SLM CORP
Form 10-Q
November 06, 2008

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

Form 10-Q

(Mark One)

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

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

Commission File Number: 001-13251

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

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

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

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

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

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

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

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

Class	**Outstanding at October 31, 2008**
Voting common stock, $.20 par value	467,284,469 shares

GLOSSARY

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

2008 Asset-Backed Financing Facilities Financing facilities entered into during the first quarter of 2008: (i) a $26.0 billion FFELP student loan asset-backed commercial paper (ABCP) conduit facility; (ii) a $5.9 billion Private Education Loan ABCP conduit facility (collectively, the 2008 ABCP Facilities); and (iii) a $2.0 billion secured FFELP loan facility (the 2008 Asset-Backed Loan Facility). The 2008 Asset-Backed Financing Facilities replaced the $30.0 billion Interim ABCP Facility (defined below) and $6.0 billion ABCP facility in the first quarter of 2008. Effective as of August 25, 2008, the Company reduced the commitments under its Private Education Loan ABCP conduit facility by approximately $2.2 billion to $3.7 billion. On September 30, 2008, the Company reduced the commitments under its FFELP ABCP Facilities by $4.1 billion to $21.9 billion. There were no changes to interest rates, maturity or other terms of the facilities made in connection with the reductions.

CCRAA The College Cost Reduction and Access Act of 2007.

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

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

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

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

See Note 14, Segment Reporting, to the consolidated financial statements and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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BUSINESS SEGMENTS Limitations of Core Earnings and Pre-tax Differences between Core Earnings and GAA by Business Segment 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 reports on Form 10-Q, Core Earnings has been labeled as Core net income or Managed net income in certain instances.

ED The U.S. Department of Education.

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

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

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

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

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

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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.

Graphic Depiction of Floor Income:

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

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

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

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

Interim ABCP Facility An aggregate of $30 billion asset-backed commercial paper conduit facilities that the Company entered into on April 30, 2007 in connection with the April 16, 2007 announcement of a proposed acquisition of the Company by J.C. Flowers & Co., Bank of America, N.A., and JPMorgan Chase, N.A., which was terminated on January 25, 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SLM CORPORATION

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September 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $75,290 and $47,518, respectively)	$ 48,924,938	$ 35,726,062
FFELP Consolidation Loans (net of allowance for losses of $47,965 and $41,211, respectively)	72,565,628	73,609,187
Private Education Loans (net of allowance for losses of $1,012,838 and $885,931, respectively)	19,837,425	14,817,725
Other loans (net of allowance for losses of $53,189 and $43,558, respectively)	769,923	1,173,666
Investments		
Available-for-sale	535,397	2,871,340
Other	582,332	93,040
Total investments	1,117,729	2,964,380
Cash and cash equivalents	3,895,854	7,582,031
Restricted cash and investments	3,897,417	4,600,106
Retained Interest in off-balance sheet securitized loans	2,323,419	3,044,038
Goodwill and acquired intangible assets, net	1,259,541	1,300,689
Other assets	10,399,220	10,747,107
Total assets	$ 164,991,094	$ 155,564,991
Liabilities		
ED Participation and Purchase Program facility	$ 3,554,618	$
Bank deposits	744,086	254,029
Other short-term borrowings	33,968,849	35,693,378
Total short-term borrowings	38,267,553	35,947,407
Long-term borrowings	118,069,878	111,098,144
Other liabilities	3,297,998	3,284,545
Total liabilities	159,635,429	150,330,096
Commitments and contingencies		

Minority interest in subsidiaries	8,541	11,360
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000
Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock; 1,150 and 1,000 shares, respectively, issued at liquidation preference of $1,000 per share	1,149,770	1,000,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,420 and 532,493 shares issued, respectively	106,884	106,499
Additional paid-in capital	4,665,614	4,590,174
Accumulated other comprehensive income (net of tax of $26,766 and $124,468, respectively)	46,687	236,364
Retained earnings	669,509	557,204
Stockholders equity before treasury stock	7,203,464	7,055,241
Common stock held in treasury at cost: 66,952 and 65,951 shares, respectively	1,856,340	1,831,706
Total stockholders equity	5,347,124	5,223,535
Total liabilities and stockholders equity	$ 164,991,094	$ 155,564,991

See accompanying notes to consolidated financial statements.

SLM CORPORATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	$ 516,116	$ 545,618	$ 1,478,190	$ 1,507,680
FFELP Consolidation Loans	830,566	1,145,473	2,436,886	3,247,573
Private Education Loans	445,572	392,737	1,298,417	1,060,509
Other loans	19,874	25,990	64,573	80,416
Cash and investments	57,154	211,303	251,491	466,731
Total interest income	1,869,282	2,321,121	5,529,557	6,362,909
Total interest expense	1,394,533	1,879,811	4,375,896	5,109,130
Net interest income	474,749	441,310	1,153,661	1,253,779
Less: provisions for loan losses	186,909	142,600	467,235	441,130
Net interest income after provisions for loan losses	287,840	298,710	686,426	812,649
Other income:				
Gains on student loan securitizations				367,300
Servicing and securitization revenue	64,990	28,883	174,262	413,808
Losses on sales of loans and securities, net	(43,899)	(25,163)	(122,148)	(67,051)
Gains (losses) on derivative and hedging activities, net	(241,757)	(487,478)	(152,510)	(22,881)
Contingency fee revenue	89,418	76,306	258,514	243,865
Collections revenue (loss)	(170,692)	52,788	(87,088)	195,442
Guarantor servicing fees	36,848	45,935	95,164	115,449
Other	93,096	106,684	295,357	292,121
Total other income (loss)	(171,996)	(202,045)	461,551	1,538,053
Expenses:				
Salaries and benefits	157,408	185,741	504,925	563,723
Other operating expenses	209,744	170,158	571,563	547,150
Restructuring expenses	10,508		77,926	
Total expenses	377,660	355,899	1,154,414	1,110,873
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(261,816)	(259,234)	(6,437)	1,239,829
Income tax expense (benefit)	(103,819)	84,449	(13,233)	499,187

Income (loss) before minority interest in net earnings of subsidiaries		(157,997)		(343,683)		6,796		740,642
Minority interest in net earnings of subsidiaries		544		77		3,405		1,778
Net income (loss)		(158,541)		(343,760)		3,391		738,864
Preferred stock dividends		27,474		9,274		83,890		27,523
Net income (loss) attributable to common stock	$	(186,015)	$	(353,034)	$	(80,499)	$	711,341
Basic earnings (loss) per common share	$	(.40)	$	(.85)	$	(.17)	$	1.73
Average common shares outstanding		466,646		412,944		466,625		411,958
Diluted earnings (loss) per common share	$	(.40)	$	(.85)	$	(.17)	$	1.69
Average common and common equivalent shares outstanding		466,646		412,944		466,625		420,305
Dividends per common share	$		$		$		$	.25

See accompanying notes to consolidated financial statements.

SLM CORPORATION

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

rred ck res	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
0,000	436,095,303	(23,477,044)	412,618,259	$ 565,000	$ 87,219	$ 2,721,554	$ 265,388	$ 2,790,674
								(343,760)
							(12,914)	
							(7,208)	
							86	
								(2,875)
								(6,236)
								(1)
	3,565,038		3,565,038		713	86,182		
						163		(163)
						31,105		
						8,744		
		(2,067,201)	(2,067,201)					

,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639
,000	534,010,178	(66,444,785)	467,565,393	$ 1,715,000	$ 106,802	$ 4,637,731	$ 61,994	$ 855,527
								(158,541)
							(4,686)	
							(10,338)	
							(283)	
								(2,875)
								(3,592)
								(20,843)
								(3)
	409,499	525	410,024		80	11,654		
						164		(164)
(230)				(230)	2	228		
						(3,342)		
						19,179		
		(507,731)	(507,731)					
9,770	534,419,677	(66,951,991)	467,467,686	$ 1,714,770	$ 106,884	$ 4,665,614	$ 46,687	$ 669,509

See accompanying notes to consolidated financial statements.

SLM CORPORATION

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

red k es	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
,000	433,112,982	(22,496,170)	410,616,812	$ 565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718
								738,864
							(103,014)	
							(309)	
							(436)	
								(102,658
								(8,625
								(18,414
								(1
	6,547,359	35,364	6,582,723		1,309	180,376		
						484		(484
						46,579		
						55,098		
								(5,761

		(3,083,439)	(3,083,439)					
,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639
,000	532,493,081	(65,951,394)	466,541,687	$ 1,565,000	$ 106,499	$ 4,590,174	$ 236,364	$ 557,204
								3,391
							(26,199)	
							31,932	
							(755)	
								(8,625
								(12,489
								(62,289
								(1,851
	1,926,596	3,667	1,930,263		383	30,358		
,000				150,000		(4,168)		(487
(230)				(230)	2	228		
						(13,358)		
						62,380		
							(194,655)	194,655

		(1,004,264)	(1,004,264)											
,770	534,419,677	(66,951,991)	467,467,686	$	1,714,770	$	106,884	$	4,665,614	$	46,687	$	669,509

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Nine Months Ended September 30, 2008 (Unaudited)	Nine Months Ended September 30, 2007 (Unaudited)
Operating activities		
Net income	$ 3,391	$ 738,864
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gains on student loan securitizations		(367,300)
Losses on sales of loans and securities, net	122,148	67,051
Stock-based compensation cost	69,937	65,193
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	125,457	(129,078)
Unrealized (gains)/losses on derivative and hedging activities equity forwards		73,467
Provisions for loan losses	467,235	441,130
Minority interest, net	(2,176)	(1,239)
Mortgage loans originated for sale	(50,105)	(528,241)
Proceeds and repayments from sales of mortgage loans originated for sale	53,927	585,853
Decrease (increase) in purchased paper mortgage loans	200,098	(402,397)
Student loans originated for sale	(4,102,691)	
Decrease in restricted cash-other	61,131	127
(Increase) in accrued interest receivable	(240,906)	(1,018,465)
(Decrease) increase in accrued interest payable	(192,335)	157,082
Adjustment for non-cash loss/(income) related to Retained Interest	361,141	142,225
Decrease in other assets, goodwill and acquired intangible assets, net	357,982	132,579
(Decrease) increase in other liabilities	(149,966)	649,274
Total adjustments	(2,919,123)	(132,739)
Net cash (used in) provided by operating activities	(2,915,732)	606,125
Investing activities		
Student loans acquired	(20,527,609)	(31,057,701)
Loans purchased from securitized trusts	(1,201,058)	(4,034,061)
Reduction of student loans:		
Installment payments	7,997,789	8,622,254
Proceeds from securitization of student loans treated as sales		1,976,599
Proceeds from sales of student loans	25,844	777,982
Other loans originated	(1,097,231)	(2,967,425)
Repayments of other loans originated for investment	1,470,040	3,007,256
Other investing activities, net	(67,006)	(204,634)

Purchases of available-for-sale securities	(93,787,195)	(65,822,245)
Proceeds from sales of available-for-sale securities		73,199
Proceeds from maturities of available-for-sale securities	95,830,890	64,214,984
Purchases of other securities	(500,255)	(330,050)
Proceeds from maturities of held-to-maturity securities and other securities	12,502	434,771
Decrease (increase) in restricted cash on-balance sheet trusts	629,001	(1,696,092)
Return of investment from Retained Interest	352,633	199,345
Purchase of subsidiaries, net of cash acquired	(37,868)	
Net cash used in investing activities	(10,899,523)	(26,805,818)
Financing activities		
Borrowings collateralized by loans in trust issued	17,986,955	18,953,651
Borrowings collateralized by loans in trust repaid	(4,819,485)	(4,295,630)
Asset-backed financing facilities net activity	(1,733,537)	20,391,717
ED Participation Program facility	3,554,618	
Other short-term borrowings issued	2,001,875	378,146
Other short-term borrowings repaid	(1,067,281)	(2,194,028)
Other long-term borrowings issued	2,437,226	1,567,602
Other long-term borrowings repaid	(8,495,343)	(3,078,229)
Other financing activities, net	195,843	(81,754)
Excess tax benefit from the exercise of stock-based awards	281	29,535
Common stock issued	5,983	159,832
Net settlements on equity forward contracts		(184,793)
Common stock repurchased		(142,927)
Common dividends paid		(102,658)
Preferred stock issued	145,345	
Preferred dividends paid	(83,403)	(27,039)
Net cash provided by financing activities	10,129,077	31,373,425
Net (decrease) increase in cash and cash equivalents	(3,686,178)	5,173,732
Cash and cash equivalents at beginning of period	7,582,031	2,621,222
Cash and cash equivalents at end of period	$ 3,895,853	$ 7,794,954
Cash disbursements made for:		
Interest	$ 4,366,839	$ 4,966,249
Income taxes	$ 697,146	$ 704,206

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 is unaudited)
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1. Significant Accounting Policies

Basis of Presentation

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

Reclassifications

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

Restructuring Activities

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

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

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

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

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

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

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1. Significant Accounting Policies (Continued)

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

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

In addition to one-time involuntary benefit arrangements, the Company sponsors the SLM Corporation Employee Severance Plan, which provides severance benefits in the event of termination of the Company s and its subsidiaries full-time employees (with the exception of certain specified levels of management and employees of the Company s Asset Performance Group (APG) subsidiaries) and part-time employees who work at least 24 hours per week. The Company also sponsors the DMO Employee Severance Plan, which provides severance benefits to certain specified levels of full-time management and full-time employees in the Company s APG subsidiaries. The Employee Severance Plan and the DMO Employee Severance Plan (collectively, the Severance Plan) establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon termination of employment due to Involuntary Termination or a Job Abolishment, as defined in the Severance Plan. The benefits payable under the Severance Plan relate to past service and they accumulate and vest. Accordingly, the Company recognizes severance costs to be paid pursuant to the Severance Plan in accordance with SFAS No. 112, Employer s Accounting for Post Employment Benefits, when payment of such benefits is probable and reasonably estimable. Such benefits including severance pay calculated based on the Severance Plan, medical and dental benefits, outplacement services and continuation pay, have been incurred during the nine months ended September 30, 2008 and the fourth quarter of 2007 as a direct result of the Company s restructuring initiatives. Accordingly, such costs are classified as restructuring expenses in the accompanying consolidated statements of income.

