

SLM CORP  
Form 10-K  
February 26, 2010

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

**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2009 or
- TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from        to

**Commission file numbers 001-13251**

**SLM Corporation**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State of Other Jurisdiction of  
Incorporation or Organization)*

**12061 Bluemont Way, Reston, Virginia**

*(Address of Principal Executive Offices)*

**52-2013874**

*(I.R.S. Employer  
Identification No.)*

**20190**

*(Zip Code)*

**(703) 810-3000**

*(Registrant's Telephone Number, Including Area Code)*

**Securities registered pursuant to Section 12(b) of the Act**  
**Common Stock, par value \$.20 per share.**

**Name of Exchange on which Listed:**

**New York Stock Exchange**

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

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

**Name of Exchange on which Listed:**

**New York Stock Exchange**

**Medium Term Notes, Series A, CPI-Linked Notes due 2017**  
**Medium Term Notes, Series A, CPI-Linked Notes due 2018**  
**6% Senior Notes due December 15, 2043**

**Name of Exchange on which Listed:**

**New York Stock Exchange**

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

**None.**

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

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

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  No

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009 was \$4.8 billion (based on closing sale price of \$10.27 per share as reported for the New York Stock Exchange Composite Transactions).

As of January 31, 2010, there were 484,912,370 shares of voting common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

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Portions of the Proxy Statement relating to the registrant's Annual Meeting of Shareholders scheduled to be held May 13, 2010 are incorporated by reference into Part III of this Report.

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## **FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

This report contains forward-looking statements and information based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, increases in financing costs; limits on liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Obama Administration's current budget proposals as they relate to the Federal Family Education Loan Program ( FFELP ) and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: changes in or the termination of various liquidity programs implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; changes in the demand for debt management services; and new laws or changes in existing laws. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company's expectations.

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

## PART I.

### Item 1. Business

#### INTRODUCTION TO SLM CORPORATION

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

Our primary business is to originate, service and collect loans made to students and/or their parents to finance the cost of their education. We provide funding, delivery and servicing support for education loans in the United States through our participation in the Federal Family Education Loan Program (FFELP), as a servicer of loans for the Department of Education (ED), and through our non-federally guaranteed Private Education Loan programs.

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

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

At December 31, 2009, we had approximately eight thousand employees.

#### Recent Developments and Expected Future Trends

On February 26, 2009, the Obama Administration (the Administration) issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program (DSLP). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act (SAFRA), which was consistent with the Administration's 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the DSLP. The Administration's 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the Community Proposal because it has the widespread support of the student lending community,

which includes lenders, Guarantors, financial aid advisors and others. We believe that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

The Administration's 2010 fiscal year budget also called for the hiring of additional loan servicers to help ease the transition to a full DSLP and to handle the significant increase in future volume. On June 17, 2009, we announced that we were selected by ED as one of four private sector servicers awarded a servicing contract (the ED Servicing Contract) to service loans we sell to ED plus a portion of loans others sell to ED, existing DSLP loans and loans originated in the future. We began servicing loans under this contract in the third quarter of 2009.

Under both SAFRA and the Community Proposal, the Company would no longer originate, fund or hold new FFELP loans to earn a net interest margin. However, the Company would continue to earn net interest income from our portfolio of existing FFELP loans as the portfolio runs off over a period of time. The Company would become a fee for service provider in the federal loan business. We will continue to originate, fund and hold Private Education Loans.

In addition, the legislation would eliminate the need for the Guarantors and the services we provide to the sector. The Company earns a fee when it processes a loan guarantee for a Guarantor client for the life of the loan for servicing the Guarantor's portfolio of loans. If either SAFRA or the Community Proposal become laws, we would no longer earn the origination fee paid by Guarantors. The portfolio that generates the maintenance fee would go into run-off and we would continue to earn the maintenance fee and perform the associated default aversion and prevention work for the remaining life of the loans. In 2009, we earned guarantor servicing fees of \$136 million, which was approximately evenly split between origination and maintenance fees.

Our student loan contingent collection business would also be impacted by the pending legislation. We currently have 12 Guarantors and ED as clients. We earn revenue from Guarantors for collecting defaulted loans as well as for managing their portfolios of defaulted loans. Revenue from Guarantor clients is approximately 66 percent of our contingent collection revenue. We anticipate that revenue from Guarantors will be relatively stable through 2012 and then begin to steadily decline if either SAFRA or the Community Proposal are adopted.

