noncontrolling interest	—	(347)	(434)	(686)
Total comprehensive income attributable to SLM Corporation	$45,915	$66,799	$94,235	$172,795

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Total SLM Corporation Equity	Non-controlling interest	Total Equity
Balance at March 31, 2013	$1,056,783	$ 47,460	$1,104,243	$ 5,685	$1,109,928
Net income (loss)	76,469	—	76,469	(347)	76,122
Other comprehensive loss, net of tax	—	(9,670)	(9,670)	—	(9,670)
Total comprehensive income (loss)	—	—	66,799	(347)	66,452
Net transfers from affiliate	29,570	—	29,570	—	29,570
Balance at June 30, 2013	$1,162,822	$ 37,790	$1,200,612	$ 5,338	$1,205,950

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)(Unaudited)

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Navient's Subsidiary Investment	Accumulate Other Comprehens Income (Loss)	Re Ea
		Issued	Treasury	Outstanding						
Balance at March 31, 2014	—	—	—	—	$—	$—	$—	$1,229,187	$(2,152)	$–
Net income	—	—	—	—	—	—	—	20,725	—	23
Other comprehen-sive income, net of tax	—	—	—	—	—	—	—	—	1,787	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Net transfers from affiliate	—	—	—	—	—	—	—	462,165	—	—
Separation adjustments related to Spin-Off of Navient Corporation	7,300,000	422,790,320	—	422,790,320	565,000	84,558	1,062,519	(1,712,077)	—	—
Sale of non-controlling interest	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A ($.87 per share)	—	—	—	—	—	—	—	—	—	(1,
Preferred Stock, series B ($.49 per share)	—	—	—	—	—	—	—	—	—	(1,
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	8	—	—	(8
Issuance of common shares	—	504,929	—	504,929	—	101	2,344	—	—	—
Stock-based compensation	—	—	—	—	—	—	7,045	—	—	—

expense											
Shares repurchased related to employee stock-based compensation plans	—	—	(358,771)	(358,771)	—	—	—	—	—	—	—
Balance at June 30, 2014	7,300,000	423,295,249	(358,771)	422,936,478	$565,000	$84,659	$1,071,916	$—		$(365)	$2

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Total SLM Corporation Equity	Non-controlling interest	Total Equity
Balance at December 31, 2012	$1,068,928	$ 14,348	$1,083,276	$ 6,024	$1,089,300
Net income (loss)	149,353		149,353	(686)	148,667
Other comprehensive income, net of tax	—	23,442	23,442	—	23,442
Total comprehensive (loss)	—	—	172,795	(686)	172,109
Net transfers to affiliate	(55,459)	—	(55,459)	—	(55,459)
Balance at June 30, 2013	$1,162,822	$ 37,790	$1,200,612	$ 5,338	$1,205,950

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)(Unaudited)

		Common Stock Shares								
	Preferred Stock Shares	Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Re Ea
Balance at December 31, 2013	—	—	—	—	$—	$—	$—	$1,164,495	$(3,024)	$—
Net income (loss)	—	—	—	—	—	—	—	68,173	—	23,
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	2,659	—
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—
Net transfers from affiliate	—	—	—	—	—	—	—	479,409	—	—
Separation adjustments related to Spin-Off of Navient Corporation	7,300,000	422,790,320	—	422,790,320	565,000	84,558	1,062,519	(1,712,077)	—	—
Sale of non-controlling interest	—	—	—	—	—	—	—	—	—	—
Cash dividends: Preferred Stock, series A ($.87 per share)	—	—	—	—	—	—	—	—	—	(1,
Preferred Stock, series B ($.49 per share)	—	—	—	—	—	—	—	—	—	(1,
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	8	—	—	(8
Issuance of common shares	—	504,929	—	504,929	—	101	2,344	—	—	—

Stock-based compensation expense	—	—	—	—	—	—	7,045	—	—	—
Shares repurchased related to employee stock-based compensation plans	—	—	(358,771)	(358,771)	—	—	—	—	—	—
Balance at June 30, 2014	7,300,000	423,295,249	(358,771)	422,936,478	$565,000	$84,659	$1,071,916	$—	$(365)	$2(

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net income	$91,142	$148,667
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	40,173	19,677
Tax provision	60,599	91,738
Amortization of FDIC fees	—	1,046
Amortization of brokered deposit placement fee	5,222	4,879
Amortization of deferred loan origination costs and fees, net	847	616
Net amortization (accretion) of discount on investments	236	(4,342)
Depreciation of premises and equipment	1,642	1,694
Amortization and impairment of acquired intangibles	2,995	1,428
Stock-based compensation expense	8,468	9,229
Interest rate swap	8,025	(452)
Gains on sale of loans to affiliates, net	(35,816)	(148,663)
Changes in operating assets and liabilities:		
Net decrease in loans held for sale	6,183	2,521
Origination of loans held for sale	(6,183)	(2,521)
Increase in accrued interest receivable	(175,919)	(119,723)
Increase in other interest-earning assets	(41,062)	(1,107)
(Increase) decrease in other assets	(18,946)	(17,888)
Increase (decrease) in income tax payable	(199,782)	(10,315)
Decrease in accrued interest payable	(2,931)	(1,498)
Increase in payable due to Navient	11,109	5,892
Increase (decrease) in other liabilities	12,140	(41,204)
Total adjustments	(323,000)	(208,993)
Total net cash provided by (used in) operating activities	(231,858)	(60,326)
Investing activities		
Loans acquired and originated	(32,796)	(185,190)
Net proceeds from sales of loans held for investment	755,746	1,825,406
Net increase in loans held for investment	(1,512,009)	(1,465,830)
Purchases of available-for-sale securities	(47,087)	(15,966)
Proceeds from sales and maturities of available-for-sale securities	3,712	10,996
Total net cash (used in) provided by investing activities	(832,434)	169,416
Financing activities		
Net (decrease) in brokered certificates of deposit	(841,965)	(521,740)
Net (decrease) increase in NOW account deposits	(18,214)	2,179
Net increase in High Yield Savings Deposits	647,864	414
Net increase in Retail Certificates of Deposit	5,143	13,335
Net increase in MMDA deposits	133,510	484,357
	(5,633)	(110,486)