Student Loans Classified as Held-for-Sale

Under the Ensuring Continued Access to Student Loans Act of 2008, ED has implemented the Loan Purchase Commitment Program (Purchase Program). Under the Purchase Program, ED will purchase eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under ED s Loan Participation and Purchase Program (Participation Program), ED will provide interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders will be charged at a rate of commercial paper plus 0.50 percent on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Purchase Program prior to its expiration on September 30, 2009.

The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. The Company currently has the ability and intent to sell such loans to ED under the Purchase Program due to the current environment in the capital markets. Held-for-sale loans are carried at the lower of cost or market with no premium amortization or provision for loan losses. At September 30, 2008, the Company had $4.1 billion of FFELP Stafford loans classified as held-for-sale. These loans are included in the FFELP Stafford and Other Student Loans line on the consolidated balance sheets.

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

Recently Issued Accounting Pronouncements

Fair Value Measurements

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

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

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

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value (on an instrument by instrument basis). Most recognized financial assets and liabilities are eligible items for the measurement option established by the statement. There are a few exceptions, including an investment in a subsidiary or an interest in a variable interest entity that is required to be consolidated, certain obligations related to post-employment benefits, assets or liabilities recognized under leases, various deposits, and financial instruments classified as shareholder s equity. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date. The Company adopted SFAS No. 159 on January 1, 2008, and elected the fair value option on all of its

Residual Interests effective January 1, 2008. The Company chose this election in order to simplify the accounting for Residual Interests by including all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income or under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, with changes in fair value recorded through income. At transition, the Company recorded a pre-tax gain to retained earnings as a cumulative-effect

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1. Significant Accounting Policies (Continued)

adjustment totaling $301 million ($195 million net of tax). This amount was in accumulated other comprehensive income as of December 31, 2007, and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through the income statement. The Company has not elected the fair value option for any other financial instruments at this time.

Business Combinations

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

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

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51. SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to its current presentation as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS No. 160 applies prospectively for reporting periods beginning on or after December 15, 2008, which for the Company is January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. Adoption of this standard will not be material to the Company.

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

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

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1. Significant Accounting Policies (Continued)

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

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

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

In June 2008, the FASB issued an exposure draft to amend the accounting for hedging activities in SFAS No. 133. This proposed Statement is intended to simplify accounting for hedging activities, improve the financial reporting of hedging activities, resolve major practice issues related to hedge accounting that have arisen under SFAS No. 133, and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. While the amendment as currently written may simplify the Company s accounting model for hedging activities under SFAS No. 133, the Company does not expect it to significantly impact its results of operations. The full impact of this amendment, effective January 1, 2010, as currently written, cannot be evaluated until the final statement is issued, which is expected to occur sometime in 2009.

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

In September 2008 the FASB issued two separate but related exposure drafts for comment in connection with amendments to (1) SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, which would impact the accounting for QSPEs and (2) FASB s Financial Interpretation (FIN) No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51.

Based on the Company s preliminary review of these exposure drafts, it is likely that these changes will lead in general to the consolidation of certain QSPEs and variable interest entities (VIEs) that are currently not consolidated. Assuming no changes to the Company s current business model, the Company would most likely consolidate its securitization trusts that are currently off-balance sheet on January 1, 2010, based on these exposure drafts as currently written. These proposed new accounting rules would also be applied to new transactions entered into from January 1, 2010 forward. However, the impact to the Company s accounting for its QSPEs and VIEs cannot be determined until the FASB issues the final amendments to SFAS No. 140 and FIN No. 46R.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Private Education Loans	$ 135,813	$ 99,687	$ 374,262	$ 380,093
FFELP Stafford and Other Student Loans	40,407	37,533	75,805	49,293
Mortgage and consumer loans	10,689	5,380	17,168	11,744
Total provisions for loan losses	$ 186,909	$ 142,600	$ 467,235	$ 441,130

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

Allowance for Private Education Loan Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Balance at beginning of period	$ 970,150	$ 427,904	$ 885,931	$ 308,346
Provision for Private Education Loan losses	135,813	99,687	374,262	380,093
Charge-offs	(110,168)	(82,176)	(298,920)	(251,860)
Recoveries	8,650	8,685	26,984	23,301
Net charge-offs	(101,518)	(73,491)	(271,936)	(228,559)
Reclassification of interest reserve[1]	8,393		24,581	
Balance before securitization of Private Education Loans	1,012,838	454,100	1,012,838	459,880
Reduction for securitization of Private Education Loans				(5,780)
Balance at end of period	$ 1,012,838	$ 454,100	$ 1,012,838	$ 454,100
Net charge-offs as a percentage of average loans in repayment (annualized)	4.64%	5.12%	4.58%	5.69%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.08%	4.61%	3.97%	5.18%
Allowance as a percentage of the ending total loan balance	4.74%	3.21%	4.74%	3.21%
Allowance as a percentage of ending loans in repayment	11.23%	7.70%	11.23%	7.70%
Allowance coverage of net charge-offs (annualized)	2.51	1.56	2.79	1.49

Ending total loans, gross	$ 21,364,238	$ 14,562,297	$ 21,364,238	$ 14,562,297
Average loans in repayment	$ 8,703,525	$ 5,696,049	$ 7,933,067	$ 5,373,462
Ending loans in repayment	$ 9,015,795	$ 5,895,619	$ 9,015,795	$ 5,895,619

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance. Prior to 2008, the interest reserve was reversed in interest income and then provided for through provision within the allowance for loan loss. This amount was $5 million and $13 million, for the three and nine months ended September 30, 2007, respectively. This change in presentation results in no impact to net income.

Due to the seasoning of the Private Education Loan portfolio, shifts in its mix, and certain economic and operational factors, the Company expected and has seen charge-off rates increase from the historically low levels experienced prior to 2007. In the fourth quarter of 2007, the Company recorded provision expense of $503 million related to the Private Education Loan portfolio. This significant increase in provision expense in the fourth quarter of 2007 compared to prior and current quarters primarily relates to the non-traditional portion of the Company s Private Education Loan portfolio, which the Company had been expanding over the past few years. The Company terminated these non-traditional loan programs because the performance of these loans turned out to be materially different from original expectations and from the Company s Private Education Loan programs. The non-traditional portfolio is particularly impacted by the weakening

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

U.S. economy and an underlying borrower s ability to repay. As a result, the Company recorded additional provision in the fourth quarter of 2007, and this is the primary reason that the allowance as a percentage of the ending total loan balance and as a percentage of ending loans in repayment is significantly higher at September 30, 2008 versus September 30, 2007.

Provision expense increased from $100 million in the third quarter of 2007 to $136 million in the third quarter of 2008. This is a result of an increase in delinquencies between quarters, which is primarily a result of the continued weakening of the U.S. economy as well as the seasonal nature of student loans. Delinquencies as a percentage of Private Education Loans in repayment increased from 12.0 percent as of September 30, 2007 to 12.4 percent as of September 30, 2008. Private Education Loans in forbearance as a percentage of loans in repayment and forbearance increased from 10.6 percent as of September 30, 2007 to 10.7 percent at September 30, 2008.

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of September 30, 2008, December 31, 2007, and September 30, 2007.

	Private Education Loan Delinquencies					
	September 30, 2008		December 31, 2007		September 30, 2007	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 11,263		$ 8,151		$ 7,966	
Loans in forbearance[2]	1,085		974		701	
Loans in repayment and percentage of each status:						
Loans current	7,902	87.6%	6,236	88.5%	5,186	88.0%
Loans delinquent 31-60 days[3]	393	4.4	306	4.3	275	4.7
Loans delinquent 61-90 days[3]	249	2.8	176	2.5	156	2.6
Loans delinquent greater than 90 days[3]	472	5.2	329	4.7	279	4.7
Total Private Education Loans in repayment	9,016	100%	7,047	100%	5,896	100%
Total Private Education Loans, gross	21,364		16,172		14,563	
Private Education Loan unamortized discount	(514)		(468)		(433)	

Total Private Education Loans	20,850	15,704	14,130
Private Education Loan allowance for losses	(1,013)	(886)	(454)
Private Education Loans, net	$ 19,837	$ 14,818	$ 13,676
Percentage of Private Education Loans in repayment	42.2%	43.6%	40.5%
Delinquencies as a percentage of Private Education Loans in repayment	12.4%	11.5%	12.0%
Loans in forbearance as a percentage of loans in repayment and forbearance	10.7%	12.1%	10.6%

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

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

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

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2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Balance at beginning of period	$ 97,693	$ 24,083	$ 88,729	$ 20,315
Provisions for student loan losses	40,407	37,533	75,805	49,293
Net charge-offs	(15,932)	(4,264)	(42,643)	(12,885)
Increase for student loan sales and securitization activity	1,087	112	1,364	741
Balance at end of period	$ 123,255	$ 57,464	$ 123,255	$ 57,464

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of September 30, 2008, 45 percent of the on-balance sheet FFELP loan portfolio was subject to three-percent Risk Sharing, 54 percent was subject to two-percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing. At September 30, 2007, the Company s FFELP loans were serviced under the Exceptional Performer designation from ED which limited the portfolio to only one-percent Risk Sharing. The Exceptional Performer designation was eliminated by the CCRAA effective October 1, 2007.

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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of September 30, 2008, December 31, 2007 and September 30, 2007.

	FFELP Loan Delinquencies					
	September 30, 2008		December 31, 2007		September 30, 2007	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 40,056		$ 31,200		$ 31,541	
Loans in forbearance[2]	12,035		10,675		9,916	
Loans in repayment and percentage of each status:						
Loans current	56,874	84.8%	55,128	84.4%	52,303	84.5%
Loans delinquent 31-60 days[3]	3,707	5.5	3,650	5.6	3,074	5.0
Loans delinquent 61-90 days[3]	1,683	2.5	1,841	2.8	1,548	2.5
Loans delinquent greater than 90 days[3]	4,810	7.2	4,671	7.2	4,969	8.0
Total FFELP loans in repayment	67,074	100%	65,290	100%	61,894	100%
Total FFELP loans, gross	119,165		107,165		103,351	
FFELP loan unamortized premium	2,449		2,259		2,186	
Total FFELP loans	121,614		109,424		105,537	
FFELP loan allowance for losses	(123)		(89)		(58)	
FFELP loans, net	$ 121,491		$ 109,335		$ 105,479	
Percentage of FFELP loans in repayment		56.3%		60.9%		59.9%
Delinquencies as a percentage of FFELP loans in repayment		15.2%		15.6%		15.5%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		15.2%		14.1%		13.8%

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

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

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

3. Goodwill and Acquired Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, pursuant to which goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually or more frequently if an event indicates that the asset(s) might be impaired, employing standard industry appraisal methodologies, principally the discounted cash flow method. Such assets are impaired when the estimated fair value is less than the current carrying value. Intangible assets with finite lives are amortized over their estimated useful lives. Such assets are amortized in proportion to the estimated economic benefit depending on the asset class. Finite lived intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs that indicates the asset(s) may be impaired.

