SLM Corp
Form 10-K
February 28, 2019

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

Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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 | 52-2013874 |
|---|---|
| (State of Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| 300 Continental Drive, Newark, Delaware | 19713 |
|---|---|
| (Address of Principal Executive Offices) | (Zip Code) |

(302) 451-0200
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act
Common Stock, par value $.20 per share.
Name of Exchange on which Listed:
The NASDAQ Global Select Market
Floating Rate Non-Cumulative Preferred Stock, Series B, par value $.20 per share
Name of Exchange on which Listed:
The NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
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 ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the

registrant was required to submit and post such files). Yes þ No ¨

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

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

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

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value of voting common stock held by non-affiliates of the Registrant as of June 30, 2018 was $5.0 billion (based on closing sale price of $11.45 per share as reported for the NASDAQ Global Select Market).

As of January 31, 2019, there were 436,802,555 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the Registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

SLM CORPORATION
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## FORWARD-LOOKING AND CAUTIONARY STATEMENTS

References in this Annual Report on Form 10-K to "we," "us," "our," "Sallie Mae," "SLM" and the "Company" refer to SLM Corporation and its subsidiaries, except as otherwise indicated or unless the context otherwise requires.

This Annual Report on Form 10-K contains "forward-looking" statements and information based on management's current expectations as of the date of this report. Statements that are not historical facts, including statements about our beliefs, opinions or expectations and statements that assume or are dependent upon future events, are forward-looking statements. This includes, but is not limited to, our expectation and ability to pay a quarterly cash dividend on our common stock in the future, subject to the determination by our Board of Directors, and based on an evaluation of our earnings, financial condition and requirements, business conditions, capital allocation determinations, and other factors, risks and uncertainties. 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 risks and uncertainties set forth in Item 1A. "Risk Factors" and elsewhere in this Annual Report on Form 10-K and subsequent filings with the Securities and Exchange Commission ("SEC"); increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; failure to comply with consumer protection, banking and other laws; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which we are a party; credit risk associated with our exposure to third-parties, including counterparties to our derivative transactions; and changes in the terms of education loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). We could also be affected by, among other things: changes in our funding costs and availability; reductions to our credit ratings; failures or breaches of our operating systems or infrastructure, including those of third-party vendors; damage to our reputation; risks associated with restructuring initiatives, including failures to successfully implement cost-cutting programs and the adverse effects of such initiatives on our business; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; changes in banking rules and regulations, including increased capital requirements; increased competition from banks and other consumer lenders; the creditworthiness of our customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of our earning assets versus our funding arrangements; rates of prepayment on the loans that we own; changes in general economic conditions and our ability to successfully effectuate any acquisitions; and other strategic initiatives. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions, including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this Annual Report on Form 10-K are qualified by these cautionary statements and are made only as of the date of this report. We do not undertake any obligation to update or revise these forward-looking statements to conform such statements to actual results or changes in our expectations.

AVAILABLE INFORMATION

Our website address is www.salliemae.com. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, and our Proxy Statements and any significant investor presentations, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The SEC maintains a website at www.sec.gov that contains all such filed or furnished reports and other information. In addition, copies of our Board Governance Guidelines, Code of Business Conduct (which includes the code of ethics applicable to our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer) and the governing charters for each committee of our Board of Directors are available free of charge on our website, as well as in print to any stockholder upon request. We intend to disclose any amendments to or waivers of our Code of Business Conduct (to the extent applicable to our Principal Executive Officer, Principal Financial Officer or Principal Accounting Officer) by posting such information on our website. Information contained or referenced on our website is not incorporated by reference into and does not form a part of this Annual Report on Form 10-K.

# PART I.

## Item 1. Business

### Company History

SLM Corporation, more commonly known as Sallie Mae, is the nation's leading saving, planning and paying for college company. Our purpose is to equip aspiring minds to create the lives they imagine. That mission is firmly grounded in helping families achieve the dream of a higher education. To that end, we have helped more than 35 million Americans pay for college. There is no single way to achieve this task, so we provide tools, resources, and financing to produce our country's future engineers, doctors, nurses, teachers, entrepreneurs, business leaders, and more.

Our primary business is to originate and service high-quality Private Education Loans we make to students and their families. "Private Education Loans" are education loans for students or their families that are not made, insured or guaranteed by any state or federal government. We also offer a range of deposit products insured by the Federal Deposit Insurance Corporation (the "FDIC") and operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

We were formed in 1972 as the Student Loan Marketing Association, a federally-chartered government-sponsored enterprise ("GSE"), with the goal of furthering access to higher education by providing a national secondary market and warehousing facilities for loans insured or guaranteed under the previously existing Federal Family Education Loan program ("FFELP Loans"). The GSE's federal charter prohibited it from originating student loans in the primary market. In 1996, the United States Congress passed the Student Loan Marketing Association Reorganization Act, which set the stage for the "privatization" of the GSE. As part of the privatization process, we incorporated SLM Corporation in 1997 as a Delaware corporation, the GSE became a subsidiary of SLM Corporation, and by mid-2004 the GSE stopped purchasing FFELP Loans in the secondary market and was dissolved by the end of 2004.

On November 3, 2005, SLM Corporation formed Sallie Mae Bank, a Utah industrial bank subsidiary (the "Bank"), to fund and originate Private Education Loans on behalf of SLM Corporation. While the Bank first originated Private Education Loans in February 2006, SLM Corporation continued to purchase a portion of its Private Education Loans from its third-party lending partners through mid-2009. With some minor exceptions, the Bank became the sole originator of Private Education Loans for SLM Corporation beginning with the 2009-2010 academic year, the first academic year following the launch of the Bank's Smart Option Student Loan program in mid-2009.

On March 30, 2010, President Obama signed into law the Federal Direct Student Loan Program (the "DSLP"), effective July 1, 2010. At that time, the federal guaranteed student loan program (under which FFELP Loans were made) was eliminated, although the terms and conditions of existing guaranteed student loans were not altered or affected.

On April 30, 2014, we completed our plan to legally separate (the "Spin-Off") into two distinct publicly-traded entities: an education loan management, servicing and asset recovery business, named Navient Corporation ("Navient"), which retained all assets and liabilities generated prior to the Spin-Off other than those explicitly retained by SLM Corporation; and a consumer banking business, named SLM Corporation. We sometimes refer to the SLM Corporation that existed prior to the Spin-Off as "pre-Spin-Off SLM."

Our principal executive offices are located at 300 Continental Drive, Newark, Delaware 19713, and our telephone number is (302) 451-0200.

Our Business

Our primary business is to originate and service high-quality Private Education Loans. In 2018, nearly 374,000 families chose us as their Private Education Loan provider, more than any other private student loan lender. We originated $5.3 billion of Private Education Loans, an increase of 11 percent from the year ended December 31, 2017. As of December 31, 2018, we had $20.3 billion of Private Education Loans, net, outstanding. In 2016, we began to purchase unsecured personal loans used for non-educational purposes ("Personal Loans"), and in 2018 we began to originate Personal Loans. At December 31, 2018, we had $1.1 billion of Personal Loans, net outstanding.

Private Education Loans

The Private Education Loans we make to students and families serve primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans and student and families' resources. We also extend Private Education Loans as an alternative to similar federal education loan products where we believe our rates are competitive. We earn interest income on our Private Education Loan portfolio.

In 2009, we introduced the Smart Option Student Loan, our Private Education Loan product emphasizing in-school payment features that can produce shorter terms and reduce customers' total finance charges. Customers generally elect one of three Smart Option repayment types at the time of loan origination. The first two, Interest Only and Fixed Payment options, require monthly payments while the student is in school and during the grace period thereafter, and accounted for approximately 55 percent of the Private Education Loans the Bank originated during 2018. The third repayment option is the more traditional deferred Private Education Loan product where customers are not required to make payments while the student is in school and during the grace period after separation from school. (The grace period for a Smart Option Student Loan generally runs for six months after the borrower separates from school, but can run for up to 36 months for a small subset of graduate loans). Lower interest rates on the Interest Only and Fixed Payment options encourage customers to elect those options. Making payments while in school helps customers reduce their total loan cost compared with the traditional deferred loan, and also helps them become accustomed to making on-time regular loan payments. We offer both variable-rate and fixed-rate loans.

In 2018, we expanded our graduate school offerings to include six new graduate program specific loan products. These included the Sallie Mae Law School Loan, the Sallie Mae MBA Loan, the Sallie Mae Health Professions Graduate Loan, the Sallie Mae Medical School Loan, the Sallie Mae Dental School Loan, and the Sallie Mae Graduate School Loan. These products were designed to address the specific needs of graduate students, such as extended grace periods for medical students.

We regularly review and update the terms of our Private Education Loan products. Our Private Education Loans include important protections for the family, including loan forgiveness in case of death or permanent disability of the student borrower, a free, quarterly FICO score benefit to students and cosigners, and study services to help students advance their education with a Smart Option Student Loan.