The Company, through its subsidiary Pioneer Credit, has been collecting defaulted student loans on behalf of ED since 1997. The contract is merit based and accounts are awarded on collection performance. Pioneer Credit has consistently ranked number one or two among the ED collectors. In anticipation of a surge in volume as more loans switch to DSLP, ED recently added five new collection companies bringing the total to 22. This led to a decline in account placements with Pioneer Credit, which we believe is temporary. The Company expects that as the DSLP grows the decline in revenue we would experience from our Guarantor clients would be partially offset by increased revenue under the ED contract in future years.

If SAFRA becomes law, a significant restructuring which would result in significant job losses throughout the Company and we will be required to adapt to our new business environment.

The Company is exploring available liquidity to fund FFELP loans for our student customers if legislation is not passed and The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) is not extended in time for the academic year (AY) 2010-2011. We believe that adequate liquidity will be available to fund the anticipated number of loans.

### **Student Lending Market**

Students and their families use multiple sources of funding to pay for their college education, including savings, current income, grants, scholarships, and federally guaranteed and private education loans. Over the last five years, these sources of funding for higher education have been relatively stable with a general trend towards an increased use of student loans. In the last academic year, 39 percent of students used federally guaranteed student loans or private education loans to finance their education. Due to an increase in federal loan limits that took effect in 2007 and 2008,

the Company has seen a substantial increase in borrowing from federal loan programs in recent years.



### ***Federally Guaranteed Student Lending Programs***

There are currently two loan delivery programs that provide federal government guaranteed student loans: the FFELP and the DSLP. FFELP loans are provided by the private sector. DSLP loans are provided to borrowers directly by ED on terms similar to student loans provided under the FFELP. We participate in and are the largest lender under the FFELP. The Company is participating in ED's Participation and Put program, which were established under the authority provided in ECASLA. This program is scheduled to terminate on June 30, 2010. Under this program, ED provides funding to lenders for up to one year at a cost of commercial paper (CP) plus 50 basis points. The lender has the option to sell the loans to ED within 90 days of the end of the AY for a fee of \$75 per loan plus the principal amount of and accrued interest on the loan plus the one percent origination fee for which we are reimbursed. We are also a contractor to service loans sold to ED and DSLP loans.

For the federal fiscal year (FFY) ended September 30, 2009 (FFY 2009), ED estimated that the market share of FFELP loans was 69 percent, down from 76 percent in FFY 2008. (See LENDING BUSINESS SEGMENT Competition.) Total FFELP and DSLP volume for FFY 2009 grew by 28 percent, with the FFELP portion growing 17 percent and the DSLP portion growing 63 percent.

The Higher Education Act (the HEA) regulates every aspect of the federally guaranteed student loan program, including communications with borrowers, loan originations and default aversion requirements. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. This guarantee generally covers 98 and 97 percent of the student loan's principal and accrued interest for loans disbursed before and after July 1, 2006, respectively. In the case of death, disability or bankruptcy of the borrower, the guarantee covers 100 percent of the loan's principal and accrued interest. The guarantee on our existing loan portfolio would not be impacted by pending legislation.

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

### ***Private Education Loan Products***

In addition to federal loan programs, which have statutory limits on annual and total borrowing, we offer Private Education Loan programs to bridge the gap between the cost of education and a student's resources. Historically, the majority of our Private Education Loans were made in conjunction with a FFELP Stafford Loan and are marketed to schools through the same marketing channels and by the same sales force as FFELP loans. However, we also originate Private Education Loans at DSLP schools. We expect no interruption in our presence in the school channel if SAFRA were to pass. As a result of the credit market dislocation discussed above, a large number of lenders have exited the Private Education Loan business and only a few of the country's largest banks continue to offer the product.

### ***Drivers of Growth in the Student Loan Industry***

Growth in our Managed student loan portfolio and our servicing and collection businesses is driven by the growth in the overall market for student loans, as well as by our own market share gains. Rising enrollment and college costs and increases in borrowing limits have resulted in the size of the federally insured student loan market more than

tripling over the last 10 years. Federally insured student loan originations grew from \$30 billion in FFY 1999 to \$96 billion in FFY 2009.

According to the College Board, tuition and fees at four-year public institutions and four-year private institutions have increased 88 percent and 66 percent, respectively, in constant, inflation-adjusted dollars, since AY 1999-2000. Under the FFELP, there are limits to the amount students can borrow each academic year. The first loan limit increases since 1992 were implemented July 1, 2007. In response to the credit crisis, Congress significantly increased loan limits again in 2008. As a result, students rely more on federal loans to fund their tuition needs. Both federal and private loans as a percentage of total student aid were 49 percent of total student aid in AY 1998-1999 and 53 percent in AY 2008-2009. Private Education Loans accounted for 12 percent of total student loans both federally guaranteed and Private Education Loans in AY 2008-2009, compared to 8 percent in AY 1998-1999.

The National Center for Education Statistics predicts that the college-age population will increase approximately 10 percent from 2009 to 2018. Demand for education credit is expected to increase due to this population demographic, first-time college enrollments of older students and continuing interest in adult education.

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

**Historical and Projected Enrollment  
(in millions)**

Source: National Center for Education Statistics

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

**Cost of Attendance<sup>(1)</sup>  
Cumulative % Increase from AY 1998-1999**

Source: The College Board

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

## **BUSINESS SEGMENTS**

We provide credit products and related services to the higher education and consumer credit communities and others through two primary business segments: our Lending business segment and our Asset Performance Group ( APG ) business segment. In addition, within our Corporate and Other business segment, we provide a number of products and services that are managed within smaller operating segments, the most prominent being our Guarantor Servicing and Loan Servicing businesses. As discussed above, some of our businesses are expected to go into run-off as a result of pending legislation. Each of these segments is summarized below. The accounting treatment for the segments is explained in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### **LENDING BUSINESS SEGMENT**

In the Lending business segment, we originate and acquire both federally guaranteed student loans, and Private Education Loans, which are not federally guaranteed. We manage the largest portfolio of FFELP and Private Education Loans in the student loan industry, and have 10 million student and parent customers through our ownership and management of \$176.4 billion in Managed student loans as of December 31, 2009, of which \$141.4 billion or 80 percent are federally insured. We serve over 6,000 clients, including educational and financial institutions and non-profit state agencies. We are the largest servicer and collector of student loans, servicing \$194.2 billion in assets, including \$26.3 billion for third parties, of which \$19.2 billion is serviced for ED as of December 31, 2009.

#### **Sallie Mae s Lending Business**

Our primary marketing point-of-contact is the school s financial aid office. We deliver flexible and cost-effective products to the school and its students. The focus of our sales force is to market Sallie Mae s suite of education finance products to colleges. These include FFELP and Private Education Loans and through our Web-based loan origination and servicing platform OpenNet®. As a result of the changes taking place in the student loan marketplace, we are broadening our marketing activities to include Direct to Consumer initiatives and referral lending relationships. We also intend to drive loan volume through our Planning, Paying and Saving for college activities.

In 2009, we originated \$24.9 billion in student loans. FFELP originations for the year ended December 31, 2009 totaled \$21.7 billion, an increase of 21 percent from the year ended December 31, 2008. The increase in FFELP loan origination growth was due to higher loan limits and an increase in market share. Given the legislative uncertainty around FFELP and the ongoing transition of certain schools to Direct Lending, FFELP originations could be substantially lower in the AY 2010 2011. Private Education Loan originations totaled \$3.2 billion, a decrease of 50 percent from the prior year. The decline in Private Education Loan originations was due to a tightening of our underwriting requirements, an increase in federal student loan limits and the Company s withdrawal from certain markets.

#### ***Private Education Loans***

We bear the full credit risk for Private Education Loans, which are underwritten and priced according to credit risk based upon customized credit scoring criteria. Due to their higher risk profile, generally Private Education Loans have higher interest rates than FFELP loans. Despite a decline in the growth rate of Private Education Loan originations, the portfolio grew 5 percent from the prior year. All new Private Education Loans are being funded at Sallie Mae Bank through our deposit taking activities.

In 2008 and 2009, the credit environment created significant challenges for funding Private Education Loans. At the same time, we became more restrictive in our underwriting criteria. In addition, as discussed above, federal lending limits increased significantly in 2007 and 2008. As a result of these factors, originations declined in 2008 and 2009. We expect originations to grow once again in 2010 and subsequent years as the credit markets continue to recover and the impact of the 2007 and 2008 federal loan limit increases is offset by tuition increases and market share gains.

Over the course of 2009, we made improvements in the structure, pricing, underwriting, servicing, collecting and funding of Private Education Loans. These changes were made to increase the profitability and decrease the risk of the product. For example, the average FICO score for loans disbursed in 2009 was up 19 points to 745 and the percentage of co-signed loans increased to 84 percent from 66 percent in the prior year.

These improvements in portfolio quality are being driven primarily by our more selective underwriting criteria. We have instituted higher FICO cut-offs and require cosigners for borrowers with higher credit scores than in the past. Our experience shows that adding a cosigner to a loan reduces the default rate by more than 50 percent. We are capturing more data on our borrowers and cosigners and using this data in the credit decision and pricing process. In 2009, we began using a new Custom Underwriting Scorecard, that we believe will further improve our underwriting. We have also introduced judgmental lending.

In 2009, we introduced the Smart Option Student Loan<sup>®</sup>, which is offered to undergraduate and graduate students through the financial aid offices of colleges and universities to supplement traditional federal loans. The Smart Option Student Loan<sup>®</sup> significantly reduces the customer's total cost and repayment term by requiring interest payments while the student is in school.

## **Competition**

Historically, we have faced competition for both federally guaranteed and non-guaranteed student loans from a variety of financial institutions, including banks, thrifts and state-supported secondary markets. However, as a result of the CCRAA which was passed in 2007, the legislation currently pending and the dislocation in the capital markets, the student loan industry is undergoing a significant transition. A number of student lenders have ceased operations altogether or curtailed activity.

## **ASSET PERFORMANCE GROUP BUSINESS SEGMENT**

In our APG business segment, we provide student loan default aversion services, defaulted student loan portfolio management services and contingency collections services for student loans and other asset classes. In 2008, we decided to wind down our accounts receivable management and collections services on consumer and mortgage receivable portfolios. We made this decision because we did not realize the expected synergies between this business and our traditional contingent student loan collection business. During 2009 we sold GRP, our mortgage purchased paper company, and wound down our unsecured receivables portfolio to \$285 million.

In 2009, our APG business segment had revenues totaling \$346 million and a net loss of \$154 million due to impairments in our collections servicing portfolios. Our largest customer, USA Funds, accounted for 39 percent, excluding impairments, of our revenue in this segment in 2009.

Please read the section **Recent Developments and Expected Future Trends** to see how pending legislation could impact this business segment.

## **Products and Services**

### ***Student Loan Default Aversion Services***

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

### ***Defaulted Student Loan Portfolio Management Services***

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

### ***Contingency Collection Services***

Our APG business segment is also engaged in the collection of defaulted student loans on behalf of various clients, including schools, Guarantors, ED and other federal and state agencies. We earn fees that are contingent on the amounts collected. We provide collection services for approximately 16 percent of the total market for federal student loan collections. We have relationships with approximately 900 colleges and universities to provide collection services for delinquent student loans and other receivables from various campus-based programs. We also collect other debt for federal and state agencies, and retail clients.

### **Competition**

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

### **CORPORATE AND OTHER BUSINESS SEGMENT**

The Company's Corporate and Other business segment includes the aggregate activity of its smaller operating segments, primarily its Guarantor Servicing, Loan Servicing, and Upromise operating segments. Corporate and Other also includes several smaller products and services, including comprehensive financing and loan delivery solutions to college financial aid offices and students to streamline the financial aid process.

Please read the section above, INTRODUCTION TO SLM CORPORATION Recent Developments and Expected Future Trends to see how we expect pending legislation to impact this business segment.

### **Guarantor Servicing**

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

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

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

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

guarantee fulfillment the review and processing of guarantee claims;

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

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



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Currently, we provide a variety of these services to 15 Guarantors and, in AY 2008-2009, we processed \$24.0 billion in new FFELP loan guarantees, of which \$19.3 billion was for USA Funds, the nation's largest Guarantor. We processed guarantees for approximately 35 percent of the FFELP loan market in AY 2008-2009.

Guarantor servicing fee revenue, which includes guarantee issuance and account maintenance fees, was \$136 million for the year ended December 31, 2009, 86 percent of which we earned from services performed on behalf of USA Funds. Under some of our guarantee services agreements, including our agreement with

USA Funds, we receive certain scheduled fees for the services that we provide under such agreements. The payment for these services includes a contractually agreed-upon percentage of the account maintenance fees that the Guarantors receive from ED.

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

Our primary non-profit competitors in Guarantor Servicing are state and non-profit guarantee agencies that provide third-party outsourcing to other Guarantors.

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

### **Upromise**

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

Upromise, through its wholly-owned subsidiaries, UII, a registered broker-dealer, and UIA, a registered investment advisor, provides program management, transfer and servicing agent services, and administration services for various 529 college-savings plans. UII and UIA manage approximately \$23 billion in 529 college-savings plans.

### **REGULATION**

Like other participants in the FFELP, the Company is subject to the HEA and, from time to time, to review of its student loan operations by ED and guarantee agencies. As a servicer of federal student loans, the Company is subject to certain ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our Guarantor Servicing operations, the Company must comply with, on behalf of its Guarantor Servicing customers, certain ED regulations that govern Guarantor activities as well as agreements for reimbursement between the Secretary of Education and the Company's Guarantor Servicing customers. As a third-party service provider to financial institutions, the Company is also subject to examination by the Federal Financial Institutions Examination Council ( FFIEC ).

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

the Truth-In-Lending Act;

the Fair Credit Reporting Act;

the Equal Credit Opportunity Act;

the Gramm Leach-Bliley Act; and

the U.S. Bankruptcy Code.

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

the Fair Debt Collection Practices Act;

the Fair Credit Reporting Act;

the Gramm-Leach-Bliley Act; and

the U.S. Bankruptcy Code.

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

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

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

#### **AVAILABLE INFORMATION**

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

Our Code of Business Conduct, which applies to Board members and all employees, including our Chief Executive Officer and Chief Financial Officer, is also available, free of charge, on our website at [www.salliemae.com/about/business\\_code.htm](http://www.salliemae.com/about/business_code.htm). We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Chief Executive Officer or Chief Financial Officer) by posting such information on our website.

In 2009, the Company submitted the annual certification of its Chief Executive Officer regarding the Company's compliance with the NYSE's corporate governance listing standards, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual.

In addition, we filed as exhibits to the Company's annual reports on Form 10-K for the years ended December 31, 2007 and 2008 and to this Annual Report on Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

## Item 1A. Risk Factors

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

### **Funding and Liquidity.**

*Our business is affected by funding constraints in the credit market and dependence on various government funding sources, and the interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. These factors may increase the price of or decrease our ability to obtain liquidity as well expose us to basis risk and repricing.*

The capital markets are experiencing a prolonged period of volatility. This volatility has had varying degrees of impact on most financial organizations. These conditions have impacted the Company's access to and cost of capital necessary to manage our business. Additional factors that could make financing difficult, more expensive or unavailable on any terms include, but are not limited to, financial results and losses of the Company, changes within our organization, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions.

Our business is also affected by various government funding sources and funding constraints in the capital markets.

Funding for new FFELP loan originations is currently dependent to a large degree on financial programs established by the federal government. These programs are described in the LIQUIDITY AND CAPITAL RESOURCES section of this Form 10-K. These federal programs are not permanent and may not be extended past their expiration dates. There is no assurance that the capital markets will be able to totally support FFELP loan originations beyond the time these programs are presently scheduled to end. Upon termination of the government programs mentioned, if cost effective funding sources were not available, we could be compelled to reduce or suspend the origination of new FFELP loans.

FFELP loans originated under the government programs mentioned above must be re-financed or sold to the government by a date determined under the terms of the programs. It is our intention to sell these loans to the government under the terms of the programs.

During 2009, the Company funded private, non-federally guaranteed loan originations primarily through term brokered deposits raised by Sallie Mae Bank. Assets funded in this manner result in re-financing risk because the average term of the deposits is shorter than the expected term of some of the same assets. There is no assurance that this or other sources of funding, such as the term asset-backed securities market, will be available at a level and a cost that makes new Private Education Loan originations possible or profitable, nor is there any assurance that the loans can be re-financed at profitable margins.

At some time, the Company may decide that it is prudent or necessary to raise additional equity capital through the sale of common stock, preferred stock, or securities that convert into common stock. There are no restrictions on entering into the sale of any equity securities in either public or private transactions, except that any private transaction involving more than 20 percent of shares outstanding requires shareholder approval and any holder owning more than 10 percent of our fully diluted shares requires approval of the FDIC relating to a change of control of our

Bank. Under current market conditions, the terms of an equity transaction may subject existing security holders to potential subordination or dilution and may involve a change in governance.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. This mismatch exposes us to risk in the form of basis risk and repricing risk. While most of such basis risks are hedged using interest rate swap contracts, such hedges are not always perfect matches and, therefore, may result in losses. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. For instance, as a result of the turmoil in the capital markets, the historically tight spread between CP and LIBOR began to widen dramatically in the fourth

quarter of 2008. It subsequently reverted to more normal levels beginning in the third quarter of 2009 and has been stable since then. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs, limit our access to the markets or trigger obligations under certain provisions in collateralized arrangements. Under these provisions, counterparties may require us to segregate collateral or terminate certain contracts.

### **Economic Conditions.**

*We may be adversely affected by deterioration in economic conditions.*

We may continue to be adversely affected by economic conditions. A continuation of the current downturn in the economy, or a further deterioration, could result in lessened demand for consumer credit and credit quality could continue to be impacted. Adverse economic conditions may result in declines in collateral values. Higher credit-related losses and weaker credit quality could impact our financial position and limit funding options, including capital markets activity, which could adversely impact the Company's liquidity position.

### **Operations.**

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

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business. Our business is dependent on our ability to process and monitor, on a daily basis, a large number of transactions. These transactions must be processed in compliance with legal and regulatory standards and our product specifications, which we change to reflect our business needs. As processing demands change and grow, developing and maintaining our operational systems and infrastructure becomes increasingly challenging.

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

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

We routinely transmit and receive personal, confidential and proprietary information, some through third parties. We have put in place secure transmission capability, and work to ensure third parties follow similar procedures. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm.



**Political.**

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

Changes in laws and regulations that affect our businesses, including our FFELP and private credit education lending and debt collection businesses, could affect the profitability and viability of our Company. During September 2009, the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility Act ( SAFRA ), which would eliminate the FFELP and require that, after July 1, 2010, all new federal student loans be made through the Direct Student Loan Program. There are several proposals in the Senate, including SAFRA and related proposals, and an alternative proposal submitted by Senator Casey to the Congressional Budget Office for scoring, which maintains a structure similar to the Community Proposal but reduces the purchase fee from \$75 to \$55. The Administration s budget for the 2011 fiscal year, submitted to Congress on February 1, 2010, includes proposals consistent with SAFRA that could negatively impact the FFELP. The Obama Administration s (the Administration ) budget request and the current economic environment may make legislative changes more likely, making this risk to our business greater. The Administration has also proposed a financial responsibility tax for financial institutions which may also impact the Company.

**Competition.**

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

The education loan business is highly competitive. We compete in the FFELP business and the private credit lending business with banks and other consumer lending institutions, many with strong consumer brand name recognition. We compete based on our products, origination capability and customer service. To the extent our competitors compete aggressively or more effectively, including with private credit loan products that are more accepted than ours or lower private credit pricing, we could lose market share to them or subject our existing loans to refinancing risk.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the market place. This concentration also creates risks in our business, particularly in light of our concentration as a FFELP and private credit lender and servicer for the FFELP and DSLP. The market for federally-guaranteed student loans is shared among the Company and other private sector lenders who participate in the FFELP, and the federal government through the DSLP. The market for private credit loans is shared among many banks and financial institutions. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, if the cost of attendance of higher education decreases, if public support for higher education costs increases, or if the demand for higher education loans decreases or increases from one product to another, our FFELP and private credit lending business could be negatively affected.

In addition, if we introduce new education or other loan products, there is a risk that those new products will not be accepted in the marketplace. We might not have other profitable product offerings that offset loss of business in the education credit market.

**Credit and Counterparty.**

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

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

In addition to the credit risk associated with our education loan customers, we are also subject to the creditworthiness of other third parties, including counterparties to our derivative transactions. For example, we

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

### **Regulatory and Compliance.**

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

Our businesses are subject to numerous state and federal laws and regulations and our failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions.

Our private credit lending and debt collection business are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection regulation. Some state attorneys general have been active in this area of consumer protection. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators as well as frequent litigation from private plaintiffs.

Sallie Mae Bank is subject to state and FDIC regulation, oversight and regular examination. At the time of this filing, Sallie Mae Bank was the subject of a cease and desist order for weaknesses in its compliance function. While the issues addressed in the order have largely been remediated, the order has not yet been lifted. Our failure to comply with various laws and regulations or with the terms of the cease and desist order or to have issues raised during an examination could result in litigation expenses, fines, business sanctions, limitations on our ability to fund our Private Education Loans, which are currently funded by term deposits issued by Sallie Mae Bank, or restrictions on the operations of Sallie Mae Bank.

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

### **Reliance on Estimates.**

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

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. A description of our critical accounting estimates and assumptions may be found in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CRITICAL ACCOUNTING POLICIES AND ESTIMATES in this Form 10-K.

If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could result in actual results being significantly different than current estimates which could adversely affect our business.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The following table lists the principal facilities owned by the Company as of December 31, 2009:

<b>Location</b>	<b>Business Segment / Function</b>	<b>Approximate Square Feet</b>
Fishers, IN	Lending/Loan Servicing and Data Center	450,000
Newark, DE	Lending/Credit and Collections Center	160,000
Wilkes-Barre, PA	Lending/Loan Servicing Center	