SLM CORP
Form 10-Q
November 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

R	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended September 30, 2006 or**
£	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to .**

Commission File Number: 001-13251

SLM CORPORATION

(Exact name of registrant as specified in its charter)

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

(703) 810-3000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	**Outstanding at October 31, 2006**

Voting common stock, $.20 par value	408,760,194 shares

GLOSSARY

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

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

Consolidation Loans **Under** both the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Student Loan Program (FDLP), borrowers with eligible student loans may consolidate them into one note with one lender and convert the variable interest rates on the loans being consolidated into a fixed rate for the life of the loan. The new note is considered a Consolidation Loan. Typically a borrower can consolidate his student loans only once unless the borrower has another eligible loan to consolidate with the existing Consolidation Loan. The borrower rate on a 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, 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 Consolidation Loans are eligible to earn interest under the Special Allowance Payment (SAP) formula (see definition below).

Consolidation Loan Rebate Fee **All** holders of 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 Consolidation Loans purchased or originated after October 1, 1993, except for loans for which consolidation applications were received between October 1, 1998 and January 31, 1999, where the Consolidation Loan Rebate Fee is 62 basis points.

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

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

Our Core Earnings performance measures are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by our chief operating decision maker. Our Core Earnings performance measures are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides

additional insight into the financial performance of the Company s core business activities. Our Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income. Accordingly, the Company s Core Earnings presentation does not represent another comprehensive basis of accounting.

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

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

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

ED The U.S. Department of Education.

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

Exceptional Performer (EP) Designation The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP loans. Upon receiving the EP designation, the EP servicer receives 99 percent reimbursement on default claims (100 percent reimbursement on default claims filed before July 1, 2006) on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the three percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The annual assessment is in part based upon subjective factors which alone may form the basis for an ED determination to withdraw the designation. If the designation is withdrawn, the three percent Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance.

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

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

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

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

Floor Income FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, our student loans earn at a fixed rate while the

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interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with new legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all new FFELP loans disbursed on or after April 1, 2006.

The following example shows the mechanics of Floor Income for a typical fixed rate Consolidation Loan originated between July 1, 2006 and June 30, 2007 (with a commercial paper-based SAP spread of 2.64 percent):

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

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

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

Graphic Depiction of Floor Income:

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

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

HEA The Higher Education Act of 1965, as amended.

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

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

Preferred Lender List To streamline the student loan process, most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

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

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

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

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

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

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

Special Allowance Payment (SAP) FFELP student loans originated prior to July 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan s repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. SAP is available on variable rate PLUS Loans and SLS Loans only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. Effective for SAP made after April 1, 2006, this limitation on SAP for PLUS loans disbursed on and after January 1, 2000 is repealed.

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

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

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

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September 30, 2006

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $7,649 and $6,311, respectively)	$ 22,613,604	$ 19,988,116
Consolidation Loans (net of allowance for losses of $10,720 and $8,639, respectively)	57,201,754	54,858,676
Private Education Loans (net of allowance for losses of $274,974 and $204,112, respectively)	8,222,400	7,756,770
Other loans (net of allowance for losses of $18,327 and $16,180, respectively)	1,257,252	1,137,987
Investments		
Available-for-sale	1,719,526	2,095,191
Other	139,361	273,808
Total investments	1,858,887	2,368,999
Cash and cash equivalents	2,389,752	2,498,655
Restricted cash and investments	3,957,535	3,300,102
Retained Interest in off-balance sheet securitized loans	3,613,376	2,406,222
Goodwill and acquired intangible assets, net	1,333,123	1,105,104
Other assets	4,605,014	3,918,053
Total assets	$ 107,052,697	$ 99,338,684
Liabilities		
Short-term borrowings	$ 3,669,842	$ 3,809,655
Long-term borrowings	94,816,563	88,119,090
Other liabilities	4,053,931	3,609,332
Total liabilities	102,540,336	95,538,077
Commitments and contingencies		
Minority interest in subsidiaries	9,338	9,182
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized; Series A: 3,300 and 3,300 shares issued, respectively, at stated value of $50 per share; Series B: 4,000 and 4,000 shares issued, respectively, at stated value of $100 per share	565,000	565,000
Common stock, par value $.20 per share, 1,125,000 shares authorized; 431,590 and 426,484 shares issued, respectively	86,318	85,297
Additional paid-in capital	2,490,851	2,233,647
Accumulated other comprehensive income (net of tax of $244,438 and $197,834, respectively)	460,527	367,910
Retained earnings	1,928,204	1,111,743
Stockholders equity before treasury stock	5,530,900	4,363,597
Common stock held in treasury at cost: 22,229 and 13,347 shares, respectively	1,027,877	572,172
Total stockholders equity	4,503,023	3,791,425
Total liabilities and stockholders equity	$ 107,052,697	$ 99,338,684