As a holder of Private Education Loans, we bear the full credit risk of the customers. We manage this risk by underwriting and pricing based on customized credit scoring criteria and the addition of qualified cosigners. For Private Education Loans originated during the year ended December 31, 2018, our average FICO scores (representing the higher credit scores of the cosigners or borrowers) at the time of original approval were 746 and approximately 87.2 percent of our loans were cosigned. In addition, we voluntarily require school certification of both the need for, and the amount of, every Private Education Loan we originate (to prevent unnecessary borrowing beyond a school's cost of attendance), and we disburse the loan proceeds directly to the higher education institutions to ensure loan proceeds are applied directly to the student's education expenses.

The core of our marketing strategy is to promote our products on campuses through financial aid offices as well as through online and direct marketing to students and families. Our on-campus efforts with approximately 2,400 higher education institutions are led by our sales force, the largest in the industry, which has become a trusted resource for financial aid offices.

Our loans are high credit quality and the overwhelming majority of our customers manage their payments with great success. Loans in repayment include loans on which customers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period. At December 31, 2018, 2.6 percent

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of loans in repayment were greater than 30 days delinquent, and loans in forbearance were 3.8 percent of loans in repayment and forbearance. In 2018, net charge-offs as a percentage of average loans in repayment was 1.01 percent.

Sallie Mae Bank

Since 2006, the Bank, which is regulated by the Utah Department of Financial Institutions (the "UDFI"), the FDIC, and the Consumer Financial Protection Bureau (the "CFPB"), has originated Private Education Loans and accepted deposits. At December 31, 2018, the Bank had total assets of $26.5 billion, including $20.3 billion of Private Education Loans, net, $1.1 billion of Personal Loans, net, and $848 million of FFELP Loans, net, and total deposits of $19.3 billion.

Our ability to obtain deposit funding and offer competitive interest rates on deposits will be necessary to sustain the growth of our Private Education Loan and other originations. Our ability to obtain such funding is dependent, in part, on the capital levels of the Bank and its compliance with other applicable regulatory requirements. At the time of this filing, there are no regulatory restrictions on our ability to obtain deposit funding or the interest rates we offer other than those restrictions generally applicable to all FDIC-insured banks of similar charter and size. We further diversified our funding base by raising $1.9 billion in term funding collateralized by pools of Private Education Loans in the long-term asset-backed securities ("ABS") market in 2018, which brought our total ABS funding to $4.1 billion, or 20 percent of our total Private Education Loan portfolio. We plan to continue to do so, market conditions permitting. This helps us better match-fund our assets and reduce our reliance on deposits to fund our growth.

See the subsection titled "Regulation of Sallie Mae Bank" under "Supervision and Regulation" for additional details about the Bank.

Operational Infrastructure

We perform the origination, servicing and collections activities for all of our Private Education Loans in the United States with dedicated representatives assisting customers with various needs, including military personnel who may be eligible for military benefits. We expect the Bank or affiliates of the Bank to retain servicing of all Private Education Loans the Bank originates, regardless of whether the loans are held, sold or securitized.

Over the past few years, we have implemented several improvements in our ability to interact with our customers, including:

- an integrated platform that allows customers and servicing agents to simultaneously access the same systems in real time interaction;
- an on-line chat function for customer service;
- a mobile application accessible through smart phones and the Apple watch; and
- initiation of customer surveys to gain feedback on areas for improvement within our servicing function.

These and other enhancements have contributed to streamlined originations and servicing processes, increased customer self-services rates, and improved customer satisfaction in all channels.

Personal Loans

We began purchasing Personal Loans from a marketplace lender in 2016 and discontinued those purchases in July 2018. In 2017, we developed infrastructure so that in early 2018 we had the capability to originate and service Personal Loans. In 2018, we originated $455 million and acquired an additional $703 million of Personal Loans. At December 31, 2018, we owned a high-quality portfolio of Personal Loans that totaled $1.1 billion and had an average FICO score at original approval of 719.

Upromise

Upromise is a free to join rewards program helping Americans save for college. Members can earn cash back rewards when shopping at participating on-line retailers, dining out at participating restaurants, and by using their Upromise Mastercard. Since inception, Upromise members have earned more than $1 billion through the program, and more than 300,000 members use their Upromise credit card to save.

Our Approach to Advising Students and Families on Paying for College

Our annual research, "How America Pays for College,"[1] confirms students and families cover the cost of college using multiple sources. According to this research, roughly 40 percent of families have a plan to pay for college. Sallie Mae offers free online tools, resources and educational content on SallieMae.com to help families build a strategy to save, plan and pay for college. Our College Planning Calculator helps families set college savings goals, project the full cost of a college degree, and estimate future student loan payments and the annual starting salary level needed to keep payments manageable.

To encourage responsible borrowing, Sallie Mae advises students and families to follow a three-step approach to paying for college:

Start with money you won't have to pay back. Supplement your college savings and income by maximizing scholarships, grants, and work-study.

We provide access to an extensive, free, online scholarship database, which includes information about more than 5 million scholarships with an aggregate value in excess of $24 billion. For academic year 2017-2018, more than 16,000 students reported receiving at least one scholarship via our database, covering more than $49 million in college costs. In addition, we recently launched a scholarship search tool tailored specifically for graduate students. It includes access to 950,000 graduate school scholarships with an aggregate value of more than $1 billion. We distribute these scholarship tools in multiple channels, including through partners, high schools and higher education institutions.

Through the Bank, we offer traditional savings products, such as high-yield savings accounts, money market accounts, and certificates of deposit ("CDs").

In addition, our SmartyPig™ product is a free, FDIC-insured, online, goal-based savings account that helps consumers save for long- and short-term goals. Its tiered interest rates reward consumers for growing their savings. Finally, the Upromise rewards program helps families jump start their save-for-college plans by providing financial rewards on everyday purchases made at participating merchants.

Explore federal student loans. We encourage students to explore federal student loan options by completing the Free Application for Federal Student Aid.

Consider a responsible private student loan. Fill the gap between your available resources and the cost of college.

We offer competitively-priced Private Education Loan products to bridge the gap between family resources, federal loans, grants, student aid and scholarships, and the cost of a college education.

Our Approach to Assisting Students and Families Borrowing and Repaying Private Education Loans

To ensure applicants borrow only what they need to cover their school's cost of attendance, we actively engage with schools and require school certification before we disburse a Private Education Loan. To help applicants understand their loan and its terms, we provide multiple, customized disclosures explaining the applicant's starting interest rate, the interest rate during the life of the loan, and the loan's total cost under the available repayment options. Our Smart Option Student Loan features no origination fees and no prepayment penalties, and also features interest rate reductions for those who enroll in and make monthly payments through auto debit, free access to quarterly FICO credit scores, a choice of repayment options and a choice of either variable or fixed interest rates. Beginning in 2017, all newly-originated Smart Option Student Loans included the benefit of free access to tutoring and study services at an online third-party vendor to assist students in advancing their education.

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[1] Sallie Mae's How America Pays for College 2018, conducted by Ipsos, www.salliemae.com/howamericapays.

The majority of our Smart Option Student Loan customers elect an in-school repayment option. By making in-school payments, customers learn to establish good repayment patterns, reduce their total loan cost, and graduate with less debt. We send monthly communications to customers while they are in school, even if they have no monthly payments scheduled, to keep them informed and encourage them to reduce the amount they will owe when they leave school.

Some customers transitioning from school to the work force may require more time before they are financially capable of making full payments of principal and interest. Sallie Mae created a Graduated Repayment Program (the "GRP") to assist borrowers with additional payment flexibility, allowing customers to make interest-only payments instead of full principal and interest payments for a period of 12 months if they elect within a specified time frame to participate in the GRP. The time frame for electing to participate in the GRP begins six months before expiration of a borrower's grace period and extends until 12 months after the expiration of the grace period. The 12-month interest only payments under the GRP begin upon expiration of a borrower's grace period or election of the GRP, whichever is later.

Our experience has taught us the successful transition from school to full principal and interest repayment status involves making and carrying out a financial plan. As customers approach the principal and interest repayment period on their loans, Sallie Mae engages with them and communicates what to expect during the transition. In addition, SallieMae.com provides educational content for customers on how to organize loans, set up a monthly budget, and understand repayment obligations. Examples are provided to help explain how payments are applied and allocated, and see how the accrued interest on alternative repayment programs could affect the cost of customers' loans. The site also provides important information on benefits available to service men and women under the Servicemembers Civil Relief Act (the "SCRA").

After graduation, a customer may apply for the cosigner to be released from the loan. This option is available after 12 principal and interest payments are made and the student borrower adequately meets our credit requirements. In the event of a cosigner's death, the student borrower automatically continues as the sole individual on the loan with the same terms.