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3. Goodwill and Acquired Intangible Assets (Continued)

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of September 30, 2008 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	13 years	$ 332	$ (163)	$ 169
Software and technology	7 years	93	(85)	8
Non-compete agreements	2 years	11	(10)	1
Total		436	(258)	178
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	91		91
Total acquired intangible assets		$ 527	$ (258)	$ 269

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

The Company recorded amortization of acquired intangibles totaling $14 million and $19 million for the three months ended September 30, 2008 and 2007, respectively, and $44 million and $50 million for the nine months ended September 30, 2008 and 2007, respectively. As discussed in Note 14, Segment Reporting, the Company decided to wind down its purchased paper businesses. As a result, in the third quarter of 2008, the Company recorded an aggregate amount of $36 million of impairment of acquired intangible assets, of which $28 million related to the impairment of two trade names and $8 million related to certain banking customer relationships. In the first quarter of 2007, the Company recognized acquired intangible asset impairments of $9 million in connection with certain tax exempt bonds previously acquired through the purchase of certain subsidiaries. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

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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 14, Segment Reporting) is as follows:

(Dollars in millions)	December 31, 2007	Adjustments	September 30, 2008
Lending	$ 388	$	$ 388
APG	377	24	401
Corporate and Other	200	2	202
Total	$ 965	$ 26	$ 991

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

In light of the general downturn in the economy, the tightening of the credit markets, the Company s market capitalization and the Company s decision to wind down its purchased paper businesses, the Company assessed goodwill for potential impairment during the third quarter of 2008. Based primarily on market comparables and a discounted cash flow analyses, the estimated fair value of the Company s reporting units exceed their current carrying values, and no goodwill impairment was recorded.

4. Student Loan Securitization

Securitization Activity

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

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4. Student Loan Securitization (Continued)

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

	Three Months Ended September 30,							
	2008				2007			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans								
Total securitizations sales			$	%			$	%
Securitization financings:								
FFELP Stafford/PLUS Loans[(1)]	3	6,721						
FFELP Consolidation Loans[(1)]					1	2,493		
Total securitizations financings	3	6,721			1	2,493		
Total securitizations	3	$ 6,721			1	$ 2,493		

	Nine Months Ended September 30,							
	2008				2007			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**
Securitizations sales:								

FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans					1	2,000	367	18.4
Total securitizations sales			$	%	1	2,000	$ 367	18.4%
Securitization financings:								
FFELP Stafford/PLUS Loans[1]	9	18,546			2	7,004		
FFELP Consolidation Loans[1]					3	11,480		
Total securitizations financings	9	18,546			5	18,484		
Total securitizations	9	$ 18,546			6	$ 20,484		

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

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4. Student Loan Securitization (Continued)

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

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

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

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

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

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

Retained Interest in Securitized Receivables

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

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4. Student Loan Securitization (Continued)

	As of September 30, 2008			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 309	$ 612	$ 1,402	$ 2,323
Underlying securitized loan balance[3]	7,600	15,252	13,648	36,500
Weighted average life	3.0 yrs.	8.2 yrs.	6.6 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.23%	5.59%	
Residual cash flows discount rate	12.7%	11.3%	18.3%	

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

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

(1) Includes $333 million, $295 million, and $283 million related to the fair value of the Embedded Floor Income as of September 30, 2008, June 30, 2008, and December 31, 2007, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the pay down of the underlying loans.

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

(3) In addition to student loans in off-balance sheet trusts, the Company had $80.8 billion, $75.2 billion, and $65.5 billion of securitized student loans outstanding (face amount) as of September 30, 2008, June 30, 2008, and December 31, 2007, respectively, in on-balance sheet securitization trusts.

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

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4. Student Loan Securitization (Continued)

As previously discussed, the Company adopted SFAS No. 159 on January 1, 2008, and has elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company chose this election in order to record all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income, except if impaired in which case changes in fair value were recorded through income, or under SFAS No. 155 with all changes in fair value recorded through income. Changes in the fair value of Residual Interests from January 1, 2008 forward are recorded in the servicing and securitization revenue line item of the consolidated income statement.

As of September 30, 2008, the Company changed the following significant assumptions compared to those used as of June 30, 2008, to determine the fair value of the Residual Interests:

Prepayment speed assumptions were decreased for all three asset types primarily as a result of a significant reduction in prepayment activity experienced in the third quarter of 2008 which is expected to continue into the foreseeable future. The decrease in prepayment speeds is primarily due to a reduction in third party consolidation activity as a result of the CCRAA (for FFELP only) and the current U.S. economic and credit environment. This resulted in a $99 million unrealized mark-to-market gain.

Life of loan default rate assumptions for Private Education loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $30 million unrealized mark-to-market loss.

Cost of funds assumptions related to the underlying auction rate securities bonds ($2.3 billion face amount of bonds) within FFELP loan ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts were increased to take into account the expectations these auction rate securities will continue to reset at higher rates for an extended period of time. This resulted in an $18 million unrealized mark-to-market loss.

The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate, for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market as of September 30, 2008. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium by 200 basis points and 140 basis points for Private Education and FFELP, respectively to better take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Residual Interests. This resulted in $160 million unrealized mark-to-market loss.

The Company recorded a net unrealized mark-to-market loss related to the Residual Interests of $361 million during the nine months ended September 30, 2008. The mark-to-market loss was primarily related to the increase in the discount rate assumption related to the Private Education Loan Residual Interest. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the Private Education Residual risk premium by 550 basis points (from December 31, 2007) to take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Private Education Loan Residual Interests in light of the current economic and credit uncertainty that exists in the market. The increase in the Private Education Loan Residual discount rate accounted for $353 million of the net unrealized mark-to-market loss for the nine months ended September 30, 2008.

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4. Student Loan Securitization (Continued)

The Company recorded impairments to the Retained Interests of $137 million for the nine months ended September 30, 2007. The impairment charges were primarily the result of FFELP loans prepaying faster than projected through loan consolidations, and an increase in prepayments and acceleration of defaults related to Private Education Loans. In addition, the Company recorded an unrealized mark-to-market loss under SFAS No. 155 of $5 million for the nine months ended September 30, 2007.

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

	September 30, 2008		December 31, 2007		September 30, 2007	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 4,259		$ 4,963		$ 6,126	
Loans in forbearance[2]	1,159		1,417		1,251	
Loans in repayment and percentage of each status:						
Loans current	7,733	93.9%	7,403	94.7%	6,524	94.5%
Loans delinquent 31-60 days[3]	217	2.6	202	2.6	192	2.8
Loans delinquent 61-90 days[3]	103	1.3	84	1.1	71	1.0
Loans delinquent greater than 90 days[3]	177	2.2	130	1.6	116	1.7
Total off-balance sheet Private Education Loans in repayment	8,230	100%	7,819	100%	6,903	100%
Total off-balance sheet Private Education Loans, gross	$ 13,648		$ 14,199		$ 14,280	

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

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

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

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2008 and December 31, 2007 and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2008 and 2007. At September 30, 2008 and December 31, 2007, available-for-sale securities with fair values of $202 million and $196 million (none of which was in restricted cash and investments on the balance sheet), respectively, were pledged as collateral against these derivative instruments. Additionally, $0 million and $890 million of cash was pledged as collateral against these derivative instruments at September 30, 2008 and December 31, 2007, respectively. In addition, $1.5 billion ($50 million of which is in restricted cash and investments on the balance sheet) and $1.3 billion (none of which was in restricted cash and investments on the balance sheet) of cash was held as collateral at

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5. Derivative Financial Instruments (Continued)

September 30, 2008 and December 31, 2007, respectively, for derivative counterparties where the Company has exposure.

(Dollars in millions)	Cash Flow Sept. 30, 2008	Cash Flow December 31, 2007	Fair Value Sept. 30, 2008	Fair Value December 31, 2007	Trading Sept. 30, 2008	Trading December 31, 2007	Total Sept. 30, 2008	Total December 31, 2007
Fair Values[1]								
Interest rate swaps	$ 15	$ (34)	$ 279	$ 102	$ (262)	$ 252	$ 32	$ 320
Floor/Cap contracts					(676)	(442)	(676)	(442)
Futures					(2)		(2)	
Cross currency interest rate swaps			2,422	3,640	11	3	2,433	3,643
Total	$ 15	$ (34)	$ 2,701	$ 3,742	$ (929)	$ (187)	$ 1,787	$ 3,521
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 5.1	$ 3.1	$ 14.3	$ 14.7	$ 168.5	$ 199.5	$ 187.9	$ 217.3
Floor/Cap contracts					38.1	38.9	38.1	38.9
Futures					.3	.6	.3	.6
Cross currency interest rate swaps			23.1	23.8	.1	.1	23.2	23.9
Other[2]					.7	.7	.7	.7
Total	$ 5.1	$ 3.1	$ 37.4	$ 38.5	$ 207.7	$ 239.8	$ 250.2	$ 281.4

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

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

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5. Derivative Financial Instruments (Continued)

	Three Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Change in fair value to cash flow hedges	$ (10)	$ (7)	$	$	$	$	$ (10)	$ (7)
Amortization of effective hedges[1]								
Change in accumulated other comprehensive income, net	$ (10)	$ (7)	$	$	$	$	$ (10)	$ (7)
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$	$	$	$	$	$	$
Gains (losses) on derivative and hedging activities Realized[3]					(52)	(33)	(52)	(33)
Gains (losses) on derivative and hedging activities Unrealized[4]			42	22	(232)	(476)	(190)	(454)
Total earnings impact	$	$	$ 42	$ 22	$ (284)	$ (509)	$ (242)	$ (487)

	Nine Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Change in fair value to cash flow hedges	$ 32	$ (1)	$	$	$	$	$ 32	$ (1)
Amortization of effective hedges[1]		1						1
Change in accumulated other comprehensive income, net	$ 32	$	$	$	$	$	$ 32	$
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$ (2)	$	$	$	$	$	$ (2)
					(27)	(79)	(27)	(79)

Gains (losses) on derivative and hedging activities Realized[3]								
Gains (losses) on derivative and hedging activities Unrealized[4]			141	38	(267)	18	(126)	56
Total earnings impact	$	$ (2)	$ 141	$ 38	$ (294)	$ (61)	$ (153)	$ (25)

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

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

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

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

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6. Other Assets

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

	September 30, 2008		December 31, 2007	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Derivatives at fair value	$ 2,392,074	23%	$ 3,744,611	35%
Accrued interest receivable	3,421,497	33	3,180,590	30
APG Purchased paper receivables and Real Estate Owned	1,345,798	13	1,758,871	16
Accounts receivable collateral posted			867,427	8
Federal, state and international net income tax asset	1,438,098	14		
Benefit-related investments	473,974	4	467,379	4
Fixed assets, net	302,288	3	315,260	3
Accounts receivable general	707,734	7	305,118	2
Other	317,758	3	107,851	2
Total	$ 10,399,221	100%	$ 10,747,107	100%

The Derivatives at fair value line in the above table represents the fair value of the Company s derivatives in a gain position by counterparty. At September 30, 2008 and December 31, 2007, these balances primarily included cross-currency interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged foreign currency-denominated debt. As of September 30, 2008 and December 31, 2007, the cumulative mark-to-market adjustment to the hedged debt was $(2.2) billion and $(3.6) billion, respectively.

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7. Stockholders Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares in millions)	**2008**	**2007**	**2008**	**2007**
Common shares repurchased:				
Benefit plans[1]	.5	2.1	1.0	3.1
Total shares repurchased	.5	2.1	1.0	3.1
Average purchase price per share	$ 28.2	$ 48.47	$ 24.6	$ 46.35
Common shares issued	.4	3.6	1.9	6.6
Equity forward contracts:				
Outstanding at beginning of period		48.2		48.2
New contracts				
Exercises				
Outstanding at end of period		48.2		48.2
Authority remaining at end of period for repurchases	38.8	15.7	38.8	15.7

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

The closing price of the Company s common stock on September 30, 2008 was $12.34.

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7. Stockholders Equity (Continued)

Accumulated Other Comprehensive Income

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

	September 30, 2008	December 31, 2007	September 30, 2007
Net unrealized gains (losses) on investments[1]	$ 17,918	$ 238,772	$ 237,349
Net unrealized gains (losses) on derivatives[2]	9,358	(22,574)	(7,879)
Defined benefit pension plans:			
Net prior service cost			(23)
Net gain	19,411	20,166	15,905
Total defined benefit pension plans[3]	19,411	20,166	15,882
Total accumulated other comprehensive income	$ 46,687	$ 236,364	$ 245,352

(1) Net of tax expense of $10,100, $125,473 and $123,928 as of September 30, 2008, December 31, 2007 and September 30, 2007, respectively.

(2) Net of tax expense of $5,319 as of September 30, 2008, and tax benefit of $12,682 and $4,436 as of December 31, 2007 and September 30, 2007, respectively.

(3) Net of tax expense of $11,347, $11,677 and $9,224 as of September 30, 2008, December 31, 2007 and September 30, 2007, respectively.