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2006 (Unaudited)	2005 (Unaudited)	September 30, 2006 (Unaudited)	2005 (Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	$ 364,621	$ 270,444	$ 1,000,211	$ 699,687
Consolidation Loans	916,091	676,820	2,579,017	1,739,670
Private Education Loans	254,747	173,467	729,796	429,892
Other loans	24,550	21,614	71,398	61,813
Cash and investments	141,083	70,541	361,847	186,835
Total interest income	1,701,092	1,212,886	4,742,269	3,117,897
Interest expense:				
Short-term debt	57,414	47,409	162,172	125,627
Long-term debt	1,305,857	780,713	3,497,950	1,930,958
Total interest expense	1,363,271	828,122	3,660,122	2,056,585
Net interest income	337,821	384,764	1,082,147	1,061,312
Less: provisions for losses	67,242	12,217	194,957	137,688
Net interest income after provisions for losses	270,579	372,547	887,190	923,624
Other income:				
Gains on student loan securitizations	201,132		902,417	311,895
Servicing and securitization revenue	187,082	(16,194)	368,855	276,698
Losses on securities, net	(13,427)	(43,030)	(24,899)	(56,976)
Gains (losses) on derivative and hedging activities, net	(130,855)	316,469	(94,875)	176,278
Guarantor servicing fees	38,848	35,696	99,011	93,922
Debt management fees	122,556	92,727	304,329	261,068
Collections revenue	57,913	41,772	181,951	118,536
Other	87,923	74,174	234,380	206,187
Total other income	551,172	501,614	1,971,169	1,387,608
Operating expenses:				
Salaries and benefits	179,910	162,897	523,977	461,165
Other	173,584	129,064	469,428	380,500
Total operating expenses	353,494	291,961	993,405	841,665
Income before income taxes and minority interest in net earnings of subsidiaries	468,257	582,200	1,864,954	1,469,567
Income taxes	203,686	149,821	722,559	512,860
Income before minority interest in net earnings of subsidiaries	264,571	432,379	1,142,395	956,707
Minority interest in net earnings of subsidiaries	1,099	1,029	3,544	5,458
Net income	263,472	431,350	1,138,851	951,249
Preferred stock dividends	9,221	7,288	26,309	14,071
Net income attributable to common stock	$ 254,251	$ 424,062	$ 1,112,542	$ 937,178
Basic earnings per common share	$ .62	$ 1.02	$ 2.71	$ 2.24
Average common shares outstanding	410,034	417,235	411,212	419,205
Diluted earnings per common share	$ .60	$ .95	$ 2.56	$ 2.10
Average common and common equivalent shares outstanding	449,841	458,798	452,012	461,222
Dividends per common share	$ .25	$ .22	$ .72	$ .63

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity
Balance at June 30, 2005	7,300,000	486,706,143	(66,531,905)	420,174,238	$565,000	$97,341	$2,035,676	$473,121	$2,862,730	$(2,382,130)	$3,651,738
Comprehensive income:											
Net income									431,350		431,350
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(68,680)			(68,680)
Change in unrealized gains (losses) on derivatives, net of tax								3,327			3,327
Comprehensive income											365,997
Cash dividends:											
Common stock ($.22 per share)									(91,758)		(91,758)
Preferred stock, series A ($.87 per share)									(2,886)		(2,886)
Preferred stock, series B ($1.12 per share)									(4,244)		(4,244)
Issuance of common shares		1,818,734	8,409	1,827,143		364	58,205			487	59,056
Preferred stock issuance costs and related amortization							68		(158)		(90)
Tax benefit related to employee stock option and purchase plans							14,012				14,012
Repurchase of common shares:											
Equity forwards:											
Exercise cost, cash			(2,936,023)	(2,936,023)						(148,181)	(148,181)
(Gain) loss on settlement										2,554	2,554
Benefit plans			(467,626)	(467,626)						(22,400)	(22,400)
Balance at September 30, 2005	7,300,000	488,524,877	(69,927,145)	418,597,732	$565,000	$97,705	$2,107,961	$407,768	$3,195,034	$(2,549,670)	$3,823,798
Balance at June 30, 2006	7,300,000	430,753,515	(19,078,488)	411,675,027	$565,000	$86,151	$2,440,565	$370,204	$1,775,948	$(878,100)	$4,359,768

Comprehensive income:											
Net income									263,472		263,472
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								98,168			98,168
Change in unrealized gains (losses) on derivatives, net of tax								(7,845)			(7,845)
Comprehensive income											353,795
Cash dividends:											
Common stock ($.25 per share)									(101,995)		(101,995)
Preferred stock, series A ($.87 per share)									(2,875)		(2,875)
Preferred stock, series B ($1.54 per share)									(6,183)		(6,183)
Issuance of common shares		836,344	4,996	841,340		167	43,428			259	43,854
Preferred stock issuance costs and related amortization							163		(163)		
Tax benefit related to employee stock option and purchase plans							6,695				6,695
Repurchase of common shares:											
Open market repurchases			(2,159,827)	(2,159,827)						(100,000)	(100,000)
Equity forwards:											
Exercise cost, cash			(861,576)	(861,576)						(47,163)	(47,163)
(Gain) loss on settlement										3,826	3,826
Benefit plans			(134,033)	(134,033)						(6,699)	(6,699)
Balance at September 30, 2006	7,300,000	431,589,859	(22,228,928)	409,360,931	$ 565,000	$ 86,318	$ 2,490,851	$ 460,527	$ 1,928,204	$ (1,027,877)	$ 4,503,023