If a customer's account becomes delinquent, we work with the customer and/or the cosigner to understand their ability to make ongoing payments. If the customer is in financial hardship, we work with the customer and/or cosigner to understand their financial circumstances and identify any available alternative arrangements designed to reduce monthly payment obligations. These can include extended repayment schedules, temporary interest rate reductions and, if appropriate, short-term hardship forbearance (which typically is retroactive and granted by our collections department), suited to their individual circumstances and ability to make payments. Our servicing department also grants prospective forbearance in increments of three months at a time, for up to 12 months, if a customer who is current requests it. When we grant forbearance, we counsel customers on the effect forbearance will have on their loan balance.

In some cases, loan modifications and other efforts may be insufficient for those experiencing extreme long-term hardship. Sallie Mae has long supported bankruptcy reform that (i) would permit the discharge of education loans, both private and federal, after a required period of good faith attempts to repay and (ii) is prospective in application, so as not to rewrite existing contracts. Any reform should recognize education loans have unique characteristics and benefits as compared to other consumer loan classes.

Key Drivers of Private Education Loan Market Growth

The size of the Private Education Loan market is based primarily on three factors: college enrollment levels, the costs of attending college, and the availability of funds from the federal government to pay for a college education. The amounts students and their families can contribute toward college costs and the availability of scholarships and institutional grants are also important. If the cost of education increases at a pace exceeding the sum of family income, savings, federal lending, and scholarships, more students and families can be expected to rely on Private Education Loans. If enrollment levels or college costs decline, or the availability of federal education loans, grants or subsidies and scholarships significantly increases, Private Education Loan demand could decrease.

We focus primarily on students attending public and private not-for-profit four-year degree granting institutions. We lend to some students attending two-year and for-profit schools. Due to the low cost of two-year programs, federal grant and loan programs are typically sufficient for the funding needs of these students. The for-profit industry has been the subject of increased scrutiny and regulation over the last several years. Since 2007, we have reduced the number of for-profit institutions included in our lending program. Approximately 10 percent or $505 million of our 2018 Private Education Loan originations were for students attending for-profit schools. The for-profit schools where we continue to do business are primarily focused on career training and health care fields. We expect students who attend and complete programs at for-profit schools to support the same repayment performance as students who attend and graduate from public and private not-for-profit four-year degree granting institutions.

Our competitors[1] in the Private Education Loan market include large banks such as Wells Fargo Bank, N.A., Discover Bank, Citizens Financial Group, Inc. and PNC Bank, National Association, as well as a number of smaller specialty finance companies and members of the Education Finance Council. Beginning in 2019, Navient, from whom we separated in 2014, can begin to originate Private Education Loans and consolidate loans already in our portfolio. We compete based on our products, originations capability, and customer service.

Enrollment

We expect modest enrollment growth over the next several years.

Enrollment at Four-Year Degree Granting Institutions[2]
(in millions)

- According to the U.S. Department of Education's projections released in September 2017, the high school graduate population is projected to remain relatively flat from 2019 to 2025.[2]

[1]Source: MeasureOne Q1 2018 Private Student Loan Report, June 2018. www.measureone.com.

[2]Source: U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2025 (NCES, September 2017), Enrollment in Postsecondary Institutions (NCES, November 2017). These are the most recent sources available to us for this information.

Tuition Rates

Average published tuition and fees (exclusive of room and board) at four-year public and private not-for-profit institutions increased at compound annual growth rates of 4.5 percent and 3.7 percent, respectively, from academic years ("AYs") 2008-2009 through 2018-2019. Growth rates have been more modest the last two AYs, with average published tuition and fees at public and private four-year not-for-profit institutions increasing 3.2 percent and 3.6 percent, respectively, between AYs 2016-2017 and 2017-2018 and 2.5 percent and 3.3 percent, respectively, between AYs 2017-2018 and 2018-2019.[3] Tuition and fees are likely to continue to grow at the more modest rates of recent years.

Published Tuition and Fees[3]
(Dollars in actuals)

[3] Source: The College Board-Trends in College Pricing 2018. © 2018 The College Board. www.collegeboard.org. The College Board restates its data annually, which may cause previously reported results to vary.

Sources of Funding

Borrowing through federal education loan programs increased at a compound annual growth rate of 10 percent between AYs 2005-2006 and 2011-2012.[6] Federal borrowing increased considerably during the recession, with borrowing increasing 26 percent between AYs 2007-2008 and 2008-2009 alone. In response to the recession, unsubsidized Stafford loan limits for undergraduate students were raised and have not been adjusted since 2008.[4] Federal education loan program borrowing peaked in AY 2011-2012. Since then it has declined every year. We believe these declines are principally driven by enrollment declines in the for-profit schools' sector.[5] Between AYs 2007-2008 and 2017-2018, federal grants for college students increased 121 percent to $41.7 billion.[6]

[4] Source: FinAid, History of Student Financial Aid and Historical Loan Limits. © 2017 by FinAid. www.FinAid.org.
[5] Source: U.S. Department of Education, National Center for Education Statistics, Enrollment in Postsecondary Institutions (NCES, November 2017).
[6] Source: The College Board-Trends in Student Aid 2018. © 2018 The College Board. www.collegeboard.org.

These increases in federal financing for higher education had a significant impact on the market for Private Education Loans. Annual originations of Private Education Loans peaked at $21.1 billion in AY 2007-2008 and declined to $6.0 billion in AY 2010-2011. Contributing to the decline in Private Education Loan originations was a significant tightening of underwriting standards by Private Education Loan providers, including Sallie Mae. Private Education Loan originations increased to an estimated $10.6 billion in AY 2017-2018, up 6.0 percent over the previous year.[7]

[7] Source: The College Board-Trends in Student Aid 2016. © 2016 The College Board. www.collegeboard.org and The College Board-Trends in Student Aid 2018. © 2018 The College Board. www.collegeboard.org. Funding sources in current dollars and include federal and private loan data. 2018 Private Education market assumptions use The College Board-Trends in Student Aid 2016© 2016 trends and College Board-Trends in Student Aid 2018 © 2018 data. Other sources for the size of the Private Education Loan market exist and may cite the size of the market differently. We believe the College Board source includes Private Education Loans made by major financial institutions in the Private Education Loan market, with an unknown adjustment for Private Education Loans made by smaller lenders such as credit unions. The College Board restates its data annually, which may cause previously reported results to vary.

- We estimate total spending on higher education was $441 billion in the AY 2017-2018, up from $393 billion in the AY 2012-2013. Private Education Loans represent just 2 percent of total spending on higher education. Modest growth in total spending can lead to meaningful increases in Private Education Loans in the absence of growth in other sources of funding.[8]

- Over the AY 2012-2018 period, increases in total spending have been absorbed primarily through increased family contributions. If household finances continue to improve, we would expect this trend to continue.

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[8] Source: Total post-secondary education spending is estimated by Sallie Mae determining the full-time equivalents for both graduates and undergraduates and multiplying by the estimated total per person cost of attendance for each school type. In doing so, we utilize information from the U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2025 (NCES 2017, September 2017), The Integrated Postsecondary Education Data System (IPEDS), College Board -Trends in Student Aid 2016. © 2016 The College Board, www.collegeboard.org, College Board -Trends in Student Aid 2018. © 2018 The College Board, www.collegeboard.org, College Board -Trends in Student Pricing 2018. © 2018 The College Board, www.collegeboard.org, National Student Clearinghouse - Term Enrollment Estimates, and Company analysis. 2018 Private Education market assumptions use The College Board-Trends in Student Aid 2016 © 2016 trends and College Board-Trends in Student Aid 2018 © 2018 data. Other sources for these data points also exist publicly and may vary from our computed estimates. NCES, IPEDS, and College Board restate their data annually, which may cause previous reports to vary. We have also recalculated figures in our Company analysis to standardize all costs of attendance to dollars not adjusted for inflation. This has a minimal impact on historically-stated numbers.

## Supervision and Regulation

### Overview

We are subject to extensive regulation, examination and supervision by various federal, state and local authorities. The more significant aspects of the laws and regulations that apply to us and our subsidiaries are described below. These descriptions are qualified in their entirety by reference to the full text of the applicable statutes, legislation, regulations and policies, as they may be amended, and as interpreted and applied, by federal, state and local agencies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was adopted to reform and strengthen regulation and supervision of the U.S. financial services industry. It contains comprehensive provisions to govern the practices and oversight of financial institutions and other participants in the financial markets. It mandates significant regulations, additional requirements and oversight on almost every aspect of the U.S. financial services industry, including increased capital and liquidity requirements, limits on leverage and enhanced supervisory authority. It requires the issuance of many regulations, which will take effect over several years.

