SLM CORP
Form 10-Q
May 10, 2007

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended March 31, 2007 or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number: 001-13251

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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

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 April 30, 2007
Voting common stock, $.20 par value	411,416,060 shares

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GLOSSARY

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

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

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

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

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

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

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

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

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

ED The U.S. Department of Education.

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

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

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

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

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

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

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

Floor Income FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, our student loans earn at a fixed rate while the interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with new legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all new FFELP loans disbursed on or after April 1, 2006.

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

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

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

Based on this example, if the quarterly average commercial paper rate is over 4.61 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 4.61 percent, the SAP formula will produce a rate below the fixed borrower rate of 7.25 percent and the loan holder earns at the borrower rate of 7.25 percent. The difference between the fixed borrower rate and the lender s expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, decreases in interest rates may increase Floor Income.

Graphic Depiction of Floor Income:

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

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

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HEA The Higher Education Act of 1965, as amended.

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

Preferred Lender List Most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

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

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

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

Reconciliation Legislation The Higher Education Reconciliation Act of 2005, which reauthorized the student loan programs of the HEA and generally became effective as of July 1, 2006.

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

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

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

Special Allowance Payment (SAP) FFELP student loans originated prior to April 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan s repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. 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.

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

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

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

Wholesale Consolidation Channel During 2006, we implemented a new loan acquisition strategy under which we began purchasing a significant amount of FFELP Consolidation Loans, primarily via the spot market, which augments our traditional FFELP Consolidation Loan origination process. We refer to this new loan acquisition strategy as our Wholesale Consolidation Channel. FFELP Consolidation Loans acquired through this channel are considered incremental volume to our core acquisition channels, which are focused on the retail marketplace with an emphasis on our brand strategy.

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

SLM CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $10,192 and $8,701, respectively)	$ 28,561,670	$ 24,840,464
FFELP Consolidation Loans (net of allowance for losses of $12,087 and $11,614, respectively)	66,170,098	61,324,008
Private Education Loans (net of allowance for losses of $369,072 and $308,346, respectively)	9,849,481	9,755,289
Other loans (net of allowance for losses of $19,803 and $20,394, respectively)	1,350,416	1,308,832
Investments		
Available-for-sale	2,342,845	2,464,121
Other	94,215	99,330
Total investments	2,437,060	2,563,451
Cash and cash equivalents	3,679,108	2,621,222
Restricted cash and investments	3,719,020	3,423,326
Retained Interest in off-balance sheet securitized loans	3,643,322	3,341,591
Goodwill and acquired intangible assets, net	1,364,016	1,371,606
Other assets	6,102,275	5,585,943
Total assets	$ 126,876,466	$ 116,135,732
Liabilities		
Short-term borrowings	$ 4,428,980	$ 3,528,263
Long-term borrowings	114,070,797	104,558,531
Other liabilities	3,990,878	3,679,781
Total liabilities	122,490,655	111,766,575
Commitments and contingencies		
Minority interest in subsidiaries	9,029	9,115
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; Series B: 4,000 and 4,000 shares issued, respectively, at stated value of $100 per share	565,000	565,000
Common stock, par value $.20 per share, 1,125,000 shares authorized; 434,587 and 433,113 shares issued, respectively	86,918	86,623
Additional paid-in capital	2,638,334	2,565,211
Accumulated other comprehensive income (net of tax of $158,417 and $183,684, respectively)	300,884	349,111
Retained earnings	1,833,359	1,834,718
Stockholders equity before treasury stock	5,424,495	5,400,663
Common stock held in treasury: 22,650 and 22,496 shares, respectively	1,047,713	1,040,621
Total stockholders equity	4,376,782	4,360,042
Total liabilities and stockholders equity	$ 126,876,466	$ 116,135,732

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)

	Three Months Ended March 31,	
	2007 (Unaudited)	2006 (Unaudited)
Interest income:		
FFELP Stafford and Other Student Loans	$ 450,762	$ 298,500
FFELP Consolidation Loans	1,014,846	821,335
Private Education Loans	338,421	241,353
Other loans	27,973	23,307
Cash and investments	113,904	95,810
Total interest income	1,945,906	1,480,305
Total interest expense	1,532,090	1,092,784
Net interest income	413,816	387,521
Less: provisions for losses	150,330	60,319
Net interest income after provisions for losses	263,486	327,202
Other income:		
Gains on student loan securitizations	367,300	30,023
Servicing and securitization revenue	251,938	98,931
Losses on securities, net	(30,967)	(2,948)
Gains (losses) on derivative and hedging activities, net	(356,969)	(86,739)
Guarantor servicing fees	39,241	26,907
Debt management fees	87,322	91,612
Collections revenue	65,562	56,681
Other	96,433	71,376
Total other income	519,860	285,843
Operating expenses:		
Salaries and benefits	186,350	175,340
Other	169,824	147,969
Total operating expenses	356,174	323,309
Income before income taxes and minority interest in net earnings of subsidiaries	427,172	289,736
Income taxes	310,014	137,045
Income before minority interest in net earnings of subsidiaries	117,158	152,691
Minority interest in net earnings of subsidiaries	1,005	1,090
Net income	116,153	151,601