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	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	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2004	3,300,000	483,266,408	(59,634,019)	423,632,389	$165,000	$96,654	$1,905,460	$440,672	$2,521,740	$(2,027,222)	$3,102,304
Comprehensive income:											
Net income									951,249		951,249
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(37,936)			(37,936)
Change in unrealized gains (losses) on derivatives, net of tax								5,032			5,032
Comprehensive income											918,345
Cash dividends:											
Common stock ($.63 per share)									(263,884)		(263,884)
Preferred stock, series A ($2.61 per share)									(8,636)		(8,636)
Preferred stock, series B ($1.12 per share)									(5,239)		(5,239)
Issuance of common shares		5,258,469	73,406	5,331,875		1,051	169,065			3,762	173,878
Issuance of preferred shares	4,000,000				400,000						400,000
Preferred stock issuance costs and related amortization							(2,894)		(196)		(3,090)
Tax benefit related to employee stock option and purchase plans							36,330				36,330
Repurchase of common shares:											
Equity forwards:											
Exercise cost, cash			(9,405,676)	(9,405,676)						(468,267)	(468,267)
(Gain) loss on settlement										(11,276)	(11,276)

Benefit plans			(960,856)	(960,856)						(46,667)	(46,667)
Balance at September 30, 2005	7,300,000	488,524,877	(69,927,145)	418,597,732	$565,000	$97,705	$2,107,961	$407,768	$3,195,034	$(2,549,670)	$3,823,798
Balance at December 31, 2005	7,300,000	426,483,527	(13,346,717)	413,136,810	$565,000	$85,297	$2,233,647	$367,910	$1,111,743	$(572,172)	$3,791,425
Comprehensive income:											
Net income									1,138,851		1,138,851
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								91,356			91,356
Change in unrealized gains (losses) on derivatives, net of tax								1,256			1,256
Minimum pension liability adjustment								5			5
Comprehensive income											1,231,468
Cash dividends:											
Common stock ($.72 per share)									(296,081)		(296,081)
Preferred stock, series A ($2.61 per share)									(8,625)		(8,625)
Preferred stock, series B ($4.28 per share)									(17,200)		(17,200)
Issuance of common shares		5,106,332	58,745	5,165,077		1,021	212,066			3,234	216,321
Preferred stock issuance costs and related amortization							484		(484)		
Tax benefit related to employee stock option and purchase plans							44,654				44,654
Repurchase of common shares:											
Open market repurchases			(2,159,827)	(2,159,827)						(100,000)	(100,000)
Equity forwards:											
Exercise cost, cash			(5,395,979)	(5,395,979)						(295,376)	(295,376)
(Gain) loss on settlement										10,907	10,907
Benefit plans			(1,385,150)	(1,385,150)						(74,470)	(74,470)
Balance at September 30, 2006	7,300,000	431,589,859	(22,228,928)	409,360,931	$565,000	$86,318	$2,490,851	$460,527	$1,928,204	$(1,027,877)	$4,503,023

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2006 (Unaudited)	2005 (Unaudited)
Operating activities		
Net income	$ 1,138,851	$ 951,249
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(902,417)	(311,895)
Losses on securities, net	24,899	56,976
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(193,972)	(420,878)
Unrealized (gains)/losses on derivative and hedging activities equity forwards	181,616	(64,519)
Provisions for losses	194,957	137,688
Minority interest, net	(5,639)	(6,714)
Mortgage loans originated	(1,030,296)	(1,335,468)
Proceeds from sales of mortgage loans	1,052,750	1,239,425
(Increase) in restricted cash	(587,724)	(279,814)
(Increase) in accrued interest receivable	(722,659)	(469,714)
Increase in accrued interest payable	167,418	82,764
Adjustment for non-cash (income)/loss related to Retained Interest	147,839	194,231
Decrease in other assets, goodwill and acquired intangible assets, net	144,974	153,860
Increase in other liabilities	332,889	594,256
Total adjustments	(1,195,365)	(429,802)
Net cash (used in) provided by operating activities	(56,514)	521,447
Investing activities		
Student loans acquired	(27,072,346)	(23,108,450)
Loans purchased from securitized trusts (primarily loan consolidations)	(5,903,077)	(7,459,199)
Reduction of student loans:		
Installment payments	7,019,033	4,909,516
Claims and resales	827,142	768,328
Proceeds from securitization of student loans treated as sales	19,521,365	9,045,932
Proceeds from sales of student loans	94,578	166,471
Other loans originated	(1,302,201)	(346,473)
Other loans repaid	1,159,201	393,838
Purchases of available-for-sale securities	(58,867,668)	(50,629,556)
Proceeds from sales of available-for-sale securities	3,428	983,469
Proceeds from maturities of available-for-sale securities	59,374,975	50,764,290
Purchases of held-to-maturity and other securities	(559,098)	(713,852)
Proceeds from maturities of held-to-maturity securities and other securities	650,480	685,132
Return of investment from Retained Interest	66,781	161,183
Purchase of subsidiaries, net of cash acquired	(289,162)	(178,844)
Net cash used in investing activities	(5,276,569)	(14,558,215)
Financing activities		
Short-term borrowings issued	15,858,049	56,745,936
Short-term borrowings repaid	(15,860,749)	(56,834,645)
Long-term borrowings issued	7,698,469	8,286,865
Long-term borrowings repaid	(4,494,881)	(4,957,066)
Borrowings collateralized by loans in trust issued	6,203,019	9,808,399
Borrowings collateralized by loans in trust activity	(3,631,741)	(627,003)
Excess tax benefit from the exercise of stock-based awards	27,445	
Common stock issued	216,321	173,878
Common stock repurchased	(469,846)	(514,934)
Common dividends paid	(296,081)	(263,884)
Preferred stock issued		396,910
Preferred dividends paid	(25,825)	(13,875)
Net cash provided by financing activities	5,224,180	12,200,581
Net decrease in cash and cash equivalents	(108,903)	(1,836,187)
Cash and cash equivalents at beginning of period	2,498,655	3,395,487
Cash and cash equivalents at end of period	$ 2,389,752	$ 1,559,300
Cash disbursements made for:		
Interest	$ 3,117,085	$ 1,701,632
Income taxes	$ 574,220	$ 234,962