Net decrease in deposits with entity that is a subsidiary of Navient		
Special cash contribution from Navient	472,718	—
Net capital contributions (to) from entity that is a subsidiary of Navient	15,408	76,262
Preferred stock dividends paid	(3,228)	—
Dividend paid to entity that is a subsidiary of Navient	—	(120,000)
Net cash provided by (used in) financing activities	405,603	(175,679)
Net decrease in cash and cash equivalents	(658,689)	(66,589)
Cash and cash equivalents at beginning of period	2,182,865	1,599,082

Cash and cash equivalents at end of period	$1,524,176	$1,532,493
Cash disbursements made for:		
Interest	$42,819	$39,866
Income taxes paid	$199,782	$10,315

See accompanying notes to consolidated financial statements.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The financial reporting and accounting policies of SLM Corporation ("Sallie Mae," "SLM," the "Company," "we" or "us") conform to generally accepted accounting principles in the United States of America ("GAAP"). In conjunction with the Spin-Off (as herein after defined), our consolidated financial statements are comprised of financial information relating to Sallie Mae Bank (the "Bank"), Upromise, Inc. ("Upromise") and the Private Education Loan origination functions. We use "Private Education Loans" to mean education loans to students or their families that are non-federal loans and loans not insured or guaranteed under the previously existing Federal Family Education Loan Program ("FFELP"). Also included in our financial statements are certain general corporate overhead expenses allocated to the Company.

On April 30, 2014, we completed our plan to legally separate into two distinct publicly traded entities - an education loan management, servicing and asset recovery business, Navient Corporation ("Navient"), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the "Spin-Off") was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business. As a result of a holding company merger under Section 251(g) of the Delaware General Corporation Law ("DGCL"), which is referred to herein as the "SLM Merger," all of the shares of then existing SLM Corporation's common stock were converted, on a 1-to-1 basis, into shares of common stock of New BLC Corporation, a newly formed company that was a subsidiary of pre-Spin-Off SLM Corporation ("pre-Spin-Off SLM"), and, pursuant to the SLM Merger, New BLC Corporation replaced then existing SLM Corporation as the publicly-traded registrant and changed its name to SLM Corporation. As part of the internal corporate reorganization, the assets and liabilities associated with the education loan management, servicing and asset recovery business were transferred to Navient, and those assets and liabilities associated with the consumer banking business remained with or were transferred to the newly constituted SLM Corporation. The separation and distribution were accounted for on a substantially tax-free basis.

The timing and steps necessary to complete the Spin-Off and comply with the Securities and Exchange Commission ("SEC") reporting requirements, including the replacement of pre-Spin-Off SLM Corporation with our current publicly-traded registrant, have resulted in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 19, 2014, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the SEC on May 12, 2014, providing business results and financial information for the periods reported therein on the basis of the consolidated businesses of pre-Spin-Off SLM. While information contained in those prior reports may provide meaningful historical context for the Company's business, this Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 is our first periodic report made on the basis of the post-Spin-Off business of the Company.

At the time of the Spin-Off transaction, we had a targeted starting equity balance of $1,710 million. To achieve the targeted equity balance we retained $565 million of preferred stock and approximately $473 million of cash to offset the obligation attributable to the principal of the Series A Preferred Stock and the Series B Preferred Stock.

These carve-out financial statements are presented on a basis of accounting that reflects a change in reporting entity and have been adjusted for the effects of the Spin-Off. These carve-out financial statements and selected financial information represent only those operations, assets, liabilities and equity that form Sallie Mae on a stand-alone basis. Because the Spin-Off occurred on April 30, 2014, these financial statements represent the carved out financial results for the first four months of 2014 and actual results for the two months ended June 30, 2014. All prior period amounts represent carved-out amounts.

Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions.

Allowance for Private Education Loan Losses

We maintain an allowance for loan losses at an amount sufficient to absorb probable losses incurred in our portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio.

We analyze our portfolio to determine the effects that the various stages of delinquency and forbearance have on borrower default behavior and ultimate charge-off activity. 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

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
1. Significant Accounting Policies (Continued)

loan receivable may progress through the various delinquency stages and ultimately charge off. We may also take into account the current and future economic environment and other qualitative factors when calculating the allowance for loan losses.
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 (loss confirmation period represents the expected period between a loss event and when management considers the debt to be uncollectible), taking into consideration account management practices that affect the timing of a loss, such as the usage of forbearance.
Prior to the Spin-Off, the Bank exercised its right and sold substantially all of the Private Education Loans it originated that became delinquent or were granted forbearance to one or more of its then affiliates. Because of this arrangement, the Bank did not hold many loans in forbearance. As a result, the Bank had very little historical forbearance activity and very few delinquencies.
In connection with the Spin-Off, the agreement under which the Bank previously made these sales was amended so that the Bank now only has the right to require Navient to purchase loans only where (a) the borrower has a lending relationship with both the Bank and Navient (“Split Loans”) and (b) the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At June 30, 2014, we held approximately $1.3 billion of Split Loans.
Pre-Spin-Off SLM’s default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus exclusively on loans 60 to 120 days delinquent. This change has the effect of accelerating the recognition of losses due to the shorter charge-off period (120 days). In addition, we changed our loss confirmation period from two years to one year to reflect the shorter charge-off policy and our revised servicing practices. These two changes resulted in a $14 million net reduction in our allowance for loan losses because we are now only reserving for one year of losses as compared with two years under the prior policy, which more than offset the impact of the shorter charge-off period.
The one-year estimate underlying 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, or account management assumptions or practices were to change, this could materially affect the estimate of the allowance for loan losses, the timing of when losses are recognized, and the related provision for loan losses on our consolidated statements of income.