Preferred stock dividends		9,093		8,301
Net income attributable to common stock	$	107,060	$	143,300
Basic earnings per common share	$	.26	$	.35
Average common shares outstanding		411,040		412,675
Diluted earnings per common share	$	.26	$	.34
Average common and common equivalent shares outstanding		418,449		422,974
Dividends per common share	$	.25	$	.22

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)
(Unaudited)

eferred tock hares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
300,000	426,483,527	(13,346,717)	413,136,810	$ 565,000	$ 85,297	$ 2,233,647	$ 367,910	$ 1,111,743
								151,601
							(44,950)	
							5,531	
							5	
								(91,473)
								(2,875)
								(5,267)
	2,845,835	46,002	2,891,837		569	83,036		

						159		(159)
						27,061		
						20,349		
		(2,447,832)	(2,447,832)					
		(850,608)	(850,608)					
300,000	429,329,362	(16,599,155)	412,730,207	$ 565,000	$ 85,866	$ 2,364,252	$ 328,496	$ 1,163,570

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)
(Unaudited)

ferred ock ares	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Losses)	Retained Earnings
00,000	433,112,982	(22,496,170)	410,616,812	$ 565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718
								116,153
							(48,188)	
							483	
							(522)	
								(102,658)
								(2,875)
								(6,058)

	1,473,681	35,123	1,508,804		295	47,420		
						160		(160)
						8,648		
						16,895		
								(5,761)
		(188,919)	(188,919)					
00,000	434,586,663	(22,649,966)	411,936,697	$ 565,000	$ 86,918	$ 2,638,334	$ 300,884	$ 1,833,359

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2007 (Unaudited)	Three Months Ended March 31, Restated 2006 (Unaudited)
Operating activities		
Net income	$ 116,153	$ 151,601
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(367,300)	(30,023)
Losses on securities, net	30,967	2,948
Stock-based compensation cost	26,101	22,768
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(80,240)	(83,332)
Unrealized (gains)/losses on derivative and hedging activities equity forwards	412,206	122,411
Provisions for losses	150,330	60,319
Minority interest, net	(1,609)	(1,674)
Mortgage loans originated	(226,208)	(349,332)
Proceeds from sales of mortgage loans	250,156	368,008
Decrease (increase) in restricted cash-other	22,202	(63,629)
(Increase) in accrued interest receivable	(350,454)	(233,427)
Increase in accrued interest payable	107,183	30,253
Adjustment for non-cash (income)/loss related to Retained Interest	(67,836)	52,524
(Increase) in other assets, goodwill and acquired intangible assets, net	(29,291)	(66,988)
Increase (decrease) in other liabilities	197,456	(193,826)
Total adjustments	73,663	(363,000)
Net cash provided by (used in) operating activities	189,816	(211,399)
Investing activities		
Student loans acquired	(12,278,480)	(8,322,746)
Loans purchased from securitized trusts (primarily loan consolidations)	(1,347,297)	(1,338,498)
Reduction of student loans:		
Installment payments	2,900,029	2,494,862
Proceeds from securitization of student loans treated as sales	1,976,599	7,985,275
Proceeds from sales of student loans	4,184	9,214
Other loans originated	(965,223)	(289,585)
Other loans repaid	897,602	295,396
Other investing activities, net	(58,236)	(33,065)
Purchases of available-for-sale securities	(15,448,651)	(10,263,898)
Proceeds from sales of available-for-sale securities	73,143	
Proceeds from maturities of available-for-sale securities	15,567,592	10,811,460
Purchases of held-to-maturity and other securities	(540)	(235,804)
Proceeds from maturities of held-to-maturity securities and other securities	7,065	176,344

(Increase) decrease in restricted cash on-balance sheet trusts	(379,218)	100,961
Return of investment from Retained Interest	62,455	36,580
Net cash (used in) provided by investing activities	(8,988,976)	1,426,496
Financing activities		
Short-term borrowings issued	1,204,049	15,290,752
Short-term borrowings repaid	(957,381)	(15,297,685)
Long-term borrowings issued	1,567,602	1,653,839
Long-term borrowings repaid	(1,312,003)	(1,763,784)
Borrowings collateralized by loans in trust issued	11,203,950	
Borrowings collateralized by loans in trust activity	(1,638,925)	(1,082,549)
Other financing activities, net	(8,395)	(22,681)
Excess tax benefit from the exercise of stock-based awards	4,331	17,108
Common stock issued	35,423	71,942
Net settlements on equity forward contracts	(121,348)	(13,855)
Common stock repurchased	(8,666)	(181,846)
Common dividends paid	(102,658)	(91,473)
Preferred dividends paid	(8,933)	(8,142)
Net cash provided by (used in) financing activities	9,857,046	(1,428,374)
Net increase (decrease) in cash and cash equivalents	1,057,886	(213,277)
Cash and cash equivalents at beginning of period	2,621,222	2,498,655
Cash and cash equivalents at end of period	$ 3,679,108	$ 2,285,378
Cash disbursements made for:		
Interest	$ 1,477,775	$ 1,022,758
Income taxes	$ 159,962	$ 148,597