### Consumer Protection Laws and Regulations

Our origination, servicing, first-party collection and deposit taking activities subject us to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant laws and regulations that are applicable to our business include:

- various state and federal laws governing unfair, deceptive or abusive acts or practices;
- the federal Truth-In-Lending Act and Regulation Z, which govern disclosures of credit terms to consumer borrowers;
- the Fair Credit Reporting Act and Regulation V, which govern the use and provision of information to consumer reporting agencies;
- the Equal Credit Opportunity Act and Regulation B, which prohibit creditor practices that discriminate on the basis of race, religion and other prohibited factors in extending credit;
- the SCRA, which applies to all debts incurred prior to commencement of active military service (including education loans) and limits the amount of interest, including fees, that may be charged;
- the Truth in Savings Act and Regulation DD, which mandate certain disclosures related to consumer deposit accounts;
- the Expedited Funds Availability Act, Check Clearing for the 21st Century Act and Regulation CC issued by the Federal Reserve Bank ("FRB"), which relate to the availability of deposit funds to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with federal government requests for and subpoenas of financial records;
- the Electronic Funds Transfer Act and Regulation E, which govern automated transfers of funds and consumers' rights related thereto;
- the Telephone Consumer Protection Act, which governs communication methods that may be used to contact customers; and
- the Gramm-Leach-Bliley Act, which governs the ability of financial institutions to disclose nonpublic information about consumers to non-affiliated third-parties.

Consumer Financial Protection Bureau

The Consumer Financial Protection Act, a part of the Dodd-Frank Act, established the CFPB, which has broad authority to promulgate regulations under federal consumer financial protection laws and to directly or indirectly enforce those laws, including providing regulatory oversight of the Private Education Loan industry, and to examine financial institutions for compliance. It is authorized to collect fines and order consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. It has authority to prevent unfair, deceptive or abusive acts and practices by issuing regulations that define the same or by using its enforcement authority without first issuing regulations. The CFPB has been active in its supervision, examination and enforcement of financial services companies, notably bringing enforcement actions, imposing fines and mandating large refunds to customers of several large banking institutions. On January 1, 2015, the CFPB became the Bank's primary consumer compliance supervisor with compliance examination authority and primary consumer protection enforcement authority. The CFPB began its formal examination of us in 2016. The UDFI and FDIC remain the prudential regulatory authorities with respect to the Bank's financial strength.

The Dodd-Frank Act created the Private Education Loan Ombudsman within the CFPB to receive and attempt to informally resolve inquiries about Private Education Loans. The Private Education Loan Ombudsman reports to Congress annually on the trends and issues identified through this process. The CFPB continues to take an active interest in the student loan industry, undertaking a number of initiatives related to the Private Education Loan market and student loan servicing.

Regulation of Sallie Mae Bank

The Bank was chartered in 2005 and is a Utah industrial bank regulated by the FDIC, the UDFI and the CFPB. We are not a bank holding company under the Bank Holding Company Act and therefore are not subject to the federal regulations applicable to bank holding companies. However, we and our non-bank subsidiaries are subject to regulation and oversight as institution-affiliated parties. The following discussion sets forth some of the elements of the bank regulatory framework applicable to us, the Bank and our other non-bank subsidiaries.

General

The Bank is currently subject to prudential regulation and examination by the FDIC and the UDFI, and consumer compliance regulation and examination by the CFPB. Numerous other federal and state laws and regulations govern almost all aspects of the operations of the Bank and, to some degree, our operations and those of our non-bank subsidiaries as institution-affiliated parties.

Actions by Federal and State Regulators

Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the UDFI and the FDIC have the authority to compel or restrict certain actions of the Bank if it is determined to lack sufficient capital or other resources, or is otherwise operating in a manner deemed to be inconsistent with safe and sound banking practices. Under this authority, the Bank's regulators can require it to enter into informal or formal supervisory agreements, including board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders, pursuant to which the Bank would be required to take identified corrective actions to address cited concerns and refrain from taking certain actions.

Enforcement Powers of Regulators

As "institution-affiliated parties" of the Bank, we, our non-bank subsidiaries and our management, employees, agents, independent contractors and consultants are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. Violations can include failure to timely file required reports, filing false or misleading information or submitting inaccurate reports. Civil penalties may be as high as $1,000,000 per day for such violations, and criminal penalties for some financial institution crimes may include imprisonment for 20 years. Regulators have flexibility to commence enforcement actions against institutions and institution-affiliated parties, and the FDIC has the authority to terminate deposit insurance. When issued by a banking agency, cease and desist and similar orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including by compelling restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions determined to be appropriate by the ordering agency. The federal banking regulators also may remove a director or officer from an insured depository institution (or bar them from the industry) if a violation is willful or reckless.

On May 13, 2014, the Bank reached settlement with the Department of Justice (the "DOJ") regarding compliance with the SCRA. In connection with the settlement, the Bank became subject to a Consent Order (the "DOJ Consent Order"), which was approved by the U.S. District Court for the District of Delaware on September 29, 2014. Under the terms of the Separation and Distribution Agreement executed in connection with the Spin-Off (the "Separation and Distribution Agreement"), Navient is responsible for funding all liabilities under the order and, as of the date hereof, has funded all liabilities other than fines directly levied against the Bank in connection with this matter which the Bank is required to pay.

The DOJ Consent Order expired by its terms on September 29, 2018, and the related case was dismissed with prejudice on October 4, 2018.

In May 2014, the Bank received a Civil Investigative Demand ("CID") from the CFPB as part of the CFPB's separate investigation relating to customer complaints, fees and charges assessed in connection with the servicing of student loans and related collection practices of pre-Spin-Off SLM by entities now subsidiaries of Navient during a time period prior to the Spin-Off (the "CFPB Investigation"). Two state attorneys general also provided the Bank identical CIDs and other state attorneys general have become involved in the inquiry over time (collectively, the "Multi-State Investigation"). To the extent requested, the Bank has been cooperating fully with the CFPB and the attorneys general conducting the Multi-State Investigation. Given the timeframe covered by the CIDs, the CFPB Investigation and the Multi-State Investigation, and the focus on practices and procedures previously conducted by Navient and its servicing subsidiaries prior to the Spin-Off, Navient is leading the response to these investigations. Consequently, we have no basis from which to estimate either the duration or ultimate outcome of these investigations.

With regard to the CFPB Investigation, we note that on January 18, 2017, the CFPB filed a complaint in federal court in Pennsylvania against Navient, along with its subsidiaries, Navient Solutions, Inc. and Pioneer Credit Recovery, Inc. The complaint alleges these Navient entities, among other things, engaged in deceptive practices with respect to their historic servicing and debt collection practices. Neither SLM, the Bank, nor any of their current subsidiaries are named in, or otherwise a party to, the lawsuit and are not alleged to have engaged in any wrongdoing. The CFPB's complaint asserts Navient's assumption of these liabilities pursuant to the Separation and Distribution Agreement.

On January 18, 2017, the Illinois Attorney General filed a lawsuit in Illinois state court against Navient - its subsidiaries Navient Solutions, Inc., Pioneer Credit Recovery, Inc., and General Revenue Corporation - and the Bank arising out of the Multi-State Investigation. On March 20, 2017, the Bank moved to dismiss the Illinois Attorney General action as to the Bank, arguing, among other things, the complaint failed to allege with sufficient particularity or specificity how the Bank was responsible for any of the alleged conduct, most of which predated the Bank's existence. On July 10, 2018, the Court granted the Bank's motion to dismiss without prejudice. On August 7, 2018, the Illinois Attorney General filed a First Amended Complaint and, on October 9, 2018, the Bank again moved to dismiss the action based on grounds similar to those raised in its March 20, 2017 motion. The Illinois Attorney General filed its response on November 21, 2018, and the Bank filed its reply on December 10, 2018. Oral argument on the motion took place on January 9, 2019. The Court took the motion under advisement.

On July 17, 2018, the Mississippi Attorney General filed a lawsuit in Mississippi state court against Navient, Navient Solutions, LLC, and the Bank arising out of the Multi-State Investigation. The complaint alleges unfair and deceptive trade practices against all three defendants as to private loan origination practices from 2000 to 2009, and against the two Navient

defendants as to servicing practices between 2010 and the present. The complaint further alleges that Navient assumed responsibility for these matters under the Separation and Distribution Agreement for alleged conduct that pre-dated the Spin-Off. On September 27, 2018, the Mississippi Attorney General filed an amended complaint. On October 8, 2018, the Bank moved to dismiss the Mississippi Attorney General's action as to the Bank, arguing, among other things, that the complaint failed to allege with sufficient particularity or specificity how the Bank was responsible for any of the alleged conduct, most of which predated the Bank's existence. On November 20, 2018, the Mississippi Attorney General filed an opposition brief, and the Bank filed a reply on December 21, 2018. A hearing on the motion to dismiss is scheduled for April 11, 2019.

To date, three other state attorneys general (California, Washington and Pennsylvania) have filed suits against Navient and one or more of its current subsidiaries arising out of the Multi-State Investigation. Neither SLM, the Bank, nor any of their current subsidiaries are named in, or otherwise a party to, the California, Washington or Pennsylvania lawsuits, and no claims are asserted against them. Each complaint asserts in its own fashion that Navient assumed responsibility under the Separation and Distribution Agreement for the alleged conduct in the complaints prior to the Spin-Off. On September 24, 2018, the Washington Attorney General served a third-party subpoena on the Bank calling for the production of certain records. The Bank has responded to the subpoena.