Separately, for our troubled debt restructurings ("TDR") portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan’s basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan’s original effective interest rate. Our TDR portfolio is comprised mostly of loans with interest rate reductions and forbearance usage greater than three months.
Income Taxes
In connection with the Spin-Off, the Company will be the taxpayer legally responsible for $283 million of deferred taxes payable (installment payments due quarterly through 2018) in connection with gains recognized by pre-Spin-Off SLM on debt repurchases in prior years. As part of the tax sharing agreement between the Company and Navient, Navient has agreed to fully pay us for these deferred taxes due. An indemnification receivable of $264 million was recorded, which represents the fair value of the future payments under the agreement based a discounted cash flow model. We will accrue interest income on the indemnification receivable using the interest method.

The Company also recorded a liability related to uncertain tax positions of $27 million for which we are indemnified by Navient. If there is an adjustment to the indemnified uncertain tax liability, an offsetting adjustment to the indemnification receivable will be recorded as pre-tax adjustment to the income statement.

As of the date of the Spin-Off on April 30, 2014, we recorded a liability of $310 million ($283 million related to deferred taxes and $27 million related to uncertain tax positions) and an indemnification receivable of $291 million ($310 million less the $19 million discount). As of June 30, 2014, the liability balance is $303 million ($283 million related to deferred taxes and $20 million related to uncertain tax positions) and the indemnification receivable balance is $270 million ($250 million related to deferred taxes and $20 million related to uncertain tax positions).

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
1. Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements
On May 28, 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance when it becomes effective. The new standard is effective on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

2. Investments

The amortized cost and fair value of securities available for sale are as follows:

	As of June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$150,117	$1,736	$(2,454)	$149,399
Available for sale securities	$150,117	$1,736	$(2,454)	$149,399

	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$106,977	$706	$(5,578)	$102,105
Available for sale securities	$106,977	$706	$(5,578)	$102,105

Our investment portfolio is comprised of mortgage-backed securities issued by Ginnie Mae and Fannie Mae, with amortized cost of $74,563, $68,435 and $7,119, respectively, at June 30, 2014. We own these securities to meet our requirements under the Community Reinvestment Act. As of June 30, 2014, there were 13 of 47 separate mortgage-backed securities with unrealized losses in our investment portfolio. As of December 31, 2013, there were 20 of 33 separate mortgage-backed securities with unrealized losses in our investment portfolio. As of June 30, 2014, 7 of the 13 securities in a net loss position were issued under Ginnie Mae programs that carry a full faith and credit guarantee from the U.S. Government. The remaining securities in a net loss position carry a principal and interest guarantee by Fannie Mae. We have the ability and the intent to hold these securities for a period of time sufficient for the market price to recover to at least the adjusted amortized cost of the security.
The expected payments on mortgage-backed securities may not coincide with their contractual maturities because borrowers have the right to prepay certain obligations. Accordingly, these securities are not included in a maturities distribution.
The mortgage-backed securities have been pledged to the Federal Reserve Bank (“FRB”) as collateral against any advances and accrued interest under the Primary Credit program or any other program sponsored by the FRB. We had

$138,458 and $103,049 par value of mortgage-backed securities pledged to this borrowing facility at June 30, 2014 and December 31, 2013, respectively, as discussed further in Note 6, “Borrowed Funds.”

As of June 30, 2014, the amortized cost and fair value of securities, by contractual maturities, were as follows:

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
2. Investments (Continued)

Year of Maturity	Amortized Cost	Estimated Fair Value
2038	$767	$837
2039	13,186	14,111
2042	29,173	27,515
2043	76,126	75,974
2044	30,865	30,962
Total	$150,117	$149,399

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

3. Loans Held for Investment

Loans Held for Investment consist of Private Education Loans and FFELP Loans.

Our Private Education Loans are made largely to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' resources. Private Education Loans bear the full credit risk of the customer. We manage this additional risk through historical risk-performance underwriting strategies and the addition of qualified cosigners. Private Education Loans generally carry a variable rate indexed to LIBOR. We provide incentives for customers to include a cosigner on the loan, and the vast majority of loans in our portfolio are cosigned. We also encourage customers to make payments while in school.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. When a FFELP Loan first disbursed on and after July 1, 2006 defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan is at risk for the remaining amount not guaranteed as a Risk Sharing loss on the loan. FFELP Loans originated after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower's death, disability or bankruptcy.