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8. Earnings per Common Share

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Numerator:				
Net income attributable to common stock	$ (186,015)	$ (353,034)	$ (80,499)	$ 711,341
Adjusted for dividends of convertible preferred stock series C(1)				
Net income attributable to common stock, adjusted	$ (186,015)	$ (353,034)	$ (80,499)	$ 711,341
Denominator *(shares in thousands):*				
Weighted average shares used to compute basic EPS	466,646	412,944	466,625	411,958
Effect of dilutive securities:				
Dilutive effect of convertible preferred stock series C				
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, Employee Stock Purchase Plan (ESPP) and equity forwards(2)				8,347
Dilutive potential common shares(3)				8,347
Weighted average shares used to compute diluted EPS	466,646	412,944	466,625	420,305
Net earnings per share:				
Basic earnings per common share	$ (.40)	$ (.85)	$ (.17)	$ 1.73
Dilutive effect of convertible preferred stock series C(1)				
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and ESPP(2)				(.04)
Diluted earnings per common share	$ (.40)	$ (.85)	$ (.17)	$ 1.69

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

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

(3) For the three and nine months ended September 30, 2008, stock options covering approximately 41 million and 38 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the three and nine months ended September 30, 2007, stock options and equity forward contracts covering approximately 59 million and 60 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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9. Other Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Late fees and forbearance fees	$ 35,528	$ 33,885	$ 106,713	$ 101,512
Asset servicing and other transaction fees	28,026	27,608	79,961	78,383
Loan servicing fees	6,414	6,669	18,682	20,221
Gains on sales of mortgages and other loan fees	534	2,441	2,448	9,752
Other	22,594	36,081	87,553	82,253
Total	$ 93,096	$ 106,684	$ 295,357	$ 292,121

The decrease in other from the three months ended September 30, 2007 to the three months ended September 30, 2008 was primarily due to a one-time gain in the third quarter of 2007 related to the disposition of a subsidiary.

Late Fees and Forbearance Fees

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

Asset Servicing and Other Transaction Fees

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

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

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10. Restructuring Activities

During the fourth quarter of 2007, the Company initiated a restructuring program to reduce costs and improve operating efficiencies in response to the impacts of the CCRAA and current challenges in the capital markets. As part of this review the Company has refocused its lending activities, exited certain customer relationships and product lines, and is on target to reduce its operating expenses by 20 percent by the year ended December 31, 2009, as compared to the year ended December 31, 2007, before adjusting for growth and other investments.

In addition, the Company has concluded that its APG purchased paper businesses no longer produce a strategic fit, and the Company decided to wind down these businesses. Due to the continued weakening of the U.S. economy, in the third quarter of 2008, the Company recorded $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company s mortgage purchased paper subsidiary; $39 million of impairment related to the Company s assumption change for lower expected collection rates for its non-mortgage purchased paper subsidiary; and a $56 million loss related to the Company s pending sale of its international purchased paper business. These impairments are recorded within collections revenue (loss) as they are not considered restructuring expenses.

The following table summarizes the restructuring expenses incurred to date.

	Three Months Ended December 31, 2007	Three Months Ended March 31, 2008	Three Months Ended June 30, 2008	Three Months Ended September 30, 2008	Cumulative Expense as of September 30, 2008
Severance costs	$ 22,505	$ 14,869	$ 34,214	$ 9,917	$ 81,505
Lease and other contract termination costs			8,634	(86)	8,548
Exit and other costs		5,809	3,892	677	10,378
Total[(1)(2)]	$ 22,505	$ 20,678	$ 46,740	$ 10,508	$ 100,431

(1) Aggregate restructuring expenses incurred across the Company s reportable segments during the three months ended September 30, 2008, June 30, 2008, March 31, 2008 and December 31, 2007 totaled $(.2) million, $31 million, $15 million and $19 million, respectively, in the Company s Lending reportable segment, $4 million, $5 million, $1 million and $2 million, respectively, in the Company s APG reportable segment and $7 million, $11 million, $5 million and $1 million, respectively, in the Company s Corporate and Other reportable segment.

(2) As of September 30, 2008, the Company estimates an additional $16 million of restructuring expenses associated with its current cost reduction efforts will be incurred in future periods primarily related to position eliminations and resulting employee terminations in its Lending business segment.

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

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10. Restructuring Activities (Continued)

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

	Severance Costs	Lease and Other Contract Termination Costs	Exit and Other Costs	Total
Balance at December 31, 2007	$ 18,329	$	$	$ 18,329
Net accruals	59,000	8,548	10,378	77,926
Cash paid	(51,854)	(5,659)	(10,359)	(67,872)
Balance at September 30, 2008	$ 25,475	$ 2,889	$ 19	$ 28,383

11. Fair Value Measurements

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

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

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

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

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

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

Under SFAS No. 157, the Company categorizes its fair value estimates based on a hierarchal framework associated with three levels of price transparency utilized in measuring financial instruments at fair value.

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11. Fair Value Measurements (Continued)

Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

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

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

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

Investments (Including Restricted)

Investments accounted for under SFAS No. 115 and classified as trading or available-for-sale, are carried at fair value in the financial statements. Investments in U.S. Treasury securities and securities issued by U.S. government agencies that are traded in active markets were valued using observable market prices. Other investments for which observable prices from active markets are not available (such as U.S. Treasury-backed securities) were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost and when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. These investments consist of mostly overnight/weekly maturity instruments with highly-rated counterparties.

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair values of a majority of derivative financial instruments, including swaps and floors, were determined by standard derivative pricing and option models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates and volatilities from active markets. In some cases, management utilized internally developed amortization streams to model the fair value for swaps whose notional contractually amortizes with securitized asset balances. Complex structured derivatives or derivatives that trade in less liquid markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. All of the Company s corporate and some of the Company s trust related derivatives are covered under an International Swap Dealer Association (ISDA) agreement requiring collateral to be exchanged based on the fair value of the derivatives. For a more detailed discussion of the collateral agreements, see Note 10, Derivative Financial Instruments, within the Company s 2007 Annual Report on Form 10-K. In all cases, the Company s derivatives require collateral movement (or reassignment of the contract) if either the counterparty or the Company experiences a credit rating decrease below a specified level. The fair value of the Company s derivatives take into account the impact of these collateral agreements in assessing counterparty nonperformance risk. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs. The carrying value of

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11. Fair Value Measurements (Continued)

borrowings designated as the hedged item in a SFAS No. 133 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

At September 30, 2008, the bid/ask spread widened significantly for certain interest rate indices for which the Company had derivatives as a result of market inactivity. As such, significant adjustments for the bid/ask spread and unobservable inputs were used in the fair value calculation resulting in these instruments being classified as level 3 in the hierarchy.

Residual Interests

The Residual Interests are carried at fair value in the financial statements. No active market exists for student loan Residual Interests; as such, the fair value is calculated using discounted cash flow models and option models. Observable inputs from active markets are used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds costs of funds and discount rates, are used in determining the fair value and require significant judgment. These unobservable inputs are internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back tests its prepayment speed, default rates and costs of funds assumptions by comparing those assumptions to actuals experienced. Additionally, the Company uses non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interests. Material changes in these significant unobservable inputs can directly affect income by impacting the amount of unrealized gain or loss recorded in servicing and securitization revenue as a result of the adoption of SFAS No. 159. An analysis of the impact of changes to significant inputs is addressed further in Note 9, Student Loan Securitization, within the Company s 2007 Annual Report on Form 10-K. In addition, market transactions are not available to validate the models results (see Note 4, Student Loan Securitization, for further discussion regarding these assumptions).

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

	Fair Value Measurements on a Recurring Basis as of September 30, 2008			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available for sale investments	$	$ 535	$	$ 535

Retained Interest in off-balance sheet securitized loans			2,323	2,323
Derivative instruments[1]		2,392		2,392
Total Assets	$	$ 2,927	$ 2,323	$ 5,250
Liabilities[2]				
Derivative instruments[1]	$ (3)	$ (205)	$ (397)	$ (605)
Total Liabilities	$ (3)	$ (205)	$ (397)	$ (605)

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

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

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11. Fair Value Measurements (Continued)

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

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
(Dollars in millions)	**Residual Interests**	**Derivative Instruments**	**Total**	**Residual Interests**	**Derivative Instruments**	**Total**
Balance, beginning of period	$ 2,545	$ (121)	$ 2,424	$ 3,044	$ (71)	$ 2,973
Total gains/(losses) (realized and unrealized):						
Included in earnings	21[(1)]	(303)[(2)]	(282)	38[(1)]	(365)[(2)]	(327)
Included in other comprehensive income						
Purchases, issuances and settlements	(243)	18	(225)	(759)	30	(729)
Transfers in and/or out of Level 3		9	9		9	9
Balance, end of period	$ 2,323	$ (397)	$ 1,926	$ 2,323	$ (397)	$ 1,926
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$ (81)[(1)]	$ (282)[(2)]	$ (363)	$ (361)[(1)]	$ (324)[(2)]	$ (685)

(1) Recorded in servicing and securitization revenue.

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

12. Contingencies

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

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

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

In accordance with SFAS No. 5, Accounting for Contingencies, the Company is required to establish reserves for litigation and regulatory matters when those matters present loss contingencies that are both

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12. Contingencies (Continued)

probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves.

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

13. Income Taxes

For the nine months ended September 30, 2008 and 2007, the Company reported an income tax benefit of ($13) million and income tax expense of $499 million, respectively, representing effective tax rates of 206 percent and 40 percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of deducting merger related transaction costs and the reduction to interest on uncertain tax positions discussed below on lower financial accounting income in the nine months ended September 30, 2008.

Accounting for Uncertainty in Income Taxes

As of September 30, 2008, the Company has gross unrecognized tax benefits of $80 million. Included in the $80 million are $37 million of unrecognized tax benefits that if recognized, would favorably impact the effective tax rate. In addition, as of September 30, 2008, the Company has accrued interest and penalties, net of tax benefit, of $11 million. The unrecognized tax benefits changed from $175 million at December 31, 2007 to $80 million at September 30, 2008, and the accrued interest and penalties changed from $18 million at December 31, 2007 to $11 million at September 30, 2008. These changes result primarily from incorporating into the Company s FIN No. 48 analysis new information received by the IRS during the third quarter as a part of the 2005-2006 exam cycle for a carryover issue related to the timing of recognition of certain income and deduction items. Several other less significant unrecognized tax benefits were also added during the quarter.

14. Segment Reporting

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

The management reporting process measures the performance of the Company s operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company s chief operating decision makers, evaluates the performance of the Company s operating segments based on their profitability. As discussed further below, management measures the profitability of the Company s operating segments based on Core Earnings net income. Accordingly, information regarding the Company s reportable segments is provided based on a Core Earnings basis. The Company s Core Earnings performance measures are not

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14. Segment Reporting (Continued)

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 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 September 30, 2008 and 2007. USA Funds is the Company s largest customer in both the APG and Corporate and Other segments. During the nine months ended September 30, 2008 and 2007, USA Funds accounted for 45 percent and 24 percent, respectively, of the aggregate revenues generated by the Company s APG and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for the years mentioned.

Lending

In the Company s Lending operating segment, the Company originates and acquires both FFELP loans and Private Education Loans. As of September 30, 2008, the Company managed $177.7 billion of student loans, of which $144.9 billion or 82 percent are federally insured, and serves 10 million student and parent customers. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. In the nine months ended September 30, 2008, the Company originated $185 million in mortgage and consumer loans and its mortgage and consumer loan portfolio totaled $532 million at September 30, 2008.

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

APG

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

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14. Segment Reporting (Continued)

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

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

The Company has also concluded that its APG operating segment purchased paper businesses no longer produce a strategic fit. As a result, the Company has decided to wind down these businesses.

Corporate and Other

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

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

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

Measure of Profitability

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

Core Earnings performance measures are the primary financial performance measures used by management to develop the Company s financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Three Months Ended September 30, 2008					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 612	$	$	$ 612	$ (96)	$ 516
FFELP Consolidation Loans	995			995	(164)	831
Private Education Loans	678			678	(233)	445
Other loans	20			20		20
Cash and investments	62		7	69	(12)	57
Total interest income	2,367		7	2,374	(505)	1,869
Total interest expense	1,651	6	5	1,662	(268)	1,394
Net interest income (loss)	716	(6)	2	712	(237)	475
Less: provisions for loan losses	263			263	(76)	187
Net interest income (loss) after provisions for loan losses	453	(6)	2	449	(161)	288
Contingency fee revenue		89		89		89
Collections revenue (loss)		(169)		(169)	(2)	(171)
Guarantor servicing fees			37	37		37
Other income (loss)	55		51	106	(233)	(127)
Total other income (loss)	55	(80)	88	63	(235)	(172)
Restructuring expenses		4	7	11		11
Operating expenses	142	106	68	316	51	367
Total expenses	142	110	75	327	51	378
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	366	(196)	15	185	(447)	(262)

Income tax expense (benefit)[1]	134	(73)	6	67	(171)	(104)
Minority interest in net earnings of subsidiaries		1		1		1
Net income (loss)	$ 232	$ (124)	$ 9	$ 117	$ (276)	$ (159)

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2008				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (230)	$ 36	$ (43)	$	$ (237)
Less: provisions for loan losses	(76)				(76)
Net interest income (loss) after provisions for loan losses	(154)	36	(43)		(161)
Contingency fee revenue					
Collections revenue (loss)	(2)				(2)
Guarantor servicing fees					
Other income (loss)	9	(242)			(233)
Total other income (loss)	7	(242)			(235)
Restructuring expenses					
Operating expenses	1			50	51
Total expenses	1			50	51
Total pre-tax Core Earnings adjustments to GAAP	$ (148)	$ (206)	$ (43)	$ (50)	(447)
Income tax benefit					(171)
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ (276)

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

14. Segment Reporting (Continued)

	Three Months Ended September 30, 2007					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 729	$	$	$ 729	$ (183)	$ 546
FFELP Consolidation Loans	1,445			1,445	(300)	1,145
Private Education Loans	753			753	(360)	393
Other loans	26			26		26
Cash and investments	251		6	257	(46)	211
Total interest income	3,204		6	3,210	(889)	2,321
Total interest expense	2,534	7	5	2,546	(667)	1,879
Net interest income (loss)	670	(7)	1	664	(222)	442
Less: provisions for loan losses	200			200	(57)	143
Net interest income (loss) after provisions for loan losses	470	(7)	1	464	(165)	299
Contingency fee revenue		76		76		76
Collections revenue		53		53		53
Guarantor servicing fees			46	46		46
Other income (loss)	46		63	109	(486)	(377)
Total other income (loss)	46	129	109	284	(486)	(202)
Restructuring expenses						
Operating expenses	164	94	79	337	19	356
Total expenses	164	94	79	337	19	356
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	352	28	31	411	(670)	(259)
Income tax expense (benefit)[1]	130	11	11	152	(67)	85

Minority interest in net earnings of subsidiaries						
Net income (loss)	$ 222	$ 17	$ 20	$ 259	$ (603)	$ (344)

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2007				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (215)	$ 33	$ (40)	$	$ (222)
Less: provisions for loan losses	(57)				(57)
Net interest income (loss) after provisions for loan losses	(158)	33	(40)		(165)
Contingency fee revenue					
Collections revenue					
Guarantor servicing fees					
Other income (loss)	1	(487)			(486)
Total other income (loss)	1	(487)			(486)
Restructuring expenses					
Operating expenses				19	19
Total expenses				19	19
Total pre-tax Core Earnings adjustments to GAAP	$ (157)	$ (454)	$ (40)	$ (19)	(670)
Income tax benefit					(67)
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ (603)

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

14. Segment Reporting (Continued)

	Nine Months Ended September 30, 2008					
(Dollars in millions)	**Lending**	**APG**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[2]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 1,630	$	$	$ 1,630	$ (152)	$ 1,478
FFELP Consolidation Loans	2,891			2,891	(454)	2,437
Private Education Loans	2,093			2,093	(795)	1,298
Other loans	65			65		65
Cash and investments	284		18	302	(51)	251
Total interest income	6,963		18	6,981	(1,452)	5,529
Total interest expense	5,080	20	15	5,115	(739)	4,376
Net interest income (loss)	1,883	(20)	3	1,866	(713)	1,153
Less: provisions for loan losses	636			636	(169)	467
Net interest income (loss) after provisions for loan losses	1,247	(20)	3	1,230	(544)	686
Contingency fee revenue		259		259		259
Collections revenue (loss)		(85)		(85)	(2)	(87)
Guarantor servicing fees			95	95		95
Other income	161		147	308	(113)	195
Total other income	161	174	242	577	(115)	462
Restructuring expenses	46	10	22	78		78
Operating expenses	460	322	213	995	82	1,077
Total expenses	506	332	235	1,073	82	1,155
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	902	(178)	10	734	(741)	(7)
Income tax expense (benefit)[1]	332	(65)	3	270	(283)	(13)
		3		3		3

Minority interest in net earnings of subsidiaries						
Net income (loss)	$ 570	$ (116)	$ 7	$ 461	$ (458)	$ 3

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

(2) Core Earnings adjustments to GAAP:

	Nine Months Ended September 30, 2008				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (680)	$ 34	$ (67)	$	$ (713)
Less: provisions for loan losses	(169)				(169)
Net interest income (loss) after provisions for loan losses	(511)	34	(67)		(544)
Contingency fee revenue					
Collections revenue (loss)	(2)				(2)
Guarantor servicing fees					
Other income (loss)	40	(153)			(113)
Total other income (loss)	38	(153)			(115)
Restructuring expenses					
Operating expenses	1			81	82
Total expenses	1			81	82
Total pre-tax Core Earnings adjustments to GAAP	$ (474)	$ (119)	$ (67)	$ (81)	(741)
Income tax benefit					(283)
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ (458)

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

14. Segment Reporting (Continued)

	Nine Months Ended September 30, 2007					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 2,143	$	$	$ 2,143	$ (635)	$ 1,508
FFELP Consolidation Loans	4,167			4,167	(920)	3,247
Private Education Loans	2,104			2,104	(1,043)	1,061
Other loans	80			80		80
Cash and investments	595		15	610	(143)	467
Total interest income	9,089		15	9,104	(2,741)	6,363
Total interest expense	7,125	20	16	7,161	(2,052)	5,109
Net interest income (loss)	1,964	(20)	(1)	1,943	(689)	1,254
Less: provisions for loan losses	644		1	645	(204)	441
Net interest income (loss) after provisions for loan losses	1,320	(20)	(2)	1,298	(485)	813
Contingency fee revenue		244		244		244
Collections revenue		196		196		196
Guarantor servicing fees			115	115		115
Other income	150		162	312	671	983
Total other income	150	440	277	867	671	1,538
Restructuring expenses						
Operating expenses	517	284	251	1,052	59	1,111
Total expenses	517	284	251	1,052	59	1,111
Income before income taxes and minority interest in net earnings of subsidiaries	953	136	24	1,113	127	1,240
Income tax expense[1]	352	51	9	412	87	499
		2		2		2

Minority interest in net earnings of subsidiaries						
Net income	$ 601	$ 83	$ 15	$ 699	$ 40	$ 739

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

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Nine Months Ended September 30, 2007 Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (649)	$ 79	$ (119)	$	$ (689)
Less: provisions for loan losses	(204)				(204)
Net interest income (loss) after provisions for loan losses	(445)	79	(119)		(485)
Contingency fee revenue					
Collections revenue					
Guarantor servicing fees					
Other income (loss)	694	(23)			671
Total other income (loss)	694	(23)			671
Restructuring expenses					
Operating expenses				59	59
Total expenses				59	59
Total pre-tax Core Earnings adjustments to GAAP	$ 249	$ 56	$ (119)	$ (59)	127
Income tax benefit					87
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ 40

SLM CORPORATION

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

14. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

The adjustments required to reconcile from the Company s Core Earnings results to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income, and certain other items that management does not consider in evaluating the Company s operating results. The following table reflects aggregate adjustments associated with these areas for the three and nine months ended September 30, 2008 and 2007.

(Dollars in millions)	**Three Months Ended September 30, 2008**	**Three Months Ended September 30, 2007**	**Nine Months Ended September 30, 2008**	**Nine Months Ended September 30, 2007**
Core Earnings adjustments to GAAP:				
Net impact of securitization accounting[1]	$ (148)	$ (157)	$ (474)	$ 249
Net impact of derivative accounting[2]	(206)	(454)	(119)	56
Net impact of Floor Income[3]	(43)	(40)	(67)	(119)
Net impact of acquired intangibles[4]	(50)	(19)	(81)	(59)
Net tax effect[5]	171	67	283	(87)
Total Core Earnings adjustments to GAAP	$ (276)	$ (603)	$ (458)	$ 40

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

(2) **Derivative accounting:** Core Earnings net income excludes periodic unrealized gains and losses arising primarily in the Company s Lending operating segment, and to a lesser degree in the Company s Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, on derivatives that do not qualify for hedge treatment under GAAP. Under the Company s Core Earnings presentation, the Company recognizes the economic effect of these hedges, which generally results in any cash paid or received being

recognized ratably as an expense or revenue over the hedged item s life. Core Earnings net income also excludes the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through GAAP net income.

(3) **Floor Income:** The timing and amount (if any) of Floor Income earned in the Company s Lending operating segment is uncertain and in excess of expected spreads. Therefore, the Company excludes such income from Core Earnings net income when it is not economically hedged. The Company employs derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in Derivative Accounting, these derivatives do not qualify as effective accounting hedges and therefore, under GAAP, are marked-to-market through the gains (losses) on derivative and hedging activities, net line on the income statement with no offsetting gain or loss recorded for the economically hedged items. For Core Earnings net income, the Company reverses the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and includes the amortization of net premiums received (net of Eurodollar futures contracts realized gains or losses) in income.

(4) **Acquired Intangibles:** The Company excludes goodwill and intangible impairment and amortization of acquired intangibles.

(5) **Net Tax Effect:** Such tax effect is based upon the Company s Core Earnings effective tax rate for the year. The net tax effect for the three and nine months ended September 30, 2007 includes the impact of the exclusion of the permanent income tax impact of the equity forward contracts. The Company settled all of its equity forward contracts in January 2008.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Three and nine months ended September 30, 2008 and 2007
(Dollars in millions, except per share amounts, unless otherwise noted)

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly 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, the occurrence of any event, change or other circumstances that could give rise to our ability to cost-effectively refinance asset-backed financing facilities due February 2009, (collectively, the 2008 Asset-Backed Financing Facilities), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and regulations and from the implementation of applicable laws and regulations) which, among other things, may reduce the volume, average term and yields on student loans under the Federal Family Education Loan Program (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 also be affected by: the implementation of the Emergency Economic Stabilization Act of 2008, changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. All forward-looking statements contained in this quarterly report are qualified by these cautionary statements and are made only as of the date this document is filed. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company s expectations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A discussion of the Company s critical accounting policies, which include premiums, discounts and borrower benefits, related to our loan portfolio, securitization gain on sale and Retained Interest accounting, provisions for loan losses, derivative accounting and the effects of Consolidation Loan activity on estimates, can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

In addition, on January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value within generally accepted accounting principles in the United States of America (GAAP), and expands disclosures about fair value measurements. Accordingly, this statement does not change which types of instruments are carried at fair value, but rather establishes the framework for measuring fair value.

On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157, which defers the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This FSP will delay the implementation of SFAS No. 157 for the

Company s accounting of goodwill, acquired intangibles, and other nonfinancial assets and liabilities that are measured at the lower of cost or market until January 1, 2009.

As such, SFAS No. 157 currently applies to our investment portfolio accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities; our derivative portfolio and designated hedged assets or liabilities accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities; and our Residual Interest in off-balance sheet securitization trusts accounted for under SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. In general, changes in the fair value of these items will affect the consolidated statement of income and capital. Liquidity is impacted to the extent a decrease in fair value would result in less cash being received upon a sale of an investment. Liquidity is also impacted to the extent that changes in capital and net income affect compliance with principal financial covenants in our unsecured revolving credit facilities. Noncompliance with these covenants also impacts our ability to use our 2008 ABCP Facilities (see LIQUIDITY AND CAPITAL RESOURCES Additional Funding for General Corporate Purposes). Additionally, liquidity is impacted to the extent that changes in the fair value of derivative instruments results in the movement of collateral between the Company and its counterparties. Collateral agreements are bilateral and are based on the derivative fair values used to determine the net exposure between the Company and individual counterparties. For a general description of valuation techniques and models used for the above items, see Note 11, Fair Value Measurements, to the consolidated financial statements. For a discussion of the sensitivity of fair value estimates, see Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As it relates to Residual Interests, additional discussion of significant unobservable inputs, how they are determined, how they impact realized and unrealized gains and the nature of and sensitivity to material changes in Residual Interest fair values can be found in Note 9, Student Loan Securitization, within the Company s 2007 Annual Report on Form 10-K.