Additional lawsuits may arise from the Multi-State Investigation which may or may not name the Company, the Bank or any of their current subsidiaries as parties to these suits. Pursuant to the terms of the Separation and Distribution Agreement, and as contemplated by the structure of the Spin-Off, Navient is legally obligated to indemnify the Bank against all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to the Spin-Off, except for certain liabilities related to the conduct of the pre-Spin-Off consumer banking business that were specifically assumed by the Bank (and as to which the Bank is obligated to indemnify Navient). Navient has acknowledged its indemnification obligations under the Separation and Distribution Agreement, in connection with the Multi-State Investigation and the related lawsuits in which the Bank has been named as a party, and has indemnified the Bank for all costs incurred to date in defending the Illinois lawsuit. Navient has informed the Bank, however, that it believes that the Bank may be responsible to indemnify Navient against certain potential liabilities arising from the above-described lawsuits under the Separation and Distribution Agreement and/or a separate loan servicing agreement between the parties, and has suggested that the parties defer further discussion regarding indemnification obligations, and reimbursement of ongoing legal costs, in connection with the lawsuits until the lawsuits are resolved. The Bank disagrees with Navient's position and the Bank has reiterated to Navient that Navient is responsible for promptly indemnifying the Bank against all liabilities arising out of the conduct of pre-Spin-Off SLM that are at issue in the Multi-State Investigation and in the above-described lawsuits.

Standards for Safety and Soundness

The Federal Deposit Insurance Act requires the federal bank regulatory agencies such as the FDIC to prescribe, by regulation or guidance, operational and managerial standards for all insured depository institutions, such as the Bank, relating to internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, and asset quality. The agencies also must prescribe standards for earnings and stock valuation, as well as standards for compensation, fees and benefits. The federal banking regulators have implemented these required standards through regulations and interagency guidance designed to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines a bank fails to meet any prescribed standards, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Dividends

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the FDIC. The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends to the Company from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. The Bank paid no dividends on its common stock for the years ended December 31, 2018, 2017 and 2016.

The Company pays quarterly cash dividends on its outstanding Floating-Rate Non-Cumulative Preferred Stock, Series B (the "Series B Preferred Stock") when, as, and if declared by its Board of Directors, in the Board's discretion. On

January 23, 2019, the Company announced that it had initiated a new policy to pay a regular, quarterly cash dividend on its common stock

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as well, beginning in the first quarter of 2019, and its Board of Directors had approved a new common stock share repurchase program.

Common stock dividend declarations are subject to determination by, and the discretion of, the Company's Board of Directors. The Company may change its new common stock dividend policy at any time.

The new share repurchase program, which was effective upon announcement and expires on January 22, 2021, permits the Company to repurchase from time to time shares of its common stock up to an aggregate repurchase price not to exceed $200 million. The timing and volume of any repurchases will be subject to market conditions, and there can be no guarantee that the Company will repurchase up to the limit of the program or at all.

We expect that the Bank will pay dividends to the Company as may be necessary to enable the Company to pay any declared dividends on its Series B Preferred Stock and common stock and to consummate any common share repurchases by the Company under the new share repurchase program.

Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the FDIC and the UDFI. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on our business, results of operations and financial position. Under the FDIC's regulations implementing the Basel III capital framework ("U.S. Basel III") and the regulatory framework for prompt corrective action, the Bank must meet specific capital standards that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and its classification under the prompt corrective action framework are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

U.S. Basel III is aimed at increasing both the quantity and quality of regulatory capital. Certain aspects of U.S. Basel III, including new deductions from and adjustments to regulatory capital and a capital conservation buffer, are being phased in over several years.

The Bank is subject to the following minimum capital ratios under U.S. Basel III: a Common Equity Tier 1 risk-based capital ratio of 4.5 percent, a Tier 1 risk-based capital ratio of 6.0 percent, a Total risk-based capital ratio of 8.0 percent, and a Tier 1 leverage ratio of 4.0 percent. In addition, the Bank is subject to a phased-in Common Equity Tier 1 capital conservation buffer: 1.875 percent for 2018; and the fully phased-in level of greater than 2.5 percent effective as of January 1, 2019. Failure to maintain the buffer will result in restrictions on the Bank's ability to make capital distributions, including the payment of dividends, and to pay discretionary bonuses to executive officers. Including the buffer, as of January 1, 2019, the Bank is required to maintain the following minimum capital ratios: a Common Equity Tier 1 risk-based capital ratio of greater than 7.0 percent, a Tier 1 risk-based capital ratio of greater than 8.5 percent and a Total risk-based capital ratio of greater than 10.5 percent.

To qualify as "well capitalized" under the prompt corrective action framework for insured depository institutions, the Bank must maintain a Common Equity Tier 1 risk-based capital ratio of at least 6.5 percent, a Tier 1 risk-based capital ratio of at least 8.0 percent, a Total risk-based capital ratio of at least 10.0 percent, and a Tier 1 leverage ratio of at least 5.0 percent.

Stress Testing Requirements

The Dodd-Frank Act as enacted imposed stress testing requirements on banking organizations with total consolidated assets, averaged over the four most recent consecutive quarters, of more than $10 billion. As of September 30, 2014, the Bank met this asset threshold. Under the FDIC's implementing regulations, the Bank was required to conduct annual company-run stress tests utilizing scenarios provided by the FDIC. The Bank completed its third annual stress test using the scenarios provided with the January 1, 2018 stress testing cycle. As a result of the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act, signed into law on May 24, 2018, the Bank became exempt from formally filing and publishing the results. However, under regulatory guidance, the Bank still conducts annual capital stress tests, the results of which it presents to its prudential regulators - the FDIC and the UDFI - for their review. The Bank also conducts annual and quarterly

liquidity stress tests to evaluate the adequacy of its liquidity sources under various stress scenarios and submits the results of those tests to its prudential regulators.

Deposit Insurance and Assessments

Deposits at the Bank are insured up to the applicable legal limits by the FDIC - administered Deposit Insurance Fund (the "DIF"), which is funded primarily by quarterly assessments on insured banks. An insured bank's assessment is calculated by multiplying its assessment rate by its assessment base. A bank's assessment base and assessment rate are determined each quarter.

The Bank's insurance assessment base currently is its average consolidated total assets minus its average tangible equity during the assessment period. The Bank's assessment rate is determined by the FDIC using a number of factors, including the results of supervisory evaluations, the Bank's capital ratios and its financial condition, as well as the risk posed by the Bank to the DIF. Assessment rates for insured banks also are subject to adjustment depending on a number of factors, including significant holdings of brokered deposits in certain instances and the issuance or holding of certain types of debt.

Deposits

With respect to brokered deposits, an insured depository institution must be well capitalized to accept, renew or roll over such deposits without FDIC clearance. An adequately capitalized insured depository institution must obtain a waiver from the FDIC to accept, renew or roll over brokered deposits. Undercapitalized insured depository institutions generally may not accept, renew or roll over brokered deposits. For more information on the Bank's deposits, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Financial Measures — Funding Sources."

Regulatory Examinations

The Bank currently undergoes regular on-site examinations by the Bank's regulators, who examine for adherence to a range of legal and regulatory compliance responsibilities. A regulator conducting an examination has complete access to the books and records of the examined institution. The results of the examination are confidential. The cost of examinations may be assessed against the examined institution as the agency deems necessary or appropriate.

Source of Strength

Under the Dodd-Frank Act, we are required to serve as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances when we might not do so absent the statutory requirement. Any loan by us to the Bank would be subordinate in right of payment to depositors and to certain other indebtedness of the Bank.

Community Reinvestment Act

The Community Reinvestment Act (the "CRA") requires the FDIC to evaluate the record of the Bank in meeting the credit needs of its local community, including low- and moderate-income neighborhoods. These evaluations are considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could result in additional requirements and limitations on the Bank. The Bank has received a CRA rating of Outstanding.

Privacy Laws

The federal banking regulators, as required by the Gramm-Leach-Bliley Act, have adopted regulations that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third-parties. Financial institutions are required to disclose to consumers their policies for collecting and protecting confidential customer information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third-parties, with some exceptions, such as the processing of transactions requested by the consumer. Financial institutions generally may not disclose certain consumer or account information to any nonaffiliated third-party for use in telemarketing, direct mail marketing or other marketing. The privacy regulations also restrict information sharing among affiliates for marketing purposes and govern the use and provision of information to consumer reporting agencies. Federal and

state banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information, and the Bank is subject to such standards, as well as certain federal and state laws or standards for notifying consumers in the event of a security breach.

Other Sources of Regulation

Many other aspects of our businesses are subject to federal and state regulation and administrative oversight. Some of the most significant of these are described below.