Loans held for investment are summarized as follows:

	June 30, 2014	December 31, 2013
Private Education Loans	$7,482,794	$6,563,342
Unearned discounts	7,746	5,063
Allowance for loan losses	(54,315)	(61,763)
Total Private Education Loans, net	7,436,225	6,506,642
FFELP Loans	1,360,107	1,426,972
Unamortized acquisition costs, net	3,851	4,081
Allowance for loan losses	(6,212)	(6,318)
Total FFELP Loans, net	1,357,746	1,424,735
Loans held for investment, net	$8,793,971	$7,931,377

The estimated weighted average life of Private Education Loans in our portfolio was approximately 6.6 years and 7.0 years at June 30, 2014 and December 31, 2013, respectively.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Loans Held for Investment (Continued)

The average balance and the respective weighted average interest rates are summarized as follows:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Average Balance	Weighted Average Interest Rate		Average Balance	Weighted Average Interest Rate	
Private Education Loans	$7,350,825	8.23	%	$5,533,745	8.2	%
FFELP Loans	1,374,291	3.33		1,087,954	3.32	
Total portfolio	$8,725,116			$6,621,699		

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Average Balance	Weighted Average Interest Rate		Average Balance	Weighted Average Interest Rate	
Private Education Loans	$7,382,565	8.19	%	$5,863,633	8.13	%
FFELP Loans	1,387,358	3.27		1,064,303	3.3	
Total portfolio	$8,769,923			$6,927,936		

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

4. Allowance for Loan Losses

Our provisions for Private Education Loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, in the held-for-investment loan portfolios. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. See Note 1, "Significant Accounting Policies - Allowance for Private Education Loan Losses" for a more detailed discussion.

Allowance for Loan Losses Metrics

	Allowance for Loan Losses Three Months Ended June 30, 2014		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$6,181	$ 71,453	$77,634
Total provision	685	329	1,014
Charge-offs[1]	(654)	—	(654)
Student loan sales[2]	—	(17,467)	(17,467)
Ending Balance	$6,212	$ 54,315	$60,527
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 1,037	$1,037
Ending balance: collectively evaluated for impairment	$6,212	$ 53,278	$59,490
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 4,508	$4,508
Ending balance: collectively evaluated for impairment	$1,360,107	$ 7,478,286	$8,838,393
Charge-offs as a percentage of average loans in repayment (annualized)	0.07 %	— %	
Allowance as a percentage of the ending total loan balance	0.46 %	0.73 %	
Allowance as a percentage of the ending loans in repayment	0.66 %	1.23 %	
Allowance coverage of charge-offs (annualized)	2.40	—	
Ending total loans, gross	$1,360,107	$ 7,482,794	
Average loans in repayment	$973,894	$ 4,322,356	
Ending loans in repayment	$947,972	$ 4,425,573	

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
(2) Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
4. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses Three Months Ended June 30, 2013		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$4,199	$ 65,381	$69,580
Total provision	951	(1,966)	(1,015)
Charge-offs[1]	(534)	—	(534)
Student loan sales[2]	—	(12,546)	(12,546)
Ending Balance	$4,616	$ 50,869	$55,485
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$4,616	$ 50,869	$55,485
Loans:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$1,162,476	$ 5,383,128	$6,545,604
Charge-offs as a percentage of average loans in repayment (annualized)	0.06 %	— %	
Allowance as a percentage of the ending total loan balance	0.40 %	0.94 %	
Allowance as a percentage of the ending loans in repayment	0.56 %	1.65 %	
Allowance coverage of charge-offs (annualized)	2.16	—	
Ending total loans, gross	$1,162,476	$ 5,383,128	
Average loans in repayment	$825,038	$ 3,243,513	
Ending loans in repayment	$824,523	$ 3,081,929	

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
(2) Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
4. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses Six Months Ended June 30, 2014		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$6,318	$ 61,763	$68,081
Total provision	1,191	38,982	40,173
Charge-offs[(1)]	(1,297)	—	(1,297)
Student loan sales[(2)]	—	(46,430)	(46,430)
Ending Balance	$6,212	$ 54,315	$60,527
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 1,037	$1,037
Ending balance: collectively evaluated for impairment	$6,212	$ 53,278	$59,490
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 4,508	$4,508
Ending balance: collectively evaluated for impairment	$1,360,107	$ 7,478,286	$8,838,393
Charge-offs as a percentage of average loans in repayment (annualized)	0.13 %	— %	
Allowance as a percentage of the ending total loan balance	0.46 %	0.73 %	
Allowance as a percentage of the ending loans in repayment	0.66 %	1.23 %	
Allowance coverage of charge-offs (annualized)	2.40	—	
Ending total loans, gross	$1,360,107	$ 7,482,794	
Average loans in repayment	$994,290	$ 4,354,878	
Ending loans in repayment	$947,972	$ 4,425,573	

[(1)] Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
[(2)] Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
4. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses Six Months Ended June 30, 2013		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$3,971	$ 65,218	$69,189
Total provision	1,399	18,278	19,677
Charge-offs[1]	(754)	—	(754)
Student loan sales[2]	—	(32,627)	(32,627)
Ending Balance	$4,616	$ 50,869	$55,485
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$4,616	$ 50,869	$55,485
Loans:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$1,162,476	$ 5,383,128	$6,545,604
Charge-offs as a percentage of average loans in repayment (annualized)	0.09 %	— %	
Allowance as a percentage of the ending total loan balance	0.40 %	0.94 %	
Allowance as a percentage of the ending loans in repayment	0.56 %	1.65 %	
Allowance coverage of charge-offs (annualized)	3.00	—	
Ending total loans, gross	$1,162,476	$ 5,383,128	
Average loans in repayment	$825,038	$ 3,670,291	
Ending loans in repayment	$824,523	$ 3,081,929	

[1] Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
[2] Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

All of our loans are collectively assessed for impairment except for loans classified as TDR's. Prior to the Spin-Off transaction that occurred on April 30, 2014, we did not have TDR loans because the loans were generally sold in the same month that the terms were restructured. Subsequent to May 1, 2014, we have individually assessed $4.5 million of Private Education Loans as TDRs. When these loans are determined to be impaired, we provide for an allowance for losses sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows discounted at the loan's original effective interest rate.
Within the Private Education Loan portfolio, loans greater than 90 days past due are considered to be nonperforming. FFELP Loans are at least 97 percent guaranteed as to their principal and accrued interest by the federal government in the event of default, and therefore, we do not deem FFELP Loans as nonperforming from a credit risk standpoint at any point in their life cycle prior to claim payment, and continue to accrue interest through the date of claim.