In light of the recent economic turmoil occurring in the U.S. the FASB released FSP No. 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active on October 10, 2008. This FSP clarified, among other things, that quotes and other market inputs need not be solely used to determine fair value if they do not relate to an active market. The FSP points out that when relevant observable market information is not available, an approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable (such as a discounted cash flow analysis). Regardless of the valuation technique applied, entities must include appropriate risk adjustments that market participants would make, including adjustments for non performance risk (credit risk) and liquidity risk. In determining the fair value of the instruments that fall under SFAS No. 157 the Company has specifically taken into account both credit risk and liquidity risk as of September 30, 2008 as follows:

1. **Investments** The Company s investments primarily consist of overnight/weekly maturity instruments with high credit quality counterparties. As such, the Company has considered credit and liquidity risk involving these instruments. These assumptions have further been validated by the successful maturity of these investments in the period immediately following September 30, 2008. Additionally, the Company has a $500 million investment in the Reserve Primary Fund which was assessed for impairment as of September 30, 2008. See LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure for further discussion.

2. **Derivatives** When determining the fair value of derivatives, the Company takes into account the credit risk by assessing the credit ratings of the counterparties and collateral posted. See LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure for further discussion of specific positions and conclusions on fair value as a result of credit risk. The Company also takes into account changes in liquidity related to derivative positions and the fair value. The Company adjusted the fair value of certain less liquid positions by approximately $260 million to take into account a significant reduction in liquidity as of September 30, 2008,

related primarily to basis swaps and Floor Income Contracts indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, we fully collateralize the exposure minimizing the adjustment to the derivative valuations for the Company s credit risk. While trusts that contain derivatives are not required to post collateral to counterparties, the credit quality and securitized nature of the trusts minimizes any adjustments for credit risk.

3. **Residual Interests** The Company has never sold its Residual Interests and we are unaware of any sales of student loan residual interests. As a result, these instruments have never been considered liquid. This lack of liquidity has always been taken into account when valuing the Residual Interests. The discount rate assumption related to the Private Education Loan Residual Interests has been increased every quarter since the fourth quarter of 2007 to take into account the changes in credit and liquidity risks. The discount rate assumption related to the FFELP Loan Residual Interests has been examined and deemed to accurately reflect the risks associated with these instruments each quarter since the fourth quarter 2007 through the second quarter of 2008. It was subsequently increased in the quarter ending September 30, 2008. The Company uses non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interest. The Company also uses the most current prepayment and default rate assumptions to project the expected cash flows used to value Residual Interests. These assumptions are internally developed and primarily based on analyzing the actual results of loan performance from past periods. See Note 4, Student Loan Securitization, to the consolidated financial statements for a discussion of all assumption changes made during the quarter to properly determine the fair value of the Residual Interests.

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Increase (Decrease) $	Increase (Decrease) %	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Increase (Decrease) $	Increase (Decrease) %
Net interest income	$ 475	$ 442	$ 33	7%	$ 1,153	$ 1,254	$ (101)	(8)%
Less: provisions for loan losses	187	143	44	31	467	441	26	6
Net interest income after provisions for loan losses	288	299	(11)	(4)	686	813	(127)	(16)
Gains on student loan securitizations						367	(367)	(100)
Servicing and securitization revenue	65	29	36	124	174	414	(240)	(58)
Losses on loans and securities, net	(44)	(25)	(19)	(76)	(122)	(67)	(55)	(82)
Gains (losses) on derivative and hedging activities, net	(242)	(487)	245	50	(153)	(23)	(130)	(565)
Contingency fee revenue	89	76	13	17	259	244	15	6
Collections revenue (loss)	(171)	53	(224)	(423)	(87)	196	(283)	(144)
Guarantor servicing fees	37	46	(9)	(20)	95	115	(20)	(17)
Other income	94	106	(12)	(11)	296	292	4	1
Restructuring expenses	11		11	100	78		78	100
Operating expenses	367	356	11	3	1,077	1,111	(34)	(3)
Pre-tax income (loss)	(262)	(259)	(3)	(1)	(7)	1,240	(1,247)	(101)
Income tax expense (benefit)	(104)	85	(189)	(222)	(13)	499	(512)	(103)
Minority interest in net earnings of subsidiaries	1		1	100	3	2	1	50
Net income (loss)	(159)	(344)	185	(54)	3	739	(736)	(100)
Preferred stock dividends	27	9	18	200	84	28	56	200
Net income (loss) attributable to common stock	$ (186)	$ (353)	$ 167	(47)%	$ (81)	$ 711	$ (792)	(111)%
Basic earnings (loss) per common share	$ (.40)	$ (.85)	$ .45	53%	$ (.17)	$ 1.73	$ (1.90)	(110)%

Diluted earnings (loss) per common share	$	(.40)	$	(.85)	$	.45	53%	$	(.17)	$	1.69	$	(1.86)	(110)%
Dividends per common share	$		$		$		%	$		$	.25	$	(.25)	(100)%

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Condensed Balance Sheets

	September 30, 2008	December 31, 2007	Increase (Decrease) $	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 48,925	$ 35,726	$ 13,199	37%
FFELP Consolidation Loans, net	72,566	73,609	(1,043)	(1)
Private Education Loans, net	19,837	14,818	5,019	34
Other loans, net	770	1,174	(404)	(34)
Cash and investments	5,014	10,546	(5,532)	(52)
Restricted cash and investments	3,897	4,600	(703)	(15)
Retained Interest in off-balance sheet securitized loans	2,323	3,044	(721)	(24)
Goodwill and acquired intangible assets, net	1,260	1,301	(41)	(3)
Other assets	10,399	10,747	(348)	(3)
Total assets	$ 164,991	$ 155,565	$ 9,426	6%
Liabilities and Stockholders Equity				
Short-term borrowings	$ 38,267	$ 35,947	$ 2,320	6%
Long-term borrowings	118,070	111,098	6,972	6
Other liabilities	3,298	3,285	13	
Total liabilities	159,635	150,330	9,305	6
Minority interest in subsidiaries	9	11	(2)	(18)
Stockholders equity before treasury stock	7,203	7,055	148	2
Common stock held in treasury	1,856	1,831	25	1
Total stockholders equity	5,347	5,224	123	2
Total liabilities and stockholders equity	$ 164,991	$ 155,565	$ 9,426	6%

RESULTS OF OPERATIONS

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

For the three months ended September 30, 2008, the Company s net loss was $159 million or $.40 diluted loss per share, compared to a net loss of $344 million, or $.85 diluted loss per share, for the three months ended September 30, 2007. The effective tax rate for those periods was 40 percent and (33) percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under SFAS No. 133 in 2007. The Company settled all of its outstanding equity forward contracts in January 2008. For the three months ended September 30, 2008, the Company s pre-tax loss was $262 million compared to a pre-tax loss of $259 million in the year-ago quarter. The increase in pre-tax loss of $3 million was primarily due to current-quarter impairment charges of $242 million related to the Company s purchased paper businesses discussed below (see also ASSET PERFORMANCE GROUP

BUSINESS SEGMENT), offset by a decrease in net losses on derivative and hedging activities from $487 million in the year-ago quarter to $242 million in the third quarter of 2008, which was primarily a result of the mark-to-market on the equity forwards.

There were no gains on student loan securitizations in either the third quarter of 2008 or the year-ago quarter as the Company did not complete any off-balance sheet securitizations in those periods. The Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, on January 1, 2008, and elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company made this election in order to simplify the accounting for Residual Interests by having all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, with changes in fair value recorded through other comprehensive income or under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, with changes in fair value recorded through income. The Company reclassified the related accumulated other comprehensive income of $195 million into retained earnings and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through servicing and securitization income. The Company has not elected the fair value option for any other financial instruments at this time. Servicing and securitization revenue increased by $36 million from $29 million in the third quarter of 2007 to $65 million in the third quarter of 2008. This increase was primarily due to a current-quarter $81 million unrealized mark-to-market loss recorded under SFAS No. 159 compared to a year-ago quarter $152 million unrealized mark-to-market loss, which included $90 million of impairment and a $62 million unrealized mark-to- market loss recorded under SFAS No. 155. See LIQUIDITY AND CAPITAL RESOURCES Retained Interest in Securitized Receivables for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $11 million in the third quarter from the year-ago quarter. This decrease was due to a $44 million increase in provisions for loan losses, offset by a $33 million increase in net interest income. The increase in net interest income was primarily due to an increase in the student loan spread (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*) and a $24 billion increase in the average balance of on-balance sheet student loans, partially offset by an increase in the 2008 Asset-Backed Financing Facilities Fees. The increase in provisions for loan losses relates primarily to increases in delinquencies on both FFELP loans and Private Education Loans (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Activity in the Allowance for Private Education Loan Losses*) primarily as a result of the continued weakening of the U.S. economy.

In the third quarter of 2008, fee and other income and collections revenue totaled $49 million, a $233 million decrease from $282 million in the year-ago quarter. This decrease was primarily the result of $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company s mortgage purchased paper subsidiary and $95 million of impairment related to the Company s non-mortgage purchased paper subsidiary recorded in the third quarter of 2008 (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

Losses on loans and securities, net, totaled $44 million for the third quarter of 2008, a $19 million increase from $25 million incurred in the year-ago quarter. These losses, which are primarily incurred through the Company s repurchase of delinquent Private Education Loans from the Company s off-balance sheet securitization trusts, have increased due to higher levels of delinquencies and charge-offs in the current quarter compared to the year-ago quarter. When Private Education Loans in the Company s off-balance sheet securitization trusts that settled before September 30, 2005, become 180 days delinquent, the Company has typically exercised its contingent call option to repurchase these loans at par value out of the trusts and records a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold the contingent call option for any trusts that settled after September 30, 2005.

The Company is restructuring its business in response to the impact of The College Cost Reduction and Access Act of 2007 (CCRAA), and current challenges in the capital markets. As part of the Company s cost reduction efforts, restructuring expenses of $11 million were recognized in the third quarter of 2008, with no such expenses recognized in the year-ago quarter. Cumulative restructuring expenses from the fourth quarter of 2007 through the third quarter of 2008 totaled $100 million. The majority of these restructuring expenses were severance costs related to the aggregate of the completed and planned elimination of approximately 2,500 positions, or approximately 23 percent of the workforce. The Company estimates an additional $16 million of restructuring expenses associated with its current cost reduction efforts will be incurred in future periods.

Operating expenses were $367 million in the third quarter of 2008 compared to $356 million in the third quarter of 2007. As discussed in ASSET PERFORMANCE GROUP BUSINESS SEGMENT, the Company has decided to wind down its purchased paper businesses. This decision resulted in a $36 million impairment of intangible assets in the third quarter of 2008. The offsetting $25 million decrease in operating expenses included a $4 million reduction in Merger-related professional fees, with the remaining $21 million reduction primarily related to the Company s cost reduction efforts discussed above.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

For the nine months ended September 30, 2008, the Company s net income was $3 million or $.17 diluted loss per share, compared to net income of $739 million, or $1.69 diluted earnings per share, for the nine months ended September 30, 2007. The effective tax rate for those periods was 206 percent and 40 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of permanent tax item differences on lower financial accounting income in the nine months ended September 30, 2008 versus the nine months ended September 30, 2007. Pre-tax income decreased by $1.2 billion versus the year-ago period primarily due to an increase in net losses on derivative and hedging activities from $23 million in the nine months ended September 30, 2007 to $153 million in the nine months ended September 30, 2008, a decrease in servicing and securitization revenue and gains on student loan securitizations, and current-quarter impairment charges of $242 million related to the Company s purchased paper businesses discussed below (see also ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

There were no gains on student loan securitizations in the nine months ended September 30, 2008 compared to gains of $367 million in the year-ago period. The Company did not complete any off-balance sheet securitizations in the nine months ended September 30, 2008, versus one Private Education Loan securitization in the year-ago period. Servicing and securitization revenue decreased by $240 million from $414 million in the nine months ended 2007 to $174 million in the current period. This decrease was primarily due to a $361 million unrealized mark-to-market loss recorded under SFAS No. 159 in the nine months ended September 30, 2008 compared to a $142 million unrealized mark-to-market loss in the nine months ended September 30, 2007, which included both impairment and an unrealized mark-to-market loss recorded under SFAS No. 155. See LIQUIDITY AND CAPITAL RESOURCES Retained Interest in Securitized Receivables for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $127 million in the nine months ended September 30, 2008 from the year-ago period. This decrease was due to a $101 million decrease in net interest income and a $26 million increase in provisions for loan losses. The decrease in net interest income was primarily due to a decrease in the student loan spread (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*) and an increase in the 2008 Asset-Backed Facilities Financing Fees.

For the nine months ended September 30, 2008, fee and other income and collections revenue totaled $562 million, a $285 million decrease from $847 million in the year-ago period. This decrease was primarily the result of $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company s mortgage purchased paper subsidiary and $95 million of impairment related to the Company s non-mortgage purchased paper subsidiary recorded in the third quarter of 2008 (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

Losses on loans and securities, net, totaled $122 million for the nine months ended September 30, 2008, a $55 million increase from $67 million incurred in the year-ago period. These losses, which are primarily incurred through the Company s repurchase of delinquent Private Education Loans from the Company s off-balance sheet securitization trusts, have increased due to higher levels of delinquencies and charge-offs in the nine months ended September 30, 2008 compared to the year-ago period. When Private Education Loans in the Company s off-balance sheet securitization trusts that settled before September 30, 2005, become 180 days delinquent, the Company has typically exercised its contingent call option to repurchase these loans at par value out of the trust and records a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold the contingent call option for any trusts settled after September 30, 2005.