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results for the year ending December 31, 2006. The consolidated balance sheet at December 31, 2005, 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, 2005. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2005 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, 2005 to be consistent with classifications adopted for 2006.

Recently Issued Accounting Pronouncements

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements Nos. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer that sponsors one or more single-employer defined benefit plans to (a) recognize the overfunded or underfunded status of a benefit plan in its statement of financial position, (b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions, or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, (c) measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end, and (d) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. SFAS No. 158 is effective for the Company s fiscal year ending December 31, 2006. The Company does not expect the adoption of SFAS No. 158 to have a material impact on its financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

Fair Value Measurements

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

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

In September 2006, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 eliminates the diversity of practice surrounding how public companies quantify financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of a company s financial statements and the related financial statement disclosures. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006, with earlier adoption encouraged. The Company does not expect the adoption of SAB No. 108 to have a material impact on its financial statements.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which amends SFAS No. 109, Accounting for Income Taxes. This statement will be effective for the Company beginning January 1, 2007.

This interpretation:

- Changes historical methods of recording the impact to the financial statements of uncertain tax positions from a model based upon probable liabilities to be owed, to a model based upon the tax benefit most likely to be sustained.

- Prescribes a threshold for the financial statement recognition of tax positions taken or expected to be taken in a tax return, based upon whether it is more likely than not that a tax position will be sustained upon examination.

- Provides rules on the measurement in the financial statements of tax positions that meet this recognition threshold, requiring that the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement to be recorded.

- Provides guidance on the financial statement treatment of changes in the assessment of an uncertain tax position, as well as accounting for such changes in interim periods.

- Requires new disclosures regarding uncertain tax positions.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

The Company is currently evaluating this interpretation to assess its impact on the Company s financial statements.

Accounting for Servicing of Financial Assets

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

This statement:

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

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

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

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

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

The Company expects that the adoption of SFAS No. 156 will not have a material impact on the Company s financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

Accounting for Certain Hybrid Financial Instruments

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

This statement:

- Allows a hybrid financial instrument containing an embedded derivative that would have required bifurcation under SFAS No. 133 to be measured at fair value as one instrument on a case by case basis;
- Clarifies which interest-only strips and principal-only strips are exempt from the requirements of SFAS No. 133;
- Requires that all interests in securitized financial assets be evaluated to determine if the interests are free standing instruments or if the interests contain an embedded derivative;
- Clarifies that the concentrations of credit risk in the form of subordination are not an embedded derivative; and
- Amends SFAS Statement No. 140 to eliminate the prohibition of a qualifying special purpose entity from holding a derivative financial instrument that pertains to beneficial interests other than another derivative financial instrument.

The Company continues to assess the impact of adopting SFAS No. 155 on the Company s financial statements. There have been varying interpretations as to how SFAS No. 155 may impact the accounting related to Residual Interests. Specifically, the standard may require the Company to separately record embedded derivatives that may be within the Company s Residual Interest. The standard as currently written would only require prospective application in 2007 for new securitizations, and would not apply to the Company s current Residual Interest portfolio. The FASB plans to release clarifying guidance in early 2007.

Accounting for Loans Held for Investment and Loans Held for Sale

If the Company has the ability and intent to hold loans for the foreseeable future, such loans are held for investment and therefore carried at amortized cost. Any loans held for sale are carried at the lower of cost or fair value. The Company actively securitizes loans but securitization is viewed as one of many different sources of financing. At the time of a funding need, the most advantageous funding source is identified and, if that source is the securitization program, loans are selected based on the required characteristics to structure the desired transaction (i.e., type of loan, mix of interim vs. repayment status, credit rating, maturity dates, etc.). The Company structures securitizations to obtain the most favorable financing terms and as a result, due to some of the structuring terms, certain transactions qualify for sale treatment under SFAS No. 140 while others do not qualify for sale treatment and are recorded as

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

financings. Because the Company does not securitize all loans and not all securitizations qualify as sales, only when the Company has selected the loans to securitize and such transaction qualifies as a sale under SFAS No. 140 has the Company made a decision to sell loans. At such time, selected loans are transferred into the held-for-sale classification and carried at the lower of cost or fair value. If the Company will recognize a gain related to the impending securitization, no allowance is needed to adjust the loans below their respective cost basis.