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at March 31, 2007 and for the three months ended
March 31, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results for the year ending December 31, 2007. The consolidated balance sheet at December 31, 2006, as presented, was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the period ended December 31, 2006. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2006 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2006 to be consistent with classifications adopted for 2007.

Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited)

The Company restated its 2006 quarterly consolidated statements of cash flows as more fully described within the Company s 2006 Annual Report on Form 10-K at Note 2, Significant Accounting Policies *Statement of Cash Flows* Restatement of the Consolidated Statements of Cash Flows and Note 21, Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited). The restatements solely affected the classification of items in operating, investing and financing activities, and had no impact on the net increase (decrease) in cash and cash equivalents set forth in the consolidated statements of cash flows for any of the previously reported periods. The restatements did not affect the Company s consolidated balance sheets, consolidated statements of income or consolidated statements of changes in stockholders equity. Accordingly, the Company s historical revenues, net income, earnings per share, total assets and total stockholders equity remain unchanged.

Recently Issued Accounting Pronouncements

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

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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) improving financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. 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

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1. Significant Accounting Policies (Continued)

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 is currently evaluating the impact of this standard on its financial statements. The statement will be effective beginning January 1, 2008.

Fair Value Measurements

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

Accounting for Servicing of Financial Assets

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

This statement:

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

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

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

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

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1. Significant Accounting Policies (Continued)

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

The adoption of SFAS No. 156 did not have a material impact on the Company s financial statements as the Company did not elect to carry its servicing rights at fair value through earnings.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140. This statement was effective for the Company beginning January 1, 2007.

This statement:

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

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

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

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

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

In January 2007, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, Implementation Issues No. B39, Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor (Amended), and No. B40, Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets. The guidance clarifies various aspects of SFAS No. 155 and will require the Company to either (1) separately record embedded derivatives that may reside in the Company s Residual Interest and on-balance sheet securitization debt, or (2) if embedded derivatives exist that require bifurcation, mark-to-market through income changes in the fair value of the Company s Residual Interest and on-balance sheet securitization debt in their entirety. This standard is prospectively applied in 2007 for new securitizations and does not apply to the Company s existing Residual Interest or on-balance sheet securitization debt that settled prior to 2007.

If material embedded derivatives exist within the Residual Interest that require bifurcation, the Company will most likely elect to carry the entire Residual Interest at fair value with subsequent changes in fair value recorded in earnings. This could have a material impact on earnings, as prior to the adoption of SFAS No. 155, changes in the fair value of these Residual Interests would have been recorded through other comprehensive income (except for impairment which is recorded through income). The Company elected this option related to the Private Education Loan securitization which settled in the first quarter of 2007 and as a result, recorded a $79 million unrealized gain through earnings that, prior to the adoption of SFAS No. 155, would have been recorded through other comprehensive income. The Company has concluded, based on its current

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1. Significant Accounting Policies (Continued)

securitization deal structures, that its on-balance sheet securitization debt will not be materially impacted upon the adoption of SFAS No. 155 as embedded derivatives will not have a material value. Accordingly, there was no impact in the first quarter of 2007.

2. Allowance for Student Loan Losses

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

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 328,661	$ 219,062
Provisions for student loan losses	147,195	57,799
Charge-offs	(85,812)	(33,388)
Recoveries	6,790	6,389
Net charge-offs	(79,022)	(26,999)
Balance before reductions for student loan sales and securitizations	396,834	249,862
Reductions for student loan sales and securitizations	(5,483)	(2,185)
Balance at end of period	$ 391,351	$ 247,677

In addition to the provisions for student loan losses, provisions for other losses totaled $3 million and $2 million for the three months ended March 31, 2007 and 2006, respectively.

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2. Allowance for Student Loan Losses (Continued)

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31, 2007	2006
Balance at beginning of period	$ 308,346	$ 204,112
Provision for Private Education Loan losses	141,627	54,372
Charge-offs	(81,911)	(32,726)
Recoveries	6,790	6,389
Net charge-offs	(75,121)	(26,337)
Balance before securitization of Private Education Loans	374,852	232,147
Reduction for securitization of Private Education Loans	(5,780)	
Balance at end of period	$ 369,072	$ 232,147
Net charge-offs as a percentage of average loans in repayment (annualized)	6.27%	2.83%
Allowance as a percentage of the ending total loan balance	3.61%	2.43%
Allowance as a percentage of ending loans in repayment	7.58%	5.96%
Allowance coverage of net charge-offs (annualized)	1.21	2.17
Average total loans	$ 11,354,166	$ 9,015,727
Ending total loans	$ 10,218,554	$ 9,543,311
Average loans in repayment	$ 4,859,260	$ 3,780,100
Ending loans in repayment	$ 4,867,215	$ 3,897,945

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2. Allowance for Student Loan Losses (Continued)

Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of March 31, 2007, December 31, 2006, and March 31, 2006. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

	March 31, 2007		December 31, 2006		March 31, 2006	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 5,220		$ 5,218		$ 5,573	
Loans in forbearance[2]	494		359		412	
Loans in repayment and percentage of each status:						
Loans current	4,260	87.5%	4,214	86.9%	3,487	89.4%
Loans delinquent 31-60 days[3]	184	3.8	250	5.1	170	4.4
Loans delinquent 61-90 days[3]	131	2.7	132	2.7	106	2.7
Loans delinquent greater than 90 days[3]	292	6.0	255	5.3	135	3.5
Total Private Education Loans in repayment	4,867	100%	4,851	100%	3,898	100%
Total Private Education Loans, gross	10,581		10,428		9,883	
Private Education Loan unamortized discount	(363)		(365)		(340)	
Total Private Education Loans	10,218		10,063		9,543	
Private Education Loan allowance for losses	(369)		(308)		(232)	
Private Education Loans, net	$ 9,849		$ 9,755		$ 9,311	
Percentage of Private Education Loans in repayment	46.0%		46.5%		39.4%	
Delinquencies as a percentage of Private Education Loans in repayment	12.5%		13.1%		10.6%	

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

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

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

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3. Goodwill and Acquired Intangible Assets

Intangible assets include the following:

(Dollars in millions)	**Average Amortization Period**	**As of March 31, 2007** Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 374	$ (126)	$ 248
Tax exempt bond funding	10 years			
Software and technology	7 years	95	(66)	29
Non-compete agreements	2 years	12	(9)	3
Total		481	(201)	280
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	115		115
Total acquired intangible assets		$ 596	$ (201)	$ 395

(Dollars in millions)	**Average Amortization Period**	**As of December 31, 2006** Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 367	$ (115)	$ 252
Tax exempt bond funding	10 years	46	(37)	9
Software and technology	7 years	94	(62)	32
Non-compete agreements	2 years	12	(9)	3
Total		519	(223)	296
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	106		106
Total acquired intangible assets		$ 625	$ (223)	$ 402

The Company recorded amortization of acquired intangibles totaling $15 million and $14 million for the three months ended March 31, 2007 and 2006, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

In connection with the Company s acquisition of Southwest Student Services Corporation and Washington Transferee Corporation, the Company acquired certain tax exempt bonds that enable the Company to earn a 9.5 percent Special Allowance Payment (SAP) rate on student loans funded by those bonds in indentured trusts. In the first quarter of 2007, the Company recognized an impairment of $9 million due to changes that restrict the loans on which the Company is entitled to earn a 9.5 percent yield. The impaired intangible asset is reported in the Lending segment and the impairment charge is included in operating expense in the Lending segment.

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3. Goodwill and Acquired Intangible Assets (Continued)

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

(Dollars in millions)	December 31, 2006	Adjustments	March 31, 2007
Lending	$ 406	$	$ 406
Debt Management Operations	349	10	359
Corporate and Other	215	(9)	206
Total	$ 970	$ 1	$ 971

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company s acquisitions is reviewed for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, addressed further in Note 2, Significant Accounting Policies, within the Company s 2006 Annual Report on Form 10-K.

4. Student Loan Securitization

Securitization Activity

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

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4. Student Loan Securitization (Continued)

The following table summarizes the Company s securitization activity for the three months ended March 31, 2007 and 2006. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended March 31,							
	2007				2006			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
Securitization sales:								
FFELP Stafford/PLUS loans		$	$	%	2	$ 5,004	$ 17	.3%
FFELP Consolidation Loans					1	3,002	13	.4
Private Education Loans	1	2,000	367	18.4				
Total securitizations sales	1	2,000	$ 367	18.4%	3	8,006	$ 30	.4%
Securitization financings:								
FFELP Stafford/PLUS Loans[1]	2	7,004						
FFELP Consolidation Loans[1]	1	4,002						
Total securitizations financings	3	11,006						
Total securitizations	4	$ 13,006			3	$ 8,006		

(1) Certain securitizations are structured to not qualify 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 the initial settlement of the securitization, which do not relate to the reissuance of third party beneficial interests or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

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4. Student Loan Securitization (Continued)

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31,					
	2007			2006		
	FFELP Stafford[1]	FFELP Consolidation Loans[1]	Private Education Loans	FFELP Stafford	FFELP Consolidation Loans	Private Education Loans[1]
Prepayment speed (annual rate)[2]				*	6%	
Interim status			0%			
Repayment status			4-7%			
Life of loan repayment status			6%			
Weighted average life			9.4 yrs.	3.7 yrs.	8.3 yrs.	
Expected credit losses (% of principal securitized)			4.69%	.15%	.27%	
Residual cash flows discounted at (weighted average)			12.5%	12.4%	10.5%	

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

(2) Effective December 31, 2006, the Company implemented Constant Prepayment Rates (CPR) curves for Residual Interest valuations that are based on the number of months since entering repayment that better reflect the CPR as the loan seasons. Under this methodology, a different CPR is applied to each year of a loan s seasoning. Previously, the Company applied a CPR that was based on a static life of loan assumption, irrespective of seasoning, or, in the case of FFELP Stafford and PLUS loans, the Company used a vector approach in applying the CPR. The repayment status CPR depends on the number of months since first entering repayment or as the loans seasons through the portfolio. 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.

* CPR of 20 percent for 2006, 15 percent for 2007 and 10 percent thereafter.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests, included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the

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4. Student Loan Securitization (Continued)

underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of March 31, 2007 and 2006.

Dollars in millions	As of March 31, 2007 FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 637	$ 671	$ 2,336	$ 3,644
Underlying securitized loan balance[3]	13,058	17,268	14,807	45,133
Weighted average life	2.8 yrs.	7.2 yrs.	7.4 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	0-43%	3-9%	4-7%	
Life of loan repayment status	24%	6%	6%	
Expected credit losses (% of student loan principal)	.07%	.06%	4.39%	
Residual cash flows discount rate	12.4%	10.5%	12.5%	

Dollars in millions	As of December 31, 2006 FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 701	$ 676	$ 1,965	$ 3,342
Underlying securitized loan balance[3]	14,794	17,817	13,222	45,833
Weighted average life	2.9 yrs.	7.3 yrs.	7.2 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	0-43%	3-9%	4-7%	
Life of loan repayment status	24%	6%	6%	
Expected credit losses (% of student loan principal)	.06%	.07%	4.36%	
Residual cash flows discount rate	12.6%	10.5%	12.6%	

(1) Includes $147 million and $151 million related to the fair value of the Embedded Floor Income as of March 31, 2007 and December 31, 2006, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At March 31, 2007 and December 31, 2006, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $332 million and $389 million, respectively, which related to the Retained Interests.

(3) In addition to student loans in off-balance sheet trusts, the Company had $58.2 billion and $48.6 billion of securitized student loans outstanding (face amount) as of March 31, 2007 and December 31, 2006, respectively, in on-balance sheet securitization trusts.

(4) Effective December 31, 2006, the Company implemented 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. Previously, the Company applied a CPR that was based on a static life of loan assumption, and, in the case of FFELP Stafford and PLUS loans, the Company applied a vector approach, irrespective of 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.

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4. Student Loan Securitization (Continued)

The Company recorded $11 million and $52 million of impairment related to the Retained Interests for the three months ended March 31, 2007 and 2006, respectively. The impairment charges were primarily the result of FFELP Stafford loans prepaying faster than projected through loan consolidation ($11 million and $24 million for the three months ended March 31, 2007 and 2006, respectively). The impairment for the quarter ended March 31, 2006 also related to the Floor Income component of the Company s Retained Interest due to increases in interest rates during the period ($28 million).

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of March 31, 2007, December 31, 2006 and March 31, 2006.

	March 31, 2007		December 31, 2006		March 31, 2006	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 6,821		$ 5,608		$ 3,456	
Loans in forbearance[2]	1,147		822		784	
Loans in repayment and percentage of each status:						
Loans current	6,475	94.7%	6,419	94.5%	4,389	95.5%
Loans delinquent 31-60 days[3]	145	2.1	222	3.3	106	2.3
Loans delinquent 61-90 days[3]	88	1.3	60	.9	46	1.0
Loans delinquent greater than 90 days[3]	131	1.9	91	1.3	55	1.2
Total off-balance sheet Private Education Loans in repayment	6,839	100%	6,792	100%	4,596	100%
Total off-balance sheet Private Education Loans, gross	$ 14,807		$ 13,222		$ 8,836	

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

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors consistent with the

established loan program servicing procedures and programs.

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

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at March 31, 2007 and December 31, 2006 and their impact on other comprehensive income and earnings for the three months ended March 31, 2007 and 2006. At March 31, 2007 and December 31, 2006, $618 million (of which $76 million is in restricted cash and investments on the balance sheet) and $418 million (of which $53 million is in restricted cash and investments on the balance sheet) fair

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5. Derivative Financial Instruments (Continued)

value, respectively, of available-for-sale investment securities and $13 million and $28 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**March 31, 2007**	**December 31, 2006**	**March 31, 2007**	**December 31, 2006**	**March 31, 2007**	**December 31, 2006**	**March 31, 2007**	**December 31, 2006**
Fair Values[1]								
Interest rate swaps	$ (10)	$ (9)	$ (306)	$ (355)	$ (50)	$ (111)	$ (366)	$ (475)
Floor/Cap contracts					(196)	(200)	(196)	(200)
Futures								
Equity forwards					(504)	(213)	(504)	(213)
Cross currency interest rate swaps			1,640	1,440			1,640	1,440
Total	$ (10)	$ (9)	$ 1,334	$ 1,085	$ (750)	$ (524)	$ 574	$ 552
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 2.4	$ 2.1	$ 15.6	$ 15.6	$ 187.5	$ 162.0	$ 205.5	$ 179.7
Floor/Cap contracts					22.8	21.5	22.8	21.5
Futures	.1	.1			.6	.6	.7	.7
Cross currency interest rate swaps			23.1	23.0			23.1	23.0
Other[2]					2.3	2.0	2.3	2.0
Total	$ 2.5	$ 2.2	$ 38.7	$ 38.6	$ 213.2	$ 186.1	$ 254.4	$ 226.9
(Shares in millions)								
Contracts								
Equity forwards					48.2	48.2	48.2	48.2

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

(2)

Other consists of an embedded derivative ($2 billion notional) bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. In addition, beginning in the first quarter of 2007, Other also includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155 (see Note 1, Significant Accounting Policies Accounting for Certain Hybrid Financial Instruments). All of the embedded derivatives have had a de minimis fair value since bifurcation.

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5. Derivative Financial Instruments (Continued)

	Three Months Ended March 31,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2007	2006	2007	2006	2007	2006	2007	2006
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$	$ 2	$	$	$	$	$	$ 2
Amortization of effective hedges[1]	1	4					1	4
Change in accumulated other comprehensive income, net	$ 1	$ 6	$	$	$	$	$ 1	$ 6
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$ (2)	$ (6)	$	$	$	$	$ (2)	$ (6)
Gains (losses) on derivative and hedging activities Realized[3]					(25)	(48)	(25)	(48)
Gains (losses) on derivative and hedging activities Unrealized[4]			15	22	(347)	(61)	(332)	(39)
Total earnings impact	$ (2)	$ (6)	$ 15	$ 22	$ (372)	$ (109)	$ (359)	$ (93)

(1) The Company expects to amortize $.3 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that are outstanding as of March 31, 2007.

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

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

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

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6. Stockholders Equity

The following table summarizes the Company s common share repurchases, issuances and equity forward activity for the three months ended March 31, 2007 and 2006.

(Shares in millions)	Three Months Ended March 31, 2007	2006
Common shares repurchased:		
Equity forwards		2.5
Benefit plans[1]	.2	.8
Total shares repurchased	.2	3.3
Average purchase price per share	$ 45.87	$ 55.13
Common shares issued	1.5	2.9
Equity forward contracts:		
Outstanding at beginning of period	48.2	42.7
New contracts		2.5
Exercises		(2.5)
Outstanding at end of period	48.2	42.7
Authority remaining at end of period to repurchase or enter into equity forwards	15.7	16.2

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

As of March 31, 2007, the expiration dates and range and weighted average purchase prices for outstanding equity forward contracts were as follows:

Weighted

Year of Maturity (Contracts in millions of shares)	Outstanding Contracts	Range of Purchase Prices	Average Purchase Price
2008	7.3	$43.50 - $44.00	$ 43.80
2009	14.7	46.00 - 54.74	53.66
2010	15.0	54.74	54.74
2011	9.1	49.75 - 53.76	51.91
2012	2.1	46.30 - 46.70	46.40
	48.2		$ 51.86

The closing price of the Company s common stock on March 30, 2007 was $40.90. Should the market value of the Company s stock fall below certain initial trigger prices, the counterparty to the contract has a right to terminate the contract and settle all or a portion at the original contract price. For equity forward contracts outstanding at March 31, 2007, these initial trigger prices range from $23.93 per share to $30.11 per share.

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6. Stockholders Equity (Continued)

In February 2007, the Company made payments to certain counterparties to lower the notional amounts on some of its outstanding equity forward contracts. Also in February 2007, the Company agreed with a counterparty to amend the trigger prices on its outstanding equity forward contracts. In total, the Company amended the terms of the contracts covering 18.5 million shares. As a result of these transactions, the Company s aggregate position on equity forward contracts is 48.2 million shares at an average strike price of $51.86. The highest trigger price on all outstanding equity forward contracts is now $30.11, down from $35.58 before the amendments.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives qualifying as cash flow hedges, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive income as of March 31, 2007, December 31, 2006 and March 31, 2006.

	March 31, 2007	December 31, 2006	March 31, 2006
Net unrealized gains (losses) on investments[1]	$ 292,175	$ 340,363	$ 337,365
Net unrealized gains (losses) on derivatives[2]	(7,087)	(7,570)	(7,029)
Defined benefit pension plans:			
Net prior service cost	(23)	(24)	
Net gain	15,819	16,342	
Total defined benefit pension plans[3]	15,796	16,318	
Minimum pension liability adjustment[4]			(1,840)
Total accumulated other comprehensive income	$ 300,884	$ 349,111	$ 328,496

(1) Net of tax expense of $153,159, $179,244 and $179,281 as of March 31, 2007, December 31, 2006 and March 31, 2006, respectively.

(2) Net of tax benefit of $4,051, $4,347 and $4,007 as of March 31, 2007, December 31, 2006 and March 31, 2006, respectively.

(3) Net of tax expense of $9,309 and $8,787 as of March 31, 2007 and December 31, 2006, respectively.

(4) Net of tax benefit of $991 as of March 31, 2006.

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7. Earnings per Common Share

Basic earnings per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Numerator:		
Net income attributable to common stock	$ 107,060	$ 143,300
Adjusted for debt expense of convertible debentures (Co-Cos), net of taxes[1]		
Adjusted for non-taxable unrealized gains on equity forwards[2]		
Net income attributable to common stock, adjusted	$ 107,060	$ 143,300
Denominator ***(shares in thousands):***		
Weighted average shares used to compute basic EPS	411,040	412,675
Effect of dilutive securities:		
Dilutive effect of Co-Cos		
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, Employee Stock Purchase Plan (ESPP) and equity forwards[3][4]	7,409	10,299
Dilutive potential common shares[5]	7,409	10,299
Weighted average shares used to compute diluted EPS	418,449	422,974
Net earnings per share:		
Basic EPS	$ .26	$ .35
Dilutive effect of Co-Cos[1]		
Dilutive effect of equity forwards[2][4]		
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and ESPP[3]		(.01)
Diluted EPS	$ .26	$ .34

(1) Emerging Issues Task Force (EITF) Issue No. 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings per Share, requires the shares underlying Co-Cos to be included in diluted EPS computations regardless of whether the market price trigger or the conversion price has been met, using the if-converted method.

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

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

(4) Reflects the potential dilutive effect of equity forward contracts, determined by the reverse treasury stock method.

(5) For the three months ended March 31, 2007 and 2006, stock options and equity forwards of approximately 65 million shares and 47 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive.

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8. Pension Plans

Components of Net Periodic Pension Cost

Net periodic pension cost included the following components:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Service cost benefits earned during the period	$ 1,775	$ 2,073
Interest cost on projected benefit obligations	3,084	2,862
Expected return on plan assets	(4,494)	(4,069)
Net amortization and deferral	(180)	122
Total net periodic pension cost	$ 185	$ 988

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it did not expect to contribute to its qualified pension plan (the Qualified Plan) in 2007. As of March 31, 2007, the Company had made no contributions to its Qualified Plan.

9. Income Taxes

The following table summarizes the Company s unrecognized tax benefits:

	As of January 1, 2007
Gross amount of unrecognized tax benefits	$ 113,334
Total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	38,325
Total amount of interest and penalties recognized in the statement of operations and the statement of financial position	16,418

The Company adopted the provisions of the FASB s Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a

$6 million increase in its liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. In addition, unrecognized tax benefits of $3 million are currently treated as a pending refund claim, reducing the above balance of total unrecognized tax benefits that if recognized would affect the effective tax rate.

In the first quarter of 2007, the Company adjusted its federal unrecognized tax benefits to reflect the expected outcome of several issues being negotiated with the IRS as a part of the current exam cycle, primarily regarding the timing of recognition of certain income and deduction items. Several other less significant amounts of uncertain tax benefits were also added during the first quarter. In total, as of March 31, the Company has gross unrecognized tax benefits of $166 million, as well as total interest and penalties recognized in the statement of operations of $22 million.

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9. Income Taxes (Continued)

Reasonably Possible Significant Increases/ Decreases within Twelve Months

1. U.S. Federal Tax Uncertainties

The current exam of the Company s 2003 and 2004 U.S. Federal tax return is scheduled to conclude in the second or third quarter of 2007, pending any appeals that may be filed by the Company on unagreed items. It is possible that additional government reviews of the exam results could extend the scheduled time period for conclusion of the exam. Multiple uncertainties are under review during the current exam. An estimate of the range of the possible change to the balance of the Company s unrecognized tax benefits that may result from conclusion of the exam cannot at this time be made, pending completion of the current exam.

In addition, it is expected that during the second half of 2007, the IRS will commence the examination of the Company s 2005 and 2006 federal income tax returns. It is reasonably possible that issues which arise during the exam may create the need for an increase in unrecognized tax benefits. Until the exam commences, an estimate of any such amounts cannot currently be made.