Restructuring expenses of $78 million were recognized in the nine months ended September 30, 2008, as previously discussed, with no such expenses recognized in the year-ago period.

Operating expenses totaled $1.1 billion in each of the nine month periods ended September 30, 2008 and September 30, 2007. Excluding non-recurring items related to intangible and other reorganization-related asset impairments recognized in the nine months ended September 30, 2008 and Merger-related professional fees and intangible impairments recognized in the nine months ended September 30, 2007, operating expenses decreased $28 million from the year-ago period, primarily due to the Company s cost reduction efforts discussed above.

Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the quarters ended September 30, 2008 and 2007 and for the nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Late fees and forbearance fees	$ 36	$ 34	$ 107	$ 102
Asset servicing and other transaction fees	28	28	80	78
Loan servicing fees	6	7	19	20
Gains on sales of mortgages and other loan fees	1	2	2	10
Other	23	36	87	82
Total	$ 94	$ 107	$ 295	$ 292

The decrease in other income for the three months ended September 30, 2008 compared to the year-ago quarter was primarily due to a one-time gain in the third quarter of 2007 related to the disposition of a subsidiary.

BUSINESS SEGMENTS

The results of operations of the Company s Lending and Asset Performance Group (APG) operating segments are presented below. These defined business segments operate in distinct business environments and are considered reportable segments under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, based on quantitative thresholds applied to the Company s consolidated financial statements. In addition, we provide other complementary products and services, including guarantor and student loan servicing, through smaller operating segments that do not meet such thresholds and are aggregated in the Corporate and Other reportable segment for financial reporting purposes.

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

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

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

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

	Three Months Ended September 30, 2008		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 612	$	$
FFELP Consolidation Loans	995		
Private Education Loans	678		
Other loans	20		
Cash and investments	62		7
Total interest income	2,367		7
Total interest expense	1,651	6	5
Net interest income (loss)	716	(6)	2
Less: provisions for loan losses	263		
Net interest income (loss) after provisions for loan losses	453	(6)	2
Contingency fee revenue		89	
Collections revenue (loss)		(169)	
Guarantor servicing fees			37
Other income	55		51
Total other income (loss)	55	(80)	88
Restructuring expenses		4	7
Operating expenses	142	106	68
Total expenses	142	110	75
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	366	(196)	15
Income tax expense (benefit)[1]	134	(73)	6
Minority interest in net earnings of subsidiaries		1	
Core Earnings net income (loss)	$ 232	$ (124)	$ 9

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

	Three Months Ended September 30, 2007		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 729	$	$
FFELP Consolidation Loans	1,445		
Private Education Loans	753		
Other loans	26		
Cash and investments	251		6
Total interest income	3,204		6
Total interest expense	2,534	7	5
Net interest income (loss)	670	(7)	1
Less: provisions for loan losses	200		
Net interest income (loss) after provisions for loan losses	470	(7)	1
Contingency fee revenue		76	
Collections revenue		53	
Guarantor servicing fees			46
Other income	46		63
Total other income	46	129	109
Restructuring expenses			
Operating expenses	164	94	79
Total expenses	164	94	79
Income before income taxes and minority interest in net earnings of subsidiaries	352	28	31
Income tax expense(1)	130	11	11
Minority interest in net earnings of subsidiaries			
Core Earnings net income	$ 222	$ 17	$ 20

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

	Nine Months Ended September 30, 2008		
	Lending	**APG**	**Corporate and Other**
Interest income:			
FFELP Stafford and Other Student Loans	$ 1,630	$	$
FFELP Consolidation Loans	2,891		
Private Education Loans	2,093		
Other loans	65		
Cash and investments	284		18
Total interest income	6,963		18
Total interest expense	5,080	20	15
Net interest income (loss)	1,883	(20)	3
Less: provisions for loan losses	636		
Net interest income (loss) after provisions for loan losses	1,247	(20)	3
Contingency fee revenue		259	
Collections revenue (loss)		(85)	
Guarantor servicing fees			95
Other income	161		147
Total other income	161	174	242
Restructuring expenses	46	10	22
Operating expenses	460	322	213
Total expenses	506	332	235
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	902	(178)	10
Income tax expense (benefit)[1]	332	(65)	3
Minority interest in net earnings of subsidiaries		3	
Core Earnings net income (loss)	$ 570	$ (116)	$ 7

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

	Nine Months Ended September 30, 2007		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,143	$	$
FFELP Consolidation Loans	4,167		
Private Education Loans	2,104		
Other loans	80		
Cash and investments	595		15
Total interest income	9,089		15
Total interest expense	7,125	20	16
Net interest income (loss)	1,964	(20)	(1)
Less: provisions for loan losses	644		1
Net interest income (loss) after provisions for loan losses	1,320	(20)	(2)
Contingency fee revenue		244	
Collections revenue		196	
Guarantor servicing fees			115
Other income	150		162
Total other income	150	440	277
Restructuring expenses			
Operating expenses	517	284	251
Total expenses	517	284	251
Income before income taxes and minority interest in net earnings of subsidiaries	953	136	24
Income tax expense[(1)]	352	51	9
Minority interest in net earnings of subsidiaries		2	
Core Earnings net income	$ 601	$ 83	$ 15

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

Limitations of Core Earnings

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

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

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

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

As previously discussed, on January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. The fair value adjustments of the items impacted by SFAS No. 157 and SFAS No. 159 under GAAP are not included in Core Earnings net income and therefore the adoption of SFAS No. 157 and SFAS No. 159 did not impact the Core Earnings presentation for the three or nine months ended September 30, 2008.

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

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

	Three Months Ended September 30,					
	2008			2007		
	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$ (148)	$	$	$ (157)	$	$
Net impact of derivative accounting	(206)			4		(458)
Net impact of Floor Income	(43)			(40)		
Amortization of acquired intangibles	(41)	(7)	(2)	(5)	(5)	(9)
Total Core Earnings adjustments to GAAP	$ (438)	$ (7)	$ (2)	$ (198)	$ (5)	$ (467)

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	Nine Months Ended September 30, 2008			2007		
	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$ (474)	$	$	$ 249	$	$
Net impact of derivative accounting	(119)			130		(74)
Net impact of Floor Income	(67)			(119)		
Amortization of acquired intangibles	(51)	(17)	(13)	(23)	(14)	(22)
Total Core Earnings adjustments to GAAP	$ (711)	$ (17)	$ (13)	$ 237	$ (14)	$ (96)

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

The following table summarizes the securitization adjustments in our Lending operating segment for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Core Earnings securitization adjustments:				
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$ (245)	$ (215)	$ (694)	$ (649)
Provisions for loan losses	76	57	169	204
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(169)	(158)	(525)	(445)
Intercompany transactions with off-balance sheet trusts	(44)	(28)	(123)	(87)
Net interest income on securitized loans, after provisions for loan losses	(213)	(186)	(648)	(532)
Gains on student loan securitizations				367
Servicing and securitization revenue	65	29	174	414
Total Core Earnings securitization adjustments(1)	$ (148)	$ (157)	$ (474)	$ 249

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

Intercompany transactions with off-balance sheet trusts in the above table relate primarily to losses incurred through the repurchase of delinquent loans from our off-balance sheet securitization trusts. When Private Education Loans in our securitization trusts settling before September 30, 2005, become 180 days delinquent, we have typically exercised our contingent call option to repurchase these loans at par value out of the trust and record a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We do not hold the contingent call option for any trusts settled after September 30, 2005.

2) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for hedge treatment under GAAP. These unrealized gains and losses occur in

our Lending operating segment, and occurred in our Corporate and Other reportable segment related to equity forward contracts prior to 2008. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item s life. Core Earnings also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for hedge treatment as defined by SFAS No. 133, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The gains and losses described in Gains (losses) on derivative and hedging activities, net are primarily caused by interest rate and foreign currency exchange rate volatility, changing credit spreads and changes in our stock price during the period as well as the volume and term of derivatives not receiving hedge treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness under SFAS No. 133. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the paydown of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Under SFAS No. 133, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio, including our Retained Interests, earning Floor Income but that offsetting change in value is not recognized under SFAS No. 133. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Prior to SFAS No. 133, we accounted for Floor Income Contracts as hedges and amortized the upfront cash compensation ratably over the lives of the contracts.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to 3 month LIBOR debt. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk, however they generally do not meet this effectiveness test because most of our FFELP loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the SFAS No. 133 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

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

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the three and nine months ended September 30, 2008 and 2007 when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Core Earnings derivative adjustments:				
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$ (242)	$ (487)	$ (153)	$ (23)
Less: Realized losses on derivative and hedging activities, net[1]	41	33	39	79
Unrealized gains (losses) on derivative and hedging activities, net[1]	(201)	(454)	(114)	56
Other pre-SFAS No. 133 accounting adjustments	(5)		(5)	
Total net impact of SFAS No. 133 derivative accounting[2]	$ (206)	$ (454)	$ (119)	$ 56

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

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

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities) that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a Core Earnings basis for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Reclassification of realized gains (losses) on derivative and hedging activities:				
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (75)	$ (14)	$ (390)	$ (31)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	22	(19)	339	(48)
Foreign exchange derivatives gains/(losses) reclassified to other income	12		8	
Net realized gains (losses) on terminated derivative contracts reclassified to other income			4	
Total reclassifications of realized (gains) losses on derivative and hedging activities	(41)	(33)	(39)	(79)
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	(201)	(454)	(114)	56
Gains (losses) on derivative and hedging activities, net	$ (242)	$ (487)	$ (153)	$ (23)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Floor Income Contracts	$ (33)	$ (149)	$ 241	$ (63)
Equity forward contracts		(458)		(74)
Basis swaps	(210)	132	(499)	154
Other	42	21	144	39

Total unrealized gains (losses) on derivative and hedging activities, net	$ (201)	$ (454)	$ (114)	$ 56

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on equity forward contracts fluctuate with changes in the Company s stock price. Unrealized gains and losses on basis swaps result from changes in the spread between indices and on changes in the forward interest rate curves that impact basis swaps hedging repricing risk between quarterly reset debt and daily reset assets.

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

The following table summarizes the Floor Income adjustments in our Lending operating segment for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Core Earnings Floor Income adjustments:				
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 1	$	$ 60	$
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(44)	(40)	(127)	(119)
Total Core Earnings Floor Income adjustments[1]	$ (43)	$ (40)	$ (67)	$ (119)

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

4) **Acquired Intangibles:** Our Core Earnings exclude goodwill and intangible impairment and the amortization of acquired intangibles. These amounts totaled $50 million and $19 million, respectively, for the three months ended September 30, 2008 and 2007, and $81 million and $59 million, respectively, for the nine months ended September 30, 2008 and 2007. As discussed in ASSET PERFORMANCE GROUP BUSINESS SEGMENT, we decided to wind down our purchased paper businesses. This decision resulted in $36 million of impairment of intangible assets in the quarter ended September 30, 2008, which is the primary reason the third quarter expense is greater than previous periods.

LENDING BUSINESS SEGMENT

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

As a result of the significant changes brought about by the legislative changes in the CCRAA, along with the impact of the credit environment, the student loan marketplace is undergoing significant change. As a result of these changes, over 160 lenders announced their withdrawal from the federal student loan marketplace. In addition, substantially all other lenders have altered their student loan offerings including the elimination of certain borrower benefits and the elimination of premiums paid on secondary market loan purchases. Finally, many FFELP lenders, excluding the Company, have made other significant changes which will dramatically reduce the loan volume they will originate this academic year. These conditions have also led a number of schools to switch to the FDLP.

As a result of CCRAA, it is no longer economical to purchase loans at historical premiums from our preferred channel clients. Therefore, some clients decided to continue to sell loans to us at significantly lower premiums, some became third-party serviced clients, and others decided to exit the business. Given current market conditions, we expect that the loan volume impacted by lender decisions to exit the business will be (1) originated through our internal brands; (2) absorbed by other lenders or (3) transferred to the FDLP.

Congress passed the Ensuring Continued Access to Student Loans Act of 2008 (the Act) which extended incentives to lenders to continue FFELP lending for the next academic year. See LIQUIDITY AND CAPITAL RESOURCES ED s Loan Purchase Commitment and Loan Participation and Purchase Programs, for a discussion of the ED programs pursuant to this Act. These programs allowed the Company to continue lending FFELP loans during this current funding and credit environment.

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Increase (Decrease) 2008 vs. 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Increase (Decrease) 2008 vs. 2007
Core Earnings interest income:						
FFELP Stafford and Other Student Loans	$ 612	$ 729	(16)%	$ 1,630	$ 2,143	(24)%
FFELP Consolidation Loans	995	1,445	(31)	2,891	4,167	(31)
Private Education Loans	678	753	(10)	2,093	2,104	(1)
Other loans	20	26	(23)	65	80	(19)
Cash and investments	62	251	(75)	284	595	(52)
Total Core Earnings interest income	2,367	3,204	(26)	6,963	9,089	(23)
Total Core Earnings interest expense	1,651	2,534	(35)	5,080	7,125	(29)
Net Core Earnings interest income	716	670	7	1,883	1,964	(4)
Less: provisions for loan losses	263	200	32	636	644	(1)
Net Core Earnings interest income after provisions for loan losses	453	470	(4)	1,247	1,320	(6)
Other income	55	46	20	161	150	7
Restructuring expenses				46		100
Operating expenses	142	164	(13)	460	517	(11)
Total expenses	142	164	(13)	506	517	(2)
Income before income taxes and minority interest in net earnings of subsidiaries	366	352	4	902	953	(5)
Income tax expense	134	130	3	332	352	(6)
Core Earnings net income	$ 232	$ 222	5%	$ 570	$ 601	(5)%

Net Interest Income

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

Average Balance Sheets On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the three and nine months ended September 30, 2008 and 2007. This table reflects the net interest margin for all on-balance sheet assets. It is included in the Lending business segment discussion because this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2008		**2007**		**2008**		**2007**	
	Balance	**Rate**	**Balance**	**Rate**	**Balance**	**Rate**	**Balance**	**Rate**
Average Assets								
FFELP Stafford and Other Student Loans	$ 45,804	4.48%	$ 32,576	6.64%	$ 41,954	4.71%	$ 30,106	6.70%
FFELP Consolidation Loans	72,926	4.53	69,289	6.56	73,410	4.43	66,590	6.52
Private Education Loans	19,876	8.92	12,706	12.26	18,551	9.35	11,664	12.16
Other loans	859	9.21	1,192	8.65	1,023	8.43	1,272	8.46
Cash and investments	7,964	2.85	14,625	5.73	9,762	3.44	10,861	5.75
Total interest-earning assets	147,429	5.04%	130,388	7.06%	144,700	5.10%	120,493	7.06%
Non-interest-earning assets	10,035		9,928		9,991		9,612	
Total assets	$ 157,464		$ 140,316		$ 154,691		$ 130,105	
Average Liabilities and Stockholders Equity								
ED Participation Program facility	$ 960	3.38%	$	%	$ 322	3.38%	$	%
Bank deposits	703	3.83	165	5.27	616	4.13	171	5.30
Other short-term borrowings	32,387	5.00	20,887	6.06	34,231	4.87	9,723	6.18
Total short-term borrowings	34,050	4.93	21,052	6.06	35,169	4.85	9,894	6.16
Long-term borrowings	114,046	3.39	109,887	5.63	110,368	3.75	111,082	5.60
Total interest-bearing liabilities	148,096	3.75%	130,939	5.70%	145,537	4.02%	120,976	5.65%
Non-interest-bearing liabilities	3,821		4,315		3,726		4,301	
Stockholders equity	5,547		5,062		5,428		4,828	
Total liabilities and stockholders equity	$ 157,464		$ 140,316		$ 154,691		$ 130,105	
Net interest margin		1.28%		1.34%		1.06%		1.39%

Rate/Volume Analysis — On-Balance Sheet

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

	Increase (Decrease)	Increase (Decrease) Attributable to Change in Rate	Volume
Three Months Ended September 30, 2008 vs. Three Months Ended September 30, 2007			
Interest income	$ (452)	$ (844)	$ 392
Interest expense	(485)	(737)	252
Net interest income	$ 33	$ (107)	$ 140
Nine Months Ended September 30, 2008 vs. Nine Months Ended September 30, 2007			
Interest income	$ (834)	$ (2,330)	$ 1,496
Interest expense	(733)	(1,874)	1,141
Net interest income	$ (101)	$ (456)	$ 355

Net Interest Margin — On-Balance Sheet

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

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Student loan spread[(1)(2)]	1.71%	1.53%	1.41%	1.54%
Other asset spread[(1)(3)]	.06		.12	.04
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[(1)]	1.61	1.34	1.32	1.39
Less: 2008 Asset-Backed Financing Facilities fees	(.33)		(.25)	
Net interest margin	1.28%	1.34%	1.06%	1.39%

(1)

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

(2) Composition of student loan spread:

Student loan yield, before Floor Income	5.57%	8.08%	5.74%	8.08%
Gross Floor Income	.16	.04	.31	.03
Consolidation Loan Rebate Fees	(.54)	(.62)	(.57)	(.64)
Repayment Borrower Benefits	(.12)	(.11)	(.12)	(.12)
Premium and discount amortization	.07	(.17)	(.16)	(.18)
Student loan net yield	5.14	7.22	5.20	7.17
Student loan cost of funds	(3.43)	(5.69)	(3.79)	(5.63)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.71%	1.53%	1.41%	1.54%

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

Student Loan Spread On-Balance Sheet

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

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 18 basis points from the year-ago quarter. The increase from the year-ago quarter was primarily due to a decrease in premium amortization (see *Core Earnings Basis Student Loan Spread* below for a further discussion of premium amortization impact) and an increase in Gross Floor Income which was partially offset by an increase to our cost of funds. The cost of funds for on-balance sheet student loans excludes the impact of basis swaps that are intended to economically hedge the re-pricing and basis mismatch between our funding and student loan asset indices, but do not receive hedge accounting treatment under SFAS No. 133. We extensively use basis swaps to manage our basis risk associated with our interest rate sensitive assets and liabilities. These swaps generally do not qualify as accounting hedges, and as a result, are required to be accounted for in the gains (losses) on derivatives and hedging activities, net line on the income statement, as opposed to being accounted for in interest expense. As a result, these basis swaps are not considered in the calculation of the cost of funds in the table above and therefore, in times of volatile movements of interest rates like those experienced in 2008, the student loan spread can significantly change. See *Core Earnings Net Interest Margin* in the following table, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps.

Other Asset Spread On-Balance Sheet

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread for the third quarter of 2008 increased 6 basis points from the year-ago quarter. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under SFAS No. 133 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the Core Earnings basis other asset spread discussed below.

Net Interest Margin On-Balance Sheet

Net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 27 basis points from the year-ago quarter. The increase in the student loan portfolio as a percentage of the overall interest-earning asset portfolio resulted in an increase to net interest margin of 5 basis points due to the student loan portfolio earning a higher spread than the other asset portfolio. An additional 22 basis point increase relates primarily to the previous discussions of changes in the on-balance sheet student loan and other asset spreads.

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

Core Earnings Net Interest Margin

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

- includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;
- includes the reclassification of certain derivative net settlement amounts that do not qualify as SFAS No. 133 hedges. Under GAAP, payments made and received on derivative contracts that do not qualify as hedges under SFAS No. 133 are recorded as part of the "gain (loss) on derivative and hedging activities, net" line item on the income statement and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our "Core Earnings" net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;
- excludes unhedged Floor Income earned on the Managed student loan portfolio; and
- includes the amortization of upfront payments on Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
"Core Earnings" basis student loan spread[1]:				
FFELP loan spread	1.13%	.93%	.87%	.99%
Private Education Loan spread[2]	5.20	5.39	5.22	5.30
Total "Core Earnings" basis student loan spread[3]	1.90	1.69	1.68	1.71
"Core Earnings" basis other asset spread[1][4]	(.12)	(.02)	(.19)	.03
"Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.78	1.50	1.54	1.55
Less: 2008 Asset-Backed Financing Facilities fees	(.26)		(.20)	
"Core Earnings" net interest margin	1.52%	1.50%	1.35%	1.55%

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

(2)	Core Earnings basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses	2.76%	3.25%	3.02%	2.31%
(3)	Composition of Core Earnings basis student loan spread:				
	Core Earnings basis student loan yield	5.72%	8.28%	5.94%	8.27
	Consolidation Loan Rebate Fees	(.52)	(.57)	(.54)	(.57)
	Repayment Borrower Benefits	(.11)	(.10)	(.11)	(.11)
	Premium and discount amortization	.09	(.17)	(.15)	(.17)
	Core Earnings basis student loan net yield	5.18	7.44	5.14	7.42
	Core Earnings basis student loan cost of funds	(3.28)	(5.75)	(3.46)	(5.71)
	Core Earnings basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.90%	1.69%	1.68%	1.71%
(4)	Comprised of investments, cash and other loans.				

Core Earnings Basis Student Loan Spread

The Core Earnings basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 21 basis points from the year-ago quarter. The increase in the Core Earnings basis student loan spread from the year-ago quarter was primarily due to a decrease in premium amortization of 26 basis points. The decrease in premium amortization was primarily due to the Company s current-quarter reduction to its prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation loans, as a result of a significant decrease in prepayment activity experienced in the third quarter of 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense. Offsetting this increase to student loan spread, the Core Earnings basis student loan spread was negatively impacted by an increase in the Company s cost of funds from an increase in the credit spread on the Company s debt during the last year due to the current credit environment.

The Core Earnings basis FFELP loan spread for the nine months ended September 30, 2008 declined from the year-ago period primarily as a result of the increase in the cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007 which have lower yields as a result of the CCRAA. The significant increase in the Core Earnings basis FFELP loan spread in the third quarter of 2008 compared to the year-ago quarter was also due to the one-time premium amortization adjustment discussed above. The Core Earnings basis Private Education Loan spread before provision for loan losses declined from the year-ago periods primarily as a result of the increase in the cost of funds discussed previously. The changes in the Core Earnings basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see Private Education Loan Losses *Activity in the Allowance for Private Education Loan Losses*).

Core Earnings Basis Other Asset Spread

The Core Earnings basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The Core Earnings basis other asset spread for the third quarter of 2008 decreased 10 basis points from the year-ago quarter. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

Core Earnings Net Interest Margin

Core Earnings net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 28 basis points from the year-ago quarter. The increase in the Managed student loan portfolio as a percentage of the overall Managed interest-earning asset portfolio resulted in an increase to Core Earnings net interest margin of 9 basis points due to the Managed student loan portfolio earning a higher spread than the Managed other interest-earning asset portfolio. An additional 19 basis point increase relates primarily to the previous discussions of changes in the Core Earnings basis student loan and other asset spreads.

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

Summary of our Managed Student Loan Portfolio

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

Ending Managed Student Loan Balances, net

	September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 17,997	$	$ 17,997	$ 8,116	$ 26,113
Grace and repayment	29,863	71,305	101,168	13,248	114,416
Total on-balance sheet, gross	47,860	71,305	119,165	21,364	140,529
On-balance sheet unamortized premium/(discount)	1,140	1,309	2,449	(514)	1,935
On-balance sheet allowance for losses	(75)	(48)	(123)	(1,013)	(1,136)
Total on-balance sheet, net	48,925	72,566	121,491	19,837	141,328
Off-balance sheet:					
In-school	558		558	1,811	2,369
Grace and repayment	7,042	15,252	22,294	11,837	34,131
Total off-balance sheet, gross	7,600	15,252	22,852	13,648	36,500
Off-balance sheet unamortized premium/(discount)	103	473	576	(349)	227
Off-balance sheet allowance for losses	(20)	(9)	(29)	(336)	(365)
Total off-balance sheet, net	7,683	15,716	23,399	12,963	36,362
Total Managed	$ 56,608	$ 88,282	$ 144,890	$ 32,800	$ 177,690
% of on-balance sheet FFELP	40%	60%	100%		
% of Managed FFELP	39%	61%	100%		
% of total	32%	50%	82%	18%	100%

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

	December 31, 2007				
	FFELP Stafford and Other[(1)]	**FFELP Consolidation Loans**	**Total FFELP**	**Private Education Loans**	**Total**
On-balance sheet:					
In-school	$ 14,390	$	$ 14,390	$ 6,735	$ 21,125
Grace and repayment	20,469	72,306	92,775	9,437	102,212
Total on-balance sheet, gross	34,859	72,306	107,165	16,172	123,337
On-balance sheet unamortized premium/(discount)	915	1,344	2,259	(468)	1,791
On-balance sheet allowance for losses	(48)	(41)	(89)	(886)	(975)
Total on-balance sheet, net	35,726	73,609	109,335	14,818	124,153
Off-balance sheet:					
In-school	1,004		1,004	3,117	4,121
Grace and repayment	8,334	15,968	24,302	11,082	35,384
Total off-balance sheet, gross	9,338	15,968	25,306		