Oversight of Derivatives

Title VII of the Dodd-Frank Act requires all standardized derivatives, including most interest rate swaps, to be submitted for clearing to central intermediaries to reduce counterparty risk. Two of the central intermediaries we use are the Chicago Mercantile Exchange (the “CME”) and the London Clearing House (the “LCH”). The CME and the LCH made amendments to their respective rules that resulted in the prospective accounting treatment of certain daily variation margin payments being considered as the legal settlement of the outstanding exposure of the derivative instead of the posting of collateral. The CME rule changes, which became effective in January 2017, and the LCH rule changes, which became effective in January 2018, result in all variation margin payments on derivatives cleared through the CME and LCH being accounted for as legal settlement. As of December 31, 2018, $5.4 billion notional of our derivative contracts were cleared on the CME and $0.6 billion were cleared on the LCH. The derivative contracts cleared through the CME and the LCH represent 90.2 percent and 9.8 percent, respectively, of our total notional derivative contracts of $6.0 billion at December 31, 2018. See Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Derivative Accounting” for information regarding amendments made by the CME and the LCH to their respective rules resulting in prospective accounting treatment of certain daily variation margin payments being considered as the legal settlement of the outstanding exposure of the derivative instead of the posting of collateral. Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held and plus any collateral posted. When there is a net negative exposure, we consider our exposure to the counterparty to be zero.

Credit Risk Retention

In October 2014, the Department of the Treasury, the Federal Reserve, the Office of the Comptroller of the Currency, the FDIC, the SEC, the Federal Housing Finance Agency and the Department of Housing and Urban Development issued final rules to implement the credit risk retention requirements of Section 941 of the Dodd-Frank Act for ABS, including those backed by residential and commercial mortgages and automobile, commercial, credit card, and student loans, except for certain transactions with limited connections to the United States and U.S. investors. The final Dodd-Frank risk retention rules generally require sponsors of ABS, such as Sallie Mae, to retain an economic interest in an ABS transaction that represents at least five percent of the credit risk of the assets being securitized. The final rules took effect in December 2015 for securitization transactions backed by residential mortgages and became effective in December 2016 for other securitization transactions, including those collateralized by Private Education Loans. The Bank early adopted the Dodd-Frank risk retention rules beginning with its 2016-A securitization transaction completed in May 2016. For its 2016-A transaction and subsequent securitizations to date, the Bank complies with the Dodd-Frank risk retention rules by retaining (for a requisite period of time) an “eligible horizontal interest” comprised of residual certificates representing at least 5 percent of the fair value of all interests issued in the securitization transaction, determined as of the date sale. Prior to May 2016, the Bank’s on-balance sheet securitizations complied with the credit risk retention requirements of the FDIC “safe harbor” rule, which generally reduces the risk to securitization investors in the event of an insolvency of the Bank, by retaining 5 percent of each class of securities issued in each securitization transaction. The risk retention provisions of the FDIC safe harbor rule were superseded by the Dodd-Frank risk retention rules.

Anti-Money Laundering, the USA PATRIOT Act, and U.S. Economic Sanctions

The USA PATRIOT Act of 2001 (the “USA Patriot Act”), which amended the Bank Secrecy Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued and, in some cases proposed, a number of regulations that apply various requirements

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of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate internal policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. In addition, U.S. law generally prohibits or substantially restricts U.S. persons from doing business with countries designated by the U.S. Department of State as state sponsors of terrorism. Under U.S. law, there are similar prohibitions or restrictions with countries subject to other U.S. economic sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control or other agencies. We maintain policies and procedures designed to ensure compliance with relevant U.S. laws and regulations applicable to U.S. persons.

Volcker Rule

In December 2013, the U.S. banking agencies, the SEC and the U.S. Commodity Futures Trading Commission issued final rules to implement the "Volcker Rule" provisions of the Dodd-Frank Act. The rules prohibit insured depository institutions and their affiliates from engaging in proprietary trading and from investing in, sponsoring or having certain financial relationships with certain private funds. These prohibitions are subject to a number of important exclusions and exemptions that, for example, permit insured depository institutions and their affiliates to trade for risk-mitigating hedging and liquidity management, subject to certain conditions and restrictions. A conformance period ended on July 21, 2015. We do not expect the Volcker Rule to have a meaningful effect on our current operations or those of our subsidiaries, as we do not materially engage in the businesses prohibited by the Volcker Rule.

Employees

At December 31, 2018, we had approximately 1,700 employees, none of whom are covered by collective bargaining agreements.

Item 1A. Risk Factors
Economic Environment
Economic conditions could have a material adverse effect on our business, results of operations, financial condition and/or liquidity.
Our business is significantly influenced by economic conditions. In general, economic growth in the United States remains uneven. Employment levels in the United States are often sensitive not only to domestic economic growth but to the performance of major foreign economies and commodity prices. High unemployment rates and the failure of our in-school borrowers to graduate are two of the most significant macroeconomic factors that could increase loan delinquencies, defaults and loan modifications, or otherwise negatively affect performance of our existing education loan portfolios. Likewise, high unemployment and decreased savings rates may impede Private Education Loan and Personal Loan originations growth, as well as growth in credit cards and the development of other financial products, as loan applicants and cosigners may experience trouble repaying credit obligations or may not meet our credit standards. Additionally, if interest rates rise causing payments on variable-rate loans to increase, borrowers and cosigners could experience trouble repaying loans we have made to them. Consequently, for a number of reasons, our borrowers may experience more trouble in repaying loans we have made to them, which could increase our loan delinquencies, defaults and loan modifications. In addition, some consumers may find that higher education is an unnecessary investment during uncertain economic times and defer enrollment in educational institutions until the economy grows at a stronger pace, or they may turn to less costly forms of secondary education, thus decreasing our education loan application and funding volumes. Higher credit-related losses and weaker credit quality negatively affect our business, financial condition and results of operations and limit funding options, which could also adversely impact our liquidity position.
Competition/Concentration
We operate in a competitive environment. Our product offerings are primarily concentrated in loan products for higher education and deposit products for online depositors. Such concentrations and the competitive environment subject us to risks that could adversely affect our financial position.
At December 31, 2018, approximately 76 percent of our assets were comprised of Private Education Loans. This concentration poses the risk that any disruption, dislocation or other negative event or trend in the Private Education Loan market could disproportionately and adversely affect our business, financial condition and results of operations.
We compete in the Private Education Loan and the Personal Loan markets with banks and other consumer lending institutions, many with strong consumer brand name recognition and greater financial resources. Many of those lenders also have a greater level of diversification in their mix of assets, which can enable them to be more competitive in uncertain or challenging economic times. Moreover, our competition will increase as various lending institutions and other competitors enter or re-enter the Private Education Loan and the Personal Loan markets. We compete based on our products, origination capability and customer service. To the extent our competitors compete more aggressively or effectively, we could lose market share to them or subject our existing loans to consolidation or refinancing risk.
Competition plays a significant role in our online deposit gathering activities. The market for online deposits is highly competitive, based primarily on a combination of reputation and rate. Increased competition for deposits could cause our cost of funds to increase, which could negatively impact our loan pricing and net interest margin.
In addition to competition with banks and other consumer lending institutions, the federal government, through the DSLP, poses significant competition to our Private Education Loan products. The availability and terms of loans the government originates or guarantees affect the demand for Private Education Loans because students and their families often rely on Private Education Loans to bridge a gap between available funds, including family savings, scholarships, grants, and federal and state loans, and the costs of post-secondary education. The federal government currently places both annual and aggregate limits on the amount of federal loans any student can receive and determines the criteria for student eligibility. Parents and graduate students may obtain additional federal education loans through other programs. These federal education lending programs are generally adjusted in connection with funding authorizations from the U.S. Congress for programs under the Higher Education Act of 1965 (the “HEA”). The HEA’s reauthorization is currently pending in the U.S. Congress, but it remains unclear if a

Republican-led Senate and Democratic-controlled House can produce legislation. Should legislation be enacted, one possible component could be increased federal education loan limits, which could decrease demand for Private Education Loans. Other components of any legislation also could have a negative impact on our business and financial condition.

Consumer access to alternative means of financing the costs of education and other factors may reduce demand for, or adversely affect our ability to retain, Private Education Loans, which could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

The demand for Private Education Loans could weaken if families and student borrowers use other vehicles to bridge the gap between available funds and costs of post-secondary education. These vehicles include, among others:

- Home equity loans or other borrowings available to families to finance their education costs;
- Pre-paid tuition plans, which allow students to pay tuition at today’s rates to cover tuition costs in the future;
- Section 529 plans, which include both pre-paid tuition plans and college savings plans that allow a family to save funds on a tax-advantaged basis;
- Education IRAs, now known as Coverdell Education Savings Accounts, under which a holder can make annual contributions for education savings;
- Government education loan programs such as the DSLP; and
- Direct loans from colleges and universities, as well as income sharing agreements with schools.

In addition, our ability to grow Private Education Loan originations and retain assets could be negatively affected if:

- demographic trends in the United States result in a decrease in college-age individuals;
- demand for higher education decreases;
- the cost of attendance of higher education decreases;
- prepayment rates on our Private Education Loans increase or accelerate due to greater market liquidity, availability of alternative means of financing, improved household incomes, increasing consumer confidence, and/or various other factors; or
- public resistance to increasing higher education costs strengthens.