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SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
4. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators

FFELP Loans are at least 97 percent insured and guaranteed as to their principal and accrued interest in the event of default; therefore, there is no key credit quality indicator that will have a material impact to our financial results. Included within our FFELP portfolio June 30, 2014 are $853 million of FFELP rehabilitation loans. These loans have previously defaulted but have subsequently been brought current according to a loan rehabilitation agreement. The credit performance on rehabilitation loans is worse than the remainder of our FFELP portfolio. At June 30, 2014 and December 31, 2013, 62.7 percent and 62.9 percent of our FFELP portfolio consisted of rehabilitation loans.

For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the loan designation. The following table highlights the gross principal balance of our Private Education Loan portfolio stratified by key credit quality indicators.

	Private Education Loans Credit Quality Indicators					
	June 30, 2014			December 31, 2013		
Credit Quality Indicators:	Balance[1]	% of Balance		Balance[1]	% of Balance	
Cosigners:						
With cosigner	$6,715,407	90	%	$5,898,751	90	%
Without cosigner	767,387	10		664,591	10	
Total	$7,482,794	100	%	$6,563,342	100	%
FICO at Origination:						
Less than 670	$510,193	7	%	$461,412	7	%
670-699	1,108,321	15		1,364,286	21	
700-749	2,357,153	31		1,649,192	25	
Greater than or equal to 750	3,507,127	47		3,088,452	47	
Total	$7,482,794	100	%	$6,563,342	100	%
Seasoning[2]:						
1-12 payments	$2,465,454	33	%	$1,840,538	28	%
13-24 payments	1,063,082	14		1,085,393	17	
25-36 payments	512,958	7		669,685	10	
37-48 payments	384,450	5		362,124	6	
More than 48 payments	39,593	1		30,891	—	
Not yet in repayment	3,017,257	40		2,574,711	39	
Total	$7,482,794	100	%	$6,563,342	100	%

(1) Balance represents gross Private Education Loans.
(2) Number of months in active repayment for which a scheduled payment was due.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
4. Allowance for Loan Losses (Continued)

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

	Private Education Loan Delinquencies			
	June 30, 2014		December 31, 2013	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$3,017,257		$2,574,711	
Loans in forbearance[2]	39,964		16,314	
Loans in repayment and percentage of each status:				
Loans current	4,396,772	99.3 %	3,933,143	99.0 %
Loans delinquent 31-60 days[3]	21,381	0.5	28,854	0.7
Loans delinquent 61-90 days[3]	5,987	0.1	10,280	0.3
Loans delinquent greater than 90 days[3]	1,433	0.1	40	—
Total private education loans in repayment	4,425,573	100.0 %	3,972,317	100.0 %
Total private education loans, gross	7,482,794		6,563,342	
Private education loans unamortized discount	7,746		5,063	
Total private education loans	7,490,540		6,568,405	
Private education loans allowance for losses	(54,315)		(61,763)	
Private education loans, net	$7,436,225		$6,506,642	
Percentage of private education loans in repayment		59.1 %		60.5 %
Delinquencies as a percentage of private education loans in repayment		0.7 %		1.0 %
Loans in forbearance as a percentage of loans in repayment and forbearance		0.9 %		0.4 %

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the loans (e.g., residency periods for medical students or a grace period for bar exam preparation).
(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.
(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
4. Allowance for Loan Losses (Continued)

Accrued Interest Receivable

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

	Private Education Loan Accrued Interest Receivable		
	Total Interest Receivable	Greater than 90 days Past Due	Allowance for Uncollectible Interest
June 30, 2014	$434,847	$69	$3,633
December 31, 2013	$333,857	$1	$4,076

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SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

5. Deposits

The following table summarizes total deposits at June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013
Deposits - interest bearing	$ 9,503,559	$ 9,239,554
Deposits - non-interest bearing	42,455	55,036
Total Sallie Mae Bank deposits	9,546,014	9,294,590
Less: money market deposits with subsidiaries	(655,805)	(293,040)
Total deposits	$ 8,890,209	$ 9,001,550

Interest Bearing

Interest bearing deposits as of June 30, 2014 and December 31, 2013 consisted of non-maturity savings deposits, brokered and retail certificates of deposit and affiliated money market deposits, as discussed further below, and brokered money market deposits. These deposit products are serviced by third party providers. Placement fees associated with the brokered certificates of deposit are amortized into interest expense using the effective interest rate method. We recognized placement fee expense of $2,472 and $2,379 for the three months ended June 30, 2014 and 2013, respectively, and $5,222 and $4,879 for the six months ended June 30, 2014 and 2013, respectively. No fees were paid to third party brokers related to these certificates of deposit during the three and six months ended June 30, 2014 and 2013.

Historically, we have also offered consumer deposit products in the form of debit cards associated with interest bearing consumer (“NOW”) accounts to facilitate the distribution of financial aid refunds and other payables to students. These deposit products were serviced by third party providers. As of April 30, 2014, we no longer offer these products.

Interest bearing deposits at June 30, 2014 and December 31, 2013 are summarized as follows:

	June 30, 2014		December 31, 2013	
	Amount	Qtr.-End Weighted Average Stated Rate	Amount	Year-End Weighted Average Stated Rate
Money market	$4,643,164	0.60 %	$ 3,505,929	0.60 %
Savings	727,350	0.81	743,742	0.81
NOW	—	—	18,214	0.12
Certificates of deposit	4,133,045	1.09	4,971,669	1.39
Deposits - interest bearing	$9,503,559		$ 9,239,554	

As of June 30, 2014 and December 31, 2013, there were $258,463 and $159,637 of deposits exceeding Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Accrued interest on deposits was $10,167 and $13,097 at June 30, 2014 and December 31, 2013, respectively.

Money market deposits with affiliates

Our Upromise subsidiary maintains a money market deposit at the Bank which totaled $287,780 and $293,040 at June 30, 2014 and December 31, 2013, respectively, which was interest bearing. Interest expense incurred on these deposits during the three months ended June 30, 2014 and 2013 totaled $66 and $85, respectively and for the six months ended June 30, 2014 and 2013 totaled $117 and $192, respectively. The Company also maintains a money market deposit at the Bank which totaled $368,025 at June 30, 2014 and $0 at December 31, 2013.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
5. Deposits (Continued)

NonInterest Bearing

Noninterest bearing deposits as of June 30, 2014 and December 31, 2013 consisted of money market deposit accounts and are summarized as follows:

	June 30, 2014	December 31, 2013
Money market	$42,455	$55,036
Deposits - noninterest bearing	$42,455	$55,036

6. Borrowed Funds

The Bank maintains discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $100,000 at June 30, 2014. The interest rate charged to the Bank on these lines of credit is priced at Fed Funds plus a spread at the time of borrowing, and is payable daily. The Bank did not utilize these lines of credit in the six months ended June 30, 2014 and 2013.

The Bank established an account at the FRB to meet eligibility requirements for access to the Primary Credit borrowing facility at the FRB's Discount Window ("Window"). All borrowings at the Window must be fully collateralized. We pledged asset-backed and mortgage-backed securities, as well as FFELP consolidation and Private Education Loans to the FRB as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At June 30, 2014 and December 31, 2013, the lendable value of our collateral at the FRB totaled $1,397,526 and $900,217, respectively. The interest rate charged to us is the discount rate set by the FRB. We did not utilize this facility in the six months ended June 30, 2014 and 2013.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

7. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact
The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2014 and December 31, 2013, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2014 and 2013.

	Location	June 30, 2014	December 31, 2013
Fair Values:			
Interest rate swaps (receive - fixed/pay - variable)[1]	Other liabilities	$(1,036)	$—
Interest rate swaps (receive - fixed/pay - variable)	Other assets	—	612
Interest rate swaps (receive - variable/pay - fixed)	Other liabilities	(8,423)	—
Total fair value		$(9,459)	$612
Notional Amounts:			
Interest rate swaps (receive - fixed/pay - variable)[1]		$2,811,060	$2,664,755
Interest rate swaps (receive - variable/pay - fixed)		1,076,779	—
Total notional		$3,887,839	$2,664,755

	Location	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Earnings impact:					
Interest reclassification	Other noninterest income	$(2,427)	333	(1,967)	627
Hedge ineffectiveness	Other noninterest income	(7,031)	(385)	(8,255)	(69)
Realized gains	Interest expense	4,573	7,504	10,246	15,508
Total earnings impact		$(4,885)	$7,452	$24	$16,066

(1) Interest rate swaps are hedged against certificates of deposit.
(2) "Other" includes embedded derivatives bifurcated from investment securities.

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SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

Cash Collateral
Cash collateral held related to derivative exposure between the Company and its derivatives counterparties was $2,500 and $5,190 at June 30, 2014 and December 31, 2013, respectively. Collateral held is recorded in "Other Liabilities." Cash collateral pledged related to derivative exposure between the Company and its derivatives counterparties was $39,569 and $40 at June 30, 2014 and December 31, 2013, respectively.

8. Stockholders' Equity

Preferred Stock
In connection with the Spin-Off, the Company, by reason of a statutory merger, succeeded pre-Spin-Off SLM as the issuer of the Series A Preferred Stock and the Series B Preferred Stock. At June 30, 2014, we had outstanding 3.3 million shares of 6.97 percent Cumulative Redeemable Preferred Stock, Series A (the "Series A Preferred Stock") and 4.0 million shares of Floating-Rate Non-Cumulative Preferred Stock, Series B (the "Series B Preferred Stock"). Neither series has a maturity date but can be redeemed at our option. Redemption would include any accrued and unpaid dividends up to the redemption date. The shares have no preemptive or conversion rights and are not convertible into or exchangeable for any of our other securities or property. Dividends on both series are not mandatory and are paid quarterly, when, as, and if declared by the Board of Directors. Holders of Series A Preferred Stock are entitled to receive cumulative, quarterly cash dividends at the annual rate of $3.485 per share. Holders of Series B Preferred Stock are entitled to receive quarterly dividends based on 3-month LIBOR plus 170 basis points per annum in arrears. Upon liquidation or dissolution of the Company, holders of the Series A and Series B Preferred Stock are entitled to receive $50 and $100 per share, respectively, plus an amount equal to accrued and unpaid dividends for the then current quarterly dividend period, if any, pro rata, and before any distribution of assets are made to holders of our common stock.

Common Stock
Our shareholders have authorized the issuance of 1.125 billion shares of common stock (par value of $.20). At June 30, 2014, 423 million shares were issued and outstanding and 34 million shares were unissued but encumbered for outstanding stock options, restricted stock units and dividend equivalent units for employee compensation and remaining authority for stock-based compensation plans.
Post Spin-Off, we do not intend to initiate a publicly announced share repurchase program as a means to return capital to shareholders. We only expect to repurchase common stock acquired in connection with taxes withheld in connection with award exercises and vesting under our employee stock based compensation plans. The following table summarizes our common share repurchases and issuances associated with these programs.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Shares and per share amounts in actuals)	2014	2013	2014	2013
Shares repurchased related to employee stock-based compensation plans[1]	358,771	3,040,788	358,771	5,365,363
Average purchase price per share	$8.62	$22.35	$8.62	$20.51
Common shares issued[2]	504,929	4,115,424	504,929	8,273,219

(1) Comprises shares withheld from stock option exercises and vesting of restricted stock for employees' tax withholding obligations and shares tendered by employees to satisfy option exercise costs.
(2) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on June 30, 2014 was $8.31.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
8. Stockholders' Equity (Continued)

Investment with entities that are now subsidiaries of Navient

Prior to the Spin-Off transaction, there were transactions between us and affiliates of pre-Spin-Off SLM that are now subsidiaries of Navient. As part of the carve-out, these expenses were included in our results even though the actual payments for the expenses were paid by the aforementioned affiliates. As such, amounts equal to these payments have been treated as equity contributions in the table below. Certain payments made by us to these affiliates prior to the Spin-Off transaction were treated as dividends.

Net transfers (to)/from the entity that is now a subsidiary of Navient are included within Navient's subsidiary investment on the consolidated statements of changes in equity. The components of the net transfers (to)/from the entity that is now a subsidiary of Navient are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Capital contributions:				
Loan origination activities	$7,184	$33,367	$32,452	$58,629
Loan sales	—	—	45	25
Corporate overhead activities	3,461	15,731	21,216	33,115
Other	491,936	617	492,368	734
Total capital contributions	502,581	49,715	546,081	92,503
Dividend	—	—	—	(120,000)
Corporate push-down	(761)	(1,641)	4,977	5,627
Net change in income tax accounts	—	—	15,659	—
Net change in receivable/payable	(39,655)	(18,615)	(87,277)	(34,154)
Other	—	111	(31)	565
Total net transfers from/(to) the entity that is now a subsidiary of Navient	$462,165	$29,570	$479,409	$(55,459)

Capital Contributions

During the three and six months ended June 30, 2014 and 2013, pre-Spin-Off SLM contributed capital to the Company by funding loan origination activities, providing corporate overhead functions and other activities.

Capital contributed for loan origination activities reflects the fact that loan origination functions were conducted by a subsidiary of pre-Spin-Off SLM (now a subsidiary of Navient). The Company did not pay for the costs incurred by pre-Spin-Off SLM in connection with these functions. The costs eligible to be capitalized are recorded on the respective balance sheets and the costs not eligible for capitalization have been recognized as expenses in the respective statements of income.

Certain general corporate overhead expenses of the Company were incurred and paid for by pre-Spin-Off SLM.

Corporate Push-Down

The consolidated balance sheets include certain assets and liabilities that have historically been held at pre-Spin-Off SLM but which are specifically identifiable or otherwise allocable to the Company. The cash and cash equivalents held by pre-Spin-Off SLM at the corporate level were not allocated to the Company for any of the periods presented.

Receivable/Payable with Affiliate

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
8. Stockholders' Equity (Continued)

Pre-Spin-Off, all significant intercompany payable/receivable balances between the Company and pre-Spin-Off SLM are considered to be effectively settled for cash in the combined financial statements at the time the transaction is recorded.

9. Earnings per Common Share

Basic earnings per common share (“EPS”) are calculated using the weighted average number of shares of common stock outstanding during each period. The determination of the weighted-average shares and diluted potential common shares for pre-Spin-Off periods are based on the activity at pre-Spin-Off SLM. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

	Three Months ended June 30,		Six months ended June 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Numerator:				
Net income attributable to SLM Corporation	$44,128	$76,469	$91,576	$149,353
Preferred stock dividends	3,228	—	3,228	—
Net income attributable to SLM Corporation common stock	$40,900	$76,469	$88,348	$149,353
Denominator:				
Weighted average shares used to compute basic EPS	422,805	439,972	424,751	445,309
Effect of dilutive securities:				
Dilutive effect of stock options, restricted stock and restricted stock units (1)	7,945	8,092	7,938	7,922
Dilutive potential common shares(2)	7,945	8,092	7,938	7,922
Weighted average shares used to compute diluted EPS	430,750	448,064	432,689	453,231
Basic earnings per common share attributable to SLM Corporation:	$0.10	$0.17	$0.21	$0.34
Diluted earnings per common share attributable to SLM Corporation:	$0.09	$0.17	$0.20	$0.33

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

(2) For the three months ended June 30, 2014 and 2013, securities covering approximately 4 million and 4 million shares, respectively were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2014 and 2013, securities covering approximately 3 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

10. Fair Value Measurements

We use estimates of fair value in applying various accounting standards for our financial statements.

We categorize our fair value estimates based on a hierarchal framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. For additional information regarding our policies for determining fair value and the hierarchical framework, see Note 1, “Significant Accounting Policies - Fair Value Measurement” in our historical carved out audited financial statements filed with the SEC on Form 8-K on May 6, 2014, for a full discussion.

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

	Fair Value Measurements on a Recurring Basis							
	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Mortgage-backed securities	$—	$149,399	$—	$149,399	$—	$102,105	$—	$102,105
Derivative instruments	—	—	—	—	—	612	—	612
Total	$—	$149,399	$—	$149,399	$—	$102,717	$—	$102,717

	Fair Value Measurements on a Recurring Basis							
	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities								
Derivative instruments	$—	$(9,459)	$—	$(9,459)	$—	$—	$—	$—
Total	$—	$(9,459)	$—	$(9,459)	$—	$—	$—	$—

The following table summarizes the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis for the three and six months ended June 30, 2013. There were no financial instruments categorized as level 3 at June 30, 2014.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Balance, beginning of period	$589,103	$532,155
Total gains/(losses) (realized and unrealized):		

Included in earnings	(12,461)	42,026
Included in other comprehensive income	—	—
Included in earnings - accretion of discount	2,141	4,602
Proceeds from sale	—	—
Transfers in and/or out of level 3	—	—
Balance, end of period	$578,783	$578,783
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$(12,461)	$42,026

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
10. Fair Value Measurements (Continued)

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

	June 30, 2014			December 31, 2013		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
Loans held for investment, net	$9,394,480	$8,793,971	$600,509	$8,439,068	$7,931,377	$507,691
Cash and cash equivalents	1,524,176	1,524,176	—	2,182,865	2,182,865	—
Available-for-sale investments	149,399	149,399	—	102,105	102,105	—
Accrued interest receivable	453,461	453,461	—	356,283	356,283	—
Derivative instruments	—	—	—	612	612	—
Total earning assets	11,521,516	10,921,007	600,509	$11,080,933	$10,573,242	$507,691
Interest-bearing liabilities						
Money-market, savings and NOW accounts	4,757,164	4,757,164	—	$4,029,881	$4,029,881	$—
Certificates of deposit	4,148,223	4,133,045	(15,178)	4,984,114	4,971,669	(12,445)
Accrued interest payable	10,167	10,167	—	13,097	13,097	—
Derivative instruments	9,459	9,459	—	—	—	—
Total interest-bearing liabilities	$8,925,013	$8,909,835	(15,178)	$9,027,092	$9,014,647	(12,445)
Excess of net asset fair value over carrying value			$585,331			$495,246

The methods and assumptions used to estimate the fair value of each class of financial instruments are as follows:

Cash and cash equivalents

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. These are level 1 valuations.

Investments

Investments are classified as available-for-sale and are carried at fair value in the financial statements. Investments in mortgage-backed securities are valued using observable market prices of similar assets. As such, these are level 2 valuations.

Loans held for investment

Our FFELP Loans, Private Education Loans, and other loans are accounted for at net realizable value, or at the lower of cost or market if the loan is held-for-sale. For both FFELP and Private Education Loans, fair value was determined by modeling expected 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 determine fair value are prepayment speeds, default rates, cost of funds, required return on equity, and expected Repayment Borrower Benefits to be earned. Repayment Borrower Benefits are financial incentives offered to borrowers based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. We regularly calibrate these models to take into account relevant transactions in the marketplace. Significant inputs into the model are not observable. As such, these are level 3 valuations.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
10. Fair Value Measurements (Continued)

Money market, savings accounts and NOW accounts
The fair value of money market, savings, and NOW accounts equal the amounts payable on demand at the balance sheet date and are reported at their carrying value. These are level 1 valuations.
Certificates of deposit
The fair value of certificates of deposit are estimated using discounted cash flows based on rates currently offered for deposits of similar remaining maturities. These are level 2 valuations.
Derivatives
All derivatives are accounted for at fair value in the financial statements. The fair value of derivative financial instruments was determined by a standard derivative pricing and option model using the stated terms of the contracts and observable market inputs. It is our policy to compare the derivative fair values to those received from our counterparties in order to validate the model's outputs. Any significant differences are identified and resolved appropriately.
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. When the counterparty has exposure to us under derivative contracts with the Company, we fully collateralize the exposure (subject to certain thresholds).
Interest rate swaps are valued using a standard derivative cash flow model with a LIBOR swap yield curve which is an observable input from an active market. These derivatives are level 2 fair value estimates in the hierarchy.
The carrying value of borrowings designated as the hedged item in a fair value hedge is adjusted for changes in fair value due to changes in the benchmark interest rate (one-month LIBOR). These valuations are determined through standard pricing models using the stated terms of the borrowings and observable yield curves.

11. Stock Based Compensation Plans and Arrangements

In connection with the Spin-Off of Navient, we made certain adjustments to the exercise price and number of our stock-based compensation awards with the intention of preserving the intrinsic value of the outstanding awards held by Sallie Mae officers and employees prior to the Spin-Off. In general, holders of awards granted prior to 2014 received both Sallie Mae and Navient equity awards, and holders of awards granted in 2014 received solely equity awards of their post-Spin-Off employer. Stock options, restricted stock, restricted stock units, performance stock units and dividend equivalent units were adjusted into equity in the new companies by a specific conversion ratio per company, which was based upon the volume weighted average prices for each company at the time of the Spin-Off, in an effort to keep the value of the equity awards constant. These adjustments were accounted for as modifications to the original awards. In general, the Sallie Mae and Navient awards will be subject to substantially the same terms and conditions as the original pre-Spin-Off SLM awards. A comparison of the fair value of the modified awards with the fair value of the original awards immediately before the modification resulted in approximately $64 of incremental expense related to fully-vested stock option awards and was expensed immediately and $630 of incremental compensation expense related to unvested restricted sto