Accounting for Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, using the modified prospective transition method. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Prior to January 1, 2006, the Company accounted for its stock option plans using the intrinsic value method of accounting provided under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. Accordingly, for periods prior to January 1, 2006, share-based compensation was included as a pro forma disclosure in the financial statement footnotes.

Using the modified prospective transition method of SFAS No. 123(R), the Company s compensation cost in the nine months ended September 30, 2006 includes: 1) compensation cost related to the remaining unvested portion of all share-based payments granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

As a result of adopting SFAS No. 123(R), the Company s earnings before income taxes for the three and nine months ended September 30, 2006 were $15 million and $48 million lower, respectively, than if it had continued to account for stock-based compensation under APB No. 25, and net earnings were $10 million and $30 million lower, respectively.

SFAS No. 123(R) requires that the excess (i.e., windfall) tax benefits from tax deductions on the exercise of share-based payments exceeding the deferred tax assets from the cumulative compensation cost previously recognized be classified as cash inflows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS No. 123(R), the Company presented all excess tax benefits resulting from the exercise of share-based payments as operating cash flows. The excess tax benefit for the three and nine months ended September 30, 2006 was $4 million and $27 million, respectively.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

The following table provides pro forma net income and earnings per share had the Company applied the fair value method of SFAS No. 123(R) for the three and nine months ended September 30, 2005.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income:		
Reported net income attributable to common stock	$ 424,062	$ 937,178
Less: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(9,081)	(29,670)
Pro forma net income attributable to common stock	$ 414,981	$ 907,508
Earnings per common share:		
Reported basic earnings per common share	$ 1.02	$ 2.24
Pro forma basic earnings per common share	$ .99	$ 2.16
Reported diluted earnings per common share	$ .95	$ 2.10
Pro forma diluted earnings per common share	$ .93	$ 2.04

2. Allowance for Student Loan Losses

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

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three and nine months ended September 30, 2006 and 2005.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Allowance at beginning of period	$ 268,562	$ 233,518	$ 219,062	$ 179,664
Provisions for student loan losses	61,864	8,908	184,480	127,425
Charge-offs	(37,954)	(48,624)	(108,107)	(116,914)
Recoveries	5,652	5,157	18,081	14,670
Net charge-offs	(32,302)	(43,467)	(90,026)	(102,244)
Balance before reductions for student loan sales and securitizations	298,124	198,959	313,516	204,845
Reductions for student loan sales and securitizations	(4,781)		(20,173)	(5,886)
Allowance at end of period	$ 293,343	$ 198,959	$ 293,343	$ 198,959

In addition to the provisions for student loan losses, provisions for losses on other Company loans totaled $5 million and $3 million for the three months ended September 30, 2006 and 2005, respectively and $10 million for both the nine months ended September 30, 2006 and 2005, respectively.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Student Loan Losses (Continued)

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three and nine months ended September 30, 2006 and 2005.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2006	2005	2006	2005
Allowance at beginning of period	$ 252	$ 228	$ 204	$ 172
Provision for Private Education Loan losses	58	56	175	135
Change in estimate				40
Change in recovery estimate		(49)		(49)
Total provision	58	7	175	126
Charge-offs	(37)	(47)	(105)	(113)
Recoveries	6	5	18	14
Net charge-offs	(31)	(42)	(87)	(99)
Balance before securitization of Private Education Loans	279	193	292	199
Reduction for securitization of Private Education Loans	(4)		(17)	(6)
Allowance at end of period	$ 275	$ 193	$ 275	$ 193
Net charge-offs as a percentage of average loans in repayment (annualized)	3.19 %	5.35 %	3.06 %	4.37 %
Allowance as a percentage of the ending total loan balance	3.24 %	2.34 %	3.24 %	2.34 %
Allowance as a percentage of ending loans in repayment	6.91 %	6.00 %	6.91 %	6.00 %
Allowance coverage of net charge-offs (annualized)	2.22	1.15	2.35	1.46
Average total loans	$ 8,079	$ 7,193	$ 8,348	$ 6,615
Ending total loans	$ 8,497	$ 8,272	$ 8,497	$ 8,272
Average loans in repayment	$ 3,879	$ 3,150	$ 3,821	$ 3,031
Ending loans in repayment	$ 3,980	$ 3,220	$ 3,980	$ 3,220

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Student Loan Losses (Continued)

Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of September 30, 2006, December 31, 2005 and September 30, 2005. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

(Dollars in millions)	September 30, 2006 Balance	%	December 31, 2005 Balance	%	September 30, 2005 Balance	%
Loans in-school/grace/deferment(1)	$ 4,497		$ 4,301		$ 5,042	
Loans in forbearance(2)	341		303		311	
Loans in repayment and percentage of each status:						
Loans current	3,462	87.0 %	3,311	90.4 %	2,873	89.2 %
Loans delinquent 31-60 days(3)	209	5.3	166	4.5	145	4.5
Loans delinquent 61-90 days(3)	121	3.0	77	2.1	75	2.3
Loans delinquent greater than 90 days(3)	188	4.7	108	3.0	127	4.0
Total Private Education Loans in repayment	3,980	100 %	3,662	100 %	3,220	100 %
Total Private Education Loans, gross	8,818		8,266		8,573	
Private Education Loan unamortized discount	(321)		(305)		(301)	
Total Private Education Loans	8,497		7,961		8,272	
Private Education Loan allowance for losses	(275)		(204)		(193)	
Private Education Loans, net	$ 8,222		$ 7,757		$ 8,079	
Percentage of Private Education Loans in repayment	45.1 %		44.3 %		37.6 %	
Delinquencies as a percentage of Private Education Loans in repayment	13.0 %		9.6 %		10.8 %	