Consolidation or refinancing of existing Private Education Loans could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

We believe the design of our Private Education Loan products, with emphasis on rigorous underwriting, credit-worthy cosigners and variable or fixed interest rates, creates sustainable, competitive loan products. However, increasing amounts of private education consolidation loans at interest rates below those of our existing portfolio - whether from private sources (including financial technology (“FinTech”) companies) or otherwise - have contributed to an increase in the prepayment rates of our existing Private Education Loans and, if prolonged and continuous, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Since 2010, there have been a number of bills introduced in the United States Congress to promote federal financing for consolidation or refinancing of existing student loans, as well as an increase in the number of lenders offering similar products. Also, on July 31, 2018, the Office of the Comptroller of the Currency (the “OCC”) issued a policy statement announcing that it would consider applications from FinTech companies to become special purpose national banks. The special purpose national bank charter is available to qualifying companies engaged in a limited range of banking activities, including paying checks or lending money, but that do not take deposits. Concurrent with the announcement, the OCC issued a supplement to the Comptroller’s licensing manual to provide guidance for evaluating special purpose national bank charters for FinTechs. The New York Department of Financial Services and the Conference of State Banking supervisors have separately sued the OCC to stop it from granting applications for the special purpose national bank charter, arguing that the OCC lacks statutory authority

to charter special purpose national banks that do not take deposits. While the OCC has not approved any applications from FinTech companies for special purpose national bank charters, we are still evaluating the potential competitive impact if the OCC begins to charter FinTech companies that offer bank products and services, including loans to consolidate or refinance existing student loans.

We are dependent on key personnel and the loss of one or more of those key personnel could harm our business.

Our future success depends significantly on the continued services and performance of our management team. We believe our management team's depth and breadth of experience in our industry is integral to executing our business plan. We also will need to continue to attract, motivate and retain other key personnel. The loss of the services of members of our management team or other key personnel to our competitors or other companies or the inability to attract additional qualified personnel as needed could have a material adverse effect on our business, financial position, results of operations and/or cash flows.

Regulatory

Failure to comply with consumer protection laws could subject us to civil and criminal penalties or litigation, including class actions, and have a material adverse effect on our business.

We are subject to a broad range of federal and state consumer protection laws applicable to our Private Education Loan and Personal Loan lending and retail banking activities, including laws governing fair lending, unfair, deceptive and abusive acts and practices, service member protections, interest rates and loan fees, disclosures of loan terms, marketing, servicing and collections. Such federal and state consumer protection laws also will be applicable to other consumer financial products that we may offer in the future, including credit cards.

Violations of, or changes in, federal or state consumer protection laws or related regulations, or in the prevailing interpretations thereof, may expose us to litigation, administrative fines, penalties and restitution, result in greater compliance costs, constrain the marketing of Private Education Loans or other products, adversely affect the collection of balances due on the loan assets held by us or by securitization trusts or otherwise adversely affect our business. We could incur substantial additional expense complying with these requirements and may be required to create new processes and information systems. Moreover, changes in federal or state consumer protection laws and related regulations, or in the prevailing interpretations thereof, could invalidate or call into question the legality of certain of our services and business practices.

The CFPB is the Bank's primary consumer compliance supervisor, with exclusive authority to conduct examinations for the purposes of assessing compliance with the requirements of Federal consumer financial laws and with primary consumer compliance enforcement authority. CFPB jurisdiction could result in additional regulation and supervision, which could increase our costs and limit our ability to pursue business opportunities. Consent orders, decrees or settlements entered into with governmental agencies may also increase our compliance costs or restrict certain of our activities.

Finally, we operate in an environment of heightened political and regulatory scrutiny of education loan lending, servicing and originations. The rising cost of higher education, questions regarding the quality of education provided, particularly among for-profit institutions, and the increasing level of student loan debt in the United States have prompted this heightened and ongoing scrutiny. This environment could lead to further laws and regulations applicable to, or limiting, our business. As one example of potential laws and regulations limiting our business, increasing numbers of allegations or findings levied against for-profit institutions could lead us to further curtail the loans we make to students of these institutions or increase the risk of enforceability of our existing loans to graduates of particular institutions found to have fraudulently misrepresented or to have not provided reasonably expected training or educational benefits.

We operate in a highly regulated environment and the laws and regulations that govern our operations, or changes in these laws and regulations, or our failure to comply with them, may adversely affect us.

In addition to consumer protection laws, we are also subject to extensive regulation and supervision that govern almost all aspects of our operations. Intended to protect clients, depositors, the DIF, and the overall financial system, these laws and regulations may, among other matters:

- prescribe minimum capital requirements;
- limit the rates of growth of our business;
- impose limitations on the business activities in which we can engage;
- limit the dividends or distributions the Bank can pay to us;
- restrict the ability of institutions to guarantee our debt;
- limit proprietary trading and investments in certain private funds;
- impose certain specific accounting requirements on us that may be more restrictive; and
- result in greater or earlier charges to earnings or reductions in our capital than would result under generally accepted accounting principles.

The FDIC has the authority to limit the Bank's annual total balance sheet growth, but no such limitations were imposed in recent years. There can be no assurance that limitations will not be imposed in the future, however.

As our business, capital and balance sheet continue to grow, we expect to be able to achieve our annual Private Education Loan origination targets for 2019 without the need to sell loans to third-parties. We may reconsider loan sales from time to time, however, based on a number of factors, including our risk-based capital levels and input from our regulators.

Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations, as well as increased intensity in supervision, often impose additional compliance costs. We, like the rest of the banking sector, are facing increased regulation and supervision of our industry by bank regulatory agencies and expect there may be additional and changing requirements and conditions imposed on us. Our failure to comply with these laws and regulations, even if the failure is inadvertent or reflects a difference in interpretation, could subject us to fines, other penalties and restrictions on our business activities, any of which could adversely affect our business, financial condition, cash flows, results of operations, capital base and/or the price of our securities.

Significant increases in our FDIC insurance premiums could have an adverse impact on our financial position, results of operations and/or cash flows.

Deposits at the Bank are insured up to the applicable legal limits by the DIF, which is funded primarily by quarterly assessments on insured banks. An insured bank's assessment is calculated by multiplying its assessment rate by its assessment base. A bank's assessment base and assessment rate are determined each quarter. See Item 1. "Business — Supervision and Regulation — Regulation of Sallie Mae Bank — Deposit Insurance and Assessments."

On July 1, 2016, the FDIC began imposing a 4.5 basis point premium surcharge on banks, such as ours, with $10 billion or more in assets. The FDIC may further redefine how assessments are calculated, impose special assessments or surcharges on us or increase our deposit insurance premiums.

Regulatory agencies have increased their expectations with respect to how regulated institutions oversee their relationships with third-party vendors and service providers.

The CFPB and the FDIC have issued guidance to supervised banks with respect to increased responsibilities to supervise the activities of service providers to ensure compliance with federal consumer protection laws. The issuance of regulatory guidance and the enforcement of the enhanced vendor management standards via examination and investigation of us or any third-party with whom we do business may increase our costs, require increased management attention and adversely impact

our operations. In the event we should fail to meet the heightened standards for management of service providers, we could be subject to supervisory orders to cease and desist, civil monetary penalties or other actions due to claimed noncompliance, which could have an adverse effect on our business, financial condition, operating results and/or cash flows.

Capital and Liquidity

Adverse market conditions or an inability to effectively manage our liquidity risk could negatively impact our ability to meet our liquidity and funding needs, which could materially and adversely impact our business operations and our overall financial condition.

We must effectively manage the liquidity risk inherent in our business. We require liquidity to meet cash requirements for such things as day-to-day operating expenses, funding of our Private Education Loan and Personal Loan originations, deposit withdrawals and maturities, payment of any declared dividends on our preferred stock and common stock, and payment for any shares of common stock acquired under our common stock repurchase program or otherwise. Our primary sources of liquidity and funding are customer deposits, payments received on Private Education Loans and FFELP Loans that we hold, and proceeds from securitization transactions. We may maintain too much liquidity, which can be costly, or we may be too illiquid, which could result in financial distress during times of economic stress or capital market disruptions.

For at least the next several years, our ability to grow our business to its fullest potential will be heavily reliant on our ability to obtain deposits and obtain financing through asset-backed securitizations. Should growth opportunities exceed the pace at which we can increase deposits or generate asset-backed financing, business growth could be less than planned.

If we are unable to obtain liquidity sufficient to fund new Private Education Loan and Personal Loan originations, our business, financial condition, results of operations and cash flows could be materially adversely affected. We must also maintain appropriate levels of risk-based capital to support increased levels of funding.