2. Other Tax Uncertainties

In the event that the Company is not contacted for exam by additional tax authorities by the end of 2007, it is reasonably possible that there will be a decrease in the Company s unrecognized tax position liability, due to the tolling of various statute of limitations periods. Such change could be approximately $3 million to $5 million.

Tax Years Remaining Subject to Exam

The Company or one of its subsidiaries files income tax returns at the U.S. federal level, in most U.S. states, and various foreign jurisdictions. U.S. federal income tax returns filed for years prior to 2003 have been audited and are now resolved. As shown in the table below, the Company s primary operating subsidiary has been audited by the listed states through the year shown, again with all issues resolved. Other combinations of subsidiaries, tax years, and jurisdictions remain open for review, subject to statute of limitations periods (typically 3 to 4 prior years).

State	**Year audited through**
New York	2003
Texas	2004
Pennsylvania	2000
Florida	2000
Indiana	2000
California	2002

Missouri	2003

The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense, and penalties in operating expenses.

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10. Contingencies

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On April 14, 2007, the Company was served with a putative class action suit by several borrowers in federal court in California. The complaint alleges violations of California Business & Professions Code 17200, breach of contract, breach of covenant of good faith and fair dealing, violation of consumer legal remedies act and unjust enrichment. The complaint challenges the Company s FFELP billing practices as they relate to use of the simple daily interest method for calculating interest. The Company believes the complaint is without merit and it intends to vigorously defend this action.

The Company is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of the Company s reports to credit bureaus. In addition, the collections subsidiaries in the Company s debt management operations group are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that the Company has violated a federal or state law in the process of collecting their account. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on its business, financial condition or results of operations. Finally, from time to time, the Company receives information and document requests from state attorneys general concerning certain of its business practices. The Company s practice has been and continues to be to cooperate with the state attorneys general and to be responsive to any such requests.

11. Segment Reporting

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

The management reporting process measures the performance of the Company s operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company s chief operating decision maker, evaluates the performance of the Company s operating segments based on their profitability. As discussed further below, management measures the profitability of the Company s operating segments based on Core Earnings net income. Accordingly, information regarding the Company s reportable segments is provided based on a Core Earnings basis. The Company s Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company s operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by

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11. Segment Reporting (Continued)

management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

The Company s principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer accounted for more than 10 percent of its total revenue during the three months ended March 31, 2007 and 2006. United Student Aid Funds, Inc. (USA Funds) is the Company s largest customer in both the DMO and Corporate and Other segments. During the three months ending March 31, 2007 and 2006, it accounted for 25 percent and 38 percent, respectively, of the aggregate revenues generated by the Company s DMO and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for the years mentioned.

Lending

In the Company s Lending business segment, the Company originates and acquires both federally guaranteed student loans, which are administered by the U.S. Department of Education (ED), and Private Education Loans, which are not federally guaranteed. Private Education Loans are primarily used by borrowers to supplement FFELP loans to meet the rising cost of education. The Company manages student loans for nearly 10 million student and parent customers; its Managed student loan portfolio totaled $150.0 billion at March 31, 2007, of which $125.8 billion or 84 percent are federally insured. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. During the three months ended March 31, 2007, the Company originated $310 million in mortgage and consumer loans of which $226 million pertained to mortgages in the held for sale portfolio. The Company s mortgage and consumer loan portfolio totaled $597 million at March 31, 2007.

In addition to its federally insured FFELP products, the Company originates and acquires Private Education Loans which consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers resources, and (2) those that are used to meet the needs of students who attend non-Title IV eligible institutions where FFELP loans are not available (such as career training, distance learning and lifelong learning programs). Most higher education Private Education Loans are made in conjunction with a FFELP Stafford loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through industry-tested loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

DMO

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

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11. Segment Reporting (Continued)

on a contingency fee or other pay-for-performance basis to 14 FFELP guarantors and for campus based programs.

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

Corporate and Other

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

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

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

Measure of Profitability

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

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

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11. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Three Months Ended March 31, 2007					
(Dollars in millions)	**Lending**	**DMO**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[3]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 695	$	$	$ 695	$ (244)	$ 451
FFELP Consolidation Loans	1,331			1,331	(316)	1,015
Private Education Loans	658			658	(320)	338
Other loans	28			28		28
Cash and investments	162		2	164	(50)	114
Total interest income	2,874		2	2,876	(930)	1,946
Total interest expense	2,220	7	5	2,232	(700)	1,532
Net interest income	654	(7)	(3)	644	(230)	414
Less: provisions for losses	198		1	199	(49)	150
Net interest income after provisions for losses	456	(7)	(4)	445	(181)	264
Fee income		87	39	126		126
Collections revenue		65		65	1	66
Other income	44		52	96	231	327
Total other income	44	152	91	287	232	519
Operating expenses[1]	171	93	68	332	24	356
Income before income taxes and minority interest in net earnings of subsidiaries	329	52	19 &nbs			