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on 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 or who have temporarily ceased making full payments due to hardship or other factors. When loans exit forbearance status and enter repayment, they are initially included in current status.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Goodwill and Acquired Intangible Assets

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of September 30, 2006 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	11 years	$ 384	$ (99)	$ 285
Tax exempt bond funding(1)	10 years	67	(57)	10
Software and technology	7 years	80	(59)	21
Non-compete agreements	2 years	10	(9)	1
Total		541	(224)	317
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	78		78
Total acquired intangible assets		$ 619	$ (224)	$ 395

(Dollars in millions)	Average Amortization Period	As of December 31, 2005 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 256	$ (76)	$ 180
Tax exempt bond funding(1)	10 years	67	(25)	42
Software and technology	7 years	80	(51)	29
Non-compete agreements	2 years	11	(8)	3
Total		414	(160)	254
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	78		78
Total acquired intangible assets		$ 492	$ (160)	$ 332

(1) In connection with the Company s acquisition of Southwest Student Services Corporation and Washington Transferee Corporation, the Company acquired certain tax exempt bonds that enable the Company to earn a 9.5 percent Special Allowance Payment (SAP) rate on student loans funded by those bonds in indentured trusts. During the third quarter of 2006, the Company recognized an intangible impairment of $21 million due to changes in projected interest rates used to initially value the intangible asset and to a regulatory change that restricts the loans on which the Company is entitled to earn a 9.5 percent yield. The impaired intangible asset is reported in the lending segment and the impairment charge was recorded to amortization expense, which is included in other operating expenses in the Consolidated Statement of Income.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Goodwill and Acquired Intangible Assets (Continued)

The Company recorded intangible impairment and amortization of acquired intangibles totaling $37 million and $16 million for the three months ended September 30, 2006 and 2005, respectively, and $68 million and $45 million for the nine months ended September 30, 2006 and 2005, respectively. In the third quarter of 2006, the Company recognized an intangible impairment of $21 million due to an increase in borrower interest rates since the July 1, 2006 reset and to a regulatory change to its 9.5 percent SAP loans.

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

(Dollars in millions)	December 31, 2005	Adjustments	September 30, 2006
Lending	$ 410	$ (4)	$ 406
Debt Management Operations	299	6	305
Corporate and Other	64	164	228
Total	$ 773	$ 166	$ 939

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company s acquisitions is reviewed for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, addressed further in Note 2, Significant Accounting Policies, within the Company s 2005 Annual Report on Form 10-K.

On August 23, 2006, the Company acquired Upromise, Inc. for approximately $309 million including cash consideration and certain acquisition costs. Upromise markets and administers saving-for-college plans and also provides administration services for college savings plans. The excess purchase price over the fair value of net assets acquired, or goodwill, is estimated to be $164 million.

On August 31, 2005, the Company acquired 100 percent controlling interest in GRP/AG Holdings, LLC and its subsidiaries (collectively, GRP) for a purchase price of approximately $137 million including cash consideration and certain acquisition costs. GRP engages in the acquisition and resolution of distressed residential mortgage loans and foreclosed residential properties. In the third quarter of 2006, the Company finalized its purchase price allocation for GRP, which resulted in an excess purchase price over the fair value of net assets acquired, or goodwill, of $53 million.

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3. Goodwill and Acquired Intangible Assets (Continued)

On December 22, 2005, the Company acquired an additional 12 percent interest in Arrow Financial Services (AFS) for a purchase price of approximately $59 million, increasing the Company s total purchase price for its 76 percent controlling interest in AFS to approximately $226 million including cash consideration and certain acquisition costs. AFS is a full-service, accounts receivable management company that purchases charged-off debt, conducts contingency collection work and performs third-party receivables servicing across a number of consumer asset classes. Under the terms of the August 31, 2004 initial purchase agreement, the Company has the option to purchase the remaining minority interest in AFS over the next two-year period.

The Company finalized its purchase price allocation for its initial acquisition of 64 percent interest in AFS as well as its December 2005 acquisition of an additional 12 percent interest in AFS, which resulted in an aggregate excess purchase price over the fair value of net assets acquired, or goodwill, of $162 million for the total AFS acquisition.

4. Student Loan Securitization

Securitization Activity

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

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4. Student Loan Securitization (Continued)

The following table summarizes the Company s securitization activity for the three and nine months ended September 30, 2006 and 2005. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on balance sheet.

	Three Months Ended September 30, 2006				2005			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford/PLUS loans		$	$	%		$	$	%
Consolidation Loans	2	4,001	19	.5				
Private Education Loans	1	1,088	182	16.7				
Total securitizations sales	3	5,089	$ 201	4.0 %			$	%
Consolidation Loans(1)	1	3,001			3	7,276		
Total securitizations financings	1	3,001			3	7,276		
Total securitizations	4	$ 8,090			3	$ 7,276		

	Nine Months Ended September 30, 2006				2005			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford/PLUS loans	2	$ 5,004	$ 17	.3 %	2	$ 3,530	$ 50	1.4 %
Consolidation Loans	4	9,503	55	.6	2	4,011	31	.8
Private Education Loans	3	5,088	830	16.3	1	1,505	231	15.3
Total securitizations sales	9	19,595	$ 902	4.6 %	5	9,046	$ 312	3.4 %
Consolidation Loans(1)	2	6,002			4	9,502		
Total securitizations financings	2	6,002			4	9,502		
Total securitizations	11	$ 25,597			9	$ 18,548		

(1) In certain Consolidation Loan securitizations there are certain terms within the deal structure that result in such securitizations not qualifying for sale treatment and accordingly, they are accounted for on-balance sheet as variable interest entities (VIEs). The terms that are present within these structures that prevent sale treatment are: (1) the Company may hold certain rights that can affect the remarketing of certain bonds, (2) the trust may 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 and (3) the Company may 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, 2006 and 2005 were as follows:

	Three Months Ended September 30, 2006			**2005**		
	FFELP Stafford(1)	**Consolidation Loans**	**Private Education Loans**	**FFELP Stafford**(1)	**Consolidation Loans**(1)	**Private Education Loans**(1)
Prepayment speed (annual rate)(2)		6%	4%			
Weighted average life		7.9 yrs.	9.2 yrs.			
Expected credit losses (% of principal securitized)		.09%	4.75%			
Residual cash flows discounted at (weighted average)		11.0%	12.7%			

	Nine Months Ended September 30, 2006			**2005**		
	FFELP Stafford	**Consolidation Loans**	**Private Education Loans**	**FFELP Stafford**	**Consolidation Loans**	**Private Education Loans**
Prepayment speed (annual rate)(2)	*	6%	4%	**	6%	4%
Weighted average life	3.7 yrs.	8.2 yrs.	9.4 yrs.	4.0 yrs.	7.9 yrs.	9.0 yrs.
Expected credit losses (% of principal securitized)	.15%	.19%	4.79%	%	%	4.38%
Residual cash flows discounted at (weighted average)	12.4%	10.8%	12.9%	12%	10.1%	12.4%

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

(2) The prepayment assumptions include the impact of projected defaults.

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

** 20 percent for 2005, 15 percent for 2006 and 6 percent thereafter.

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4. Student Loan Securitization (Continued)

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, 2006 and December 31, 2005.

	As of September 30, 2006				
(Dollars in millions)	**FFELP Stafford and PLUS**		**Consolidation Loan Trusts**(1)	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests(2)	$ 777		$ 735	$ 2,101	$ 3,613
Underlying securitized loan balance(3)	16,916		18,254	13,365	48,535
Weighted average life	2.6 yrs.		8.0 yrs.	8.1 yrs	
Prepayment speed (annual rate)(4)	10%-30%	(5)	6%	4%	
Expected credit losses (% of student loan principal)	.06%		.07%	4.67%	
Residual cash flows discount rate	12.6%		10.5%	12.6%	

	As of December 31, 2005				
(Dollars in millions)	**FFELP Stafford and PLUS**		**Consolidation Loan Trusts**(1)	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests(2)	$ 773		$ 483	$ 1,150	$ 2,406
Underlying securitized loan balance(3)	20,372		10,272	8,946	39,590
Weighted average life	2.7 yrs.		8.0 yrs.	7.8 yrs	
Prepayment speed (annual rate)(4)	10%-20%	(5)	6%	4%	
Expected credit losses (% of student loan principal)	.14%		.23%	4.74%	
Residual cash flows discount rate	12.3%		10.3%	12.4%	

(1) Includes $176 million and $235 million related to the fair value of the Embedded Floor Income as of September 30, 2006 and December 31, 2005, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At September 30, 2006 and December 31, 2005, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $574 million and $370 million, respectively, that related to the Retained Interests, primarily those associated with off-balance sheet Private Education Loan trusts.

(3) In addition to student loans in off-balance sheet trusts, the Company had $43.0 billion and $40.9 billion of securitized student loans outstanding (face amount) as of September 30, 2006 and December 31, 2005, respectively, in on-balance sheet securitization trusts.

(4) The prepayment speed assumptions include the impact of projected defaults.

(5) 30% for the fourth quarter of 2006, 15% for 2007 and 10% thereafter for September 30, 2006 valuations and 20% for 2006, 15% for 2007 and 10% thereafter for December 31, 2005 valuations.

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4. Student Loan Securitization (Continued)

The Company recorded $4 million and $171 million of impairment related to the Retained Interests for the three months ended September 30, 2006 and 2005, respectively and $148 million and $195 million of impairment related to the Retained Interests for the nine months ended September 30, 2006 and 2005, respectively. The impairment charges were primarily the result of FFELP Stafford loans prepaying faster than projected through loan consolidation ($97 million and $191 million for the nine months ended September 30, 2006 and 2005, respectively) and the effect of market interest rates on the Embedded Floor Income which is a part of the Retained Interest ($51 million and $4 million for the nine months ended September 30, 2006 and 2005, respectively). The level and timing of Consolidation Loan activity is highly volatile, and in response the Company continues to revise its estimates of the effects of Consolidation Loan activity on the Company s Retained Interests and it may result in additional impairment recorded in future periods if Consolidation Loan activity remains higher than projected.

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of September 30, 2006, December 31, 2005 and September 30, 2005.

(Dollars in millions)	September 30, 2006 Balance	%	December 31, 2005 Balance	%	September 30, 2005 Balance	%
Loans in-school/grace/deferment(1)	$ 6,861		$ 3,679		$ 3,272	
Loans in forbearance(2)	901		614		552	
Loans in repayment and percentage of each status:						
Loans current	5,281	94.3 %	4,446	95.6 %	3,514	94.9 %
Loans delinquent 31-60 days(3)	164	2.9	136	2.9	94	2.5
Loans delinquent 61-90 days(3)	68	1.2	35	.7	38	1.0
Loans delinquent greater than 90 days(3)	90	1.6	36	.8	59	1.6
Total off-balance sheet Private Education Loans in repayment	5,603	100 %	4,653	100 %	3,705	100 %
Total off-balance sheet Private Education Loans, gross	$ 13,365		$ 8,946		$ 7,529	

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

(2) Loans for borrowers who have requested extension of grace period or who have temporarily ceased making full payments due to hardship or other factors. When loans exit forbearance status and enter repayment, they are initially included in current status.

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

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5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at September 30, 2006 and December 31, 2005 and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2006 and 2005. At September 30, 2006 and December 31, 2005, $578 million (of which $92 million is in restricted cash and investments on the balance sheet) and $666 million (fair value), respectively, of available-for-sale investment securities and $74 million and $249 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow September 30, 2006	December 31, 2005	Fair Value September 30, 2006	December 31, 2005	Trading September 30, 2006	December 31, 2005	Total September 30, 2006	December 31, 2005
(Dollars in millions)								
Fair Values								
Interest rate swaps	$ (12)	$ 5	$ (380)	$ (347)	$ (21)	$ (48)	$ (413)	$ (390)
Floor/Cap contracts					(232)	(371)	(232)	(371)
Futures					(1)	(1)	(1)	(1)
Equity forwards					(56)	67	(56)	67
Cross currency interest rate swaps			718	(148)			718	(148)
Total	$ (12)	$ 5	$ 338	$ (495)	$ (310)	$ (353)	$ 16	$ (843)
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 2.2	$ 1.2	$ 15.2	$ 14.6	$ 148.8	$ 125.4	$ 166.2	$ 141.2
Floor/Cap contracts					38.6	41.8	38.6	41.8
Futures	.1	.1			.6	.6	.7	.7
Cross currency interest rate swaps			20.9	18.6			20.9	18.6
Other(1)					2.0	2.0	2.0	2.0
Total	$ 2.3	$ 1.3	$ 36.1	$ 33.2	$ 190.0	$ 169.8	$ 228.4	$ 204.3
(Shares in millions)								
Contracts								
Equity forwards					48.1	42.7	48.1	42.7

(1) Other consists of an embedded derivative bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. The embedded derivative has had a *de minimis* fair value since inception.

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5. Derivative Financial Instruments (Continued)

	Three Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2006	2005	2006	2005	2006	2005	2006	2005
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$ (11)	$ (2)	$	$	$	$	$ (11)	$ (2)
Amortization of effective hedges and transition adjustment(1)	4	5					4	5
Change in accumulated other comprehensive income, net	$ (7)	$ 3	$	$	$	$	$ (7)	$ 3
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense(2)	$ (6)	$ (9)	$	$	$	$	$ (6)	$ (9)
Gains (losses) on derivative and hedging activities Realized(3)					(18)	(93)	(18)	(93)
Gains (losses) on derivative and hedging activities Unrealized(4)			(20)	8	(93)	401	(113)	409
Total earnings impact	$ (6)	$ (9)	$ (20)	$ 8	$ (111)	$ 308	$ (137)	$ 307

(1) The Company expects to amortize $3 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that are outstanding as of September 30, 2006.

(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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5. Derivative Financial Instruments (Continued)

	Nine Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$ (9)	$ (15)	$	$	$	$	$ (9)	$ (15)
Amortization of effective hedges and transition adjustment(1)	11	20					11	20
Change in accumulated other comprehensive income, net	$ 2	$ 5	$	$	$	$	$ 2	$ 5
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense(2)	$ (17)	$ (32)	$	$	$	$	$ (17)	$ (32)
Gains (losses) on derivative and hedging activities Realized(3)					(107)	(309)	(107)	(309)
Gains (losses) on derivative and hedging activities Unrealized(4)			23	(4)	(11)	489	12	485
Total earnings impact	$ (17)	$ (32)	$ 23	$ (4)	$ (118)	$ 180	$ (112)	$ 144

(1) The Company expects to amortize $3 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that are outstanding as of September 30, 2006.

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

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

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

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6. Stockholders Equity

The following table summarizes the Company s common share repurchases, issuances and equity forward activity for the three and nine months ended September 30, 2006 and 2005.