We fund Private Education Loan and Personal Loan originations through term and liquid brokered and retail deposits, as well as Educational 529 and Health Savings Account deposits, raised by the Bank and financing raised through asset-backed securitizations. Assets funded through deposits result in refinancing risk because the average term of the deposits is shorter than the expected term of the Private Education Loan and Personal Loan assets we originate. Also, our ability to maintain our current level of deposits or grow our deposit base could be affected by regulatory restrictions, including the possible imposition by our regulators of prior approval requirements or restrictions on deposit growth through brokered deposits. As a supervisory matter, reliance on brokered deposits as a significant source of funding is discouraged. As a result, to grow our deposit base, we will need to continue to expand our non-brokered channels for deposit generation, including through new marketing and advertising efforts, which may require significant time, expense, capital, and effort to implement. Further, the significant competition for deposits from other banking organizations that are also seeking stable deposits to support their funding needs may affect deposit renewal rates, costs or availability. If we are unable to expand existing channels or develop new sources of deposit generation on favorable terms, it could have a material adverse effect on our business, results of operations, financial position and/or cash flows. In addition, our ability to maintain existing balances or obtain additional deposits may be affected by factors, including those beyond our control, such as a rising stock market, perceptions about our financial strength, quality of deposit servicing or online banking generally, and general economic conditions, including high unemployment and decreased savings rates, which could reduce the number of consumers choosing to make deposits with us.

Our short-term success also depends on our ability to structure Private Education Loan securitizations or execute other secured funding transactions. Several factors may have a material adverse effect on both our ability to obtain such funding and the time it takes us to structure and execute these transactions, including the following:

- Persistent and prolonged disruption or volatility in the capital markets or in the education loan ABS sector specifically;
- Our inability to generate sufficient Private Education Loan volume;
- Degradation of the credit quality or performance of the Private Education Loans we sell or finance through securitization trusts, or adverse rating agency assumptions, rating actions or conclusions with respect to those trusts or the education loan-backed securitization trusts sponsored by other issuers;

- A material breach of our obligations to purchasers of our Private Education Loans, including securitization trusts;

- The timing, pricing and size of education loan asset-backed securitizations other parties issue, or the adverse performance of, or other problems with, such securitizations;
- Challenges to the enforceability of Private Education Loans based on violations of, or changes to, federal or state consumer protection or licensing laws and related regulations, or imposition of penalties or liabilities on assignees of Private Education Loans for violation of such laws and regulations; and
- Our inability to structure and gain market acceptance for new products or services to meet new demands of ABS investors, rating agencies or credit facility providers.

If rates of growth require funding beyond that which we may be able to obtain through deposits and proceeds from ABS transactions, we may need to raise additional liquidity through other forms of secured and unsecured debt financing which, in turn, could increase our funding costs and reduce our net interest margin. Several factors, some of which may be beyond our control, may have a material adverse effect on our ability to raise this additional funding in the amounts, at the rates, or within the timeframes we desire. If this occurs, our business, results of operations, financial position and/or cash flow could be materially and adversely affected.

We currently maintain sufficient risk-based capital through adequate retention and reinvestment of earnings from operations. If growth rates require capital above and beyond what we generate through retained earnings, we may need to raise capital for our business by issuing additional equity to investors. Several factors, some of which may be beyond our control, may have a material adverse effect on our ability to issue additional equity in the amounts, at the prices, or within the timeframes we desire. If this occurs, our business, results of operations, financial position and/or cash flow could be materially and adversely affected.

In structuring and facilitating securitizations of Private Education Loans, administering securitization trusts or providing portfolio management, we may incur liabilities to transaction parties.

Under applicable state and federal securities laws, if investors incur losses as a result of purchasing ABS issued in connection with our securitization transactions, we could be deemed responsible and could be liable to investors for damages. We could also be liable to investors or other parties for certain updated performance information that we may provide subsequent to the original issuances. If we fail to cause the securitization trusts or other transaction parties to disclose adequately all material information regarding an investment in any securities, if we or the trusts make statements that are misleading in any material respect in information delivered to investors in any securities, if we breach any representations or warranties made in connection with securitization of the loans, or if we breach any other duties as the administrator or servicer of the securitization trusts, it is possible we could be sued and ultimately held liable to an investor or other transaction party. This risk includes failure to properly administer or oversee servicing or collections and may increase if the performance of the securitization trusts' loan portfolios degrades. In addition, under various agreements, we may be contractually bound to indemnify transaction parties if an investor is successful in seeking to recover any loss from those parties and the securitization trusts are found to have made a materially misleading statement or to have omitted material information. We may also be required to repurchase affected loans if we were to breach certain representations, warranties or covenants in various agreements. Incurring substantial liabilities to securitization transaction parties could adversely affect our business, financial condition, operating results and/or cash flows.

If we are liable to an investor or other transaction party for a loss incurred in any securitization we facilitated or structured and any insurance that we may have does not cover this liability or proves to be insufficient, our business, financial position, results of operations and/or cash flows could be materially adversely affected.

The interest rate and maturity characteristics of our earning assets do not always match the interest rate and maturity characteristics of our funding arrangements, which may increase the price of, or decrease our ability to obtain, necessary liquidity. We are also subject to repayment and prepayment risks, which can adversely affect our financial condition.

Net interest income is the primary source of cash flow generated by our loan portfolios. Interest earned on our variable-rate Private Education Loans and FFELP Loans is primarily indexed to one-month LIBOR rates, but our cost of funds is primarily related to deposit rates. Certain of our Private Education Loans and all of our Personal Loans currently bear fixed interest rates. These loans are not specifically match funded with fixed-rate deposits or fixed-rate funding obtained through

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asset-backed securitization. Likewise, the average term of our deposits is shorter than the expected term of our Private Education Loans, FFELP Loans and Personal Loans.

The different interest rate and maturity characteristics of our loan portfolio and the liabilities funding that portfolio result in interest rate risk, basis risk and re-pricing risk. In certain interest rate environments, this mismatch may reduce our net interest margin (the interest yield earned on our portfolio less the rate paid on our interest-bearing liabilities). It is not possible to hedge all of our exposure to such risks. While the assets, liabilities and related hedging derivative contract re-pricing indices are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors outside our control. In these circumstances, our earnings could be materially adversely affected.

We are also subject to risks associated with changes in repayment and prepayment rates on Private Education Loans and Personal Loans. Increases in employment levels, wages, family income, alternative sources of financing or third-party consolidations or refinancings may also contribute to higher than expected prepayment rates, which can adversely affect our financial condition.

Our use of derivatives to manage interest rate sensitivity exposes us to credit and market risk that could have a material adverse effect on our earnings.

We maintain an overall interest rate strategy that uses derivatives to reduce the economic effect of interest rate changes. Developing an effective hedging strategy for dealing with movements in interest rates is complex, and no strategy can completely avoid the risks associated with these fluctuations. For example, our education loan portfolios remain subject to prepayment risk that could cause them to be under- or over-hedged, which could result in material losses. In addition, some of our interest rate risk management activities expose us to mark-to-market losses if interest rates move in a materially different way than was expected when we entered into the related derivative contracts. As a result, there can be no assurance hedging activities using derivatives will effectively manage our interest rate sensitivity, have the desired beneficial impact on our results of operations or financial condition or not adversely impact our liquidity and earnings.

Our use of derivatives also exposes us to market risk and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates and market liquidity. Some of the interest rate swaps we use to economically hedge interest rate risk between our assets and liabilities do not qualify for hedge accounting treatment. Therefore, the change in fair value, called the “mark-to-market,” of the swaps that do not qualify as an accounting hedge is included in our statement of income. A decline in the fair value of those derivatives could have an adverse effect on our reported earnings.

We are also subject to the creditworthiness of third-parties, including counterparties to derivative transactions. For example, we have exposure to the financial conditions of various lending, investment and derivative counterparties. If a counterparty fails to perform its obligations, we could, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, if a derivative counterparty fails to perform, we might not be able to cost effectively replace the derivative position, depending on the type of derivative and the current economic environment, and thus could be exposed to a greater level of interest rate risk, potentially leading to additional losses. Our counterparty exposure is more fully discussed in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Counterparty Exposure.” If our counterparties are unable to perform their obligations, such inability could have a material adverse impact on our business, financial condition, results of operations and/or cash flows.

The future of LIBOR as a “benchmark” interest rate is uncertain and that uncertainty or any change to the LIBOR benchmark could adversely affect the value of or the interest rates on our assets and obligations tied to LIBOR, as well as the revenue and expenses associated with those assets and obligations.

The interest rates on our variable-rate Private Education Loans and certain other assets are tied to LIBOR, the London interbank offered rate. Certain of our interest rate swaps, notes issued under our term ABS and our student loan multi-lender secured borrowing facility (the “Secured Borrowing Facility”), brokered and non-brokered deposits and other obligations also are tied to LIBOR. In each case, the terms of the relevant agreements define LIBOR and provide differing methods for how it may be replaced or computed if LIBOR is no longer available as defined. LIBOR is used worldwide as a reference for setting interest rates on loans, derivatives, and other assets and obligations.

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On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks on the London interbank market to submit LIBOR rates after 2021. It is unclear at this time, and we are not able to predict, whether or when LIBOR will cease to exist, whether or when new methods of calculating LIBOR will be established such that it continues to exist after 2021, or whether or when alternative benchmark or reference rates will be available, either through regulatory action or financial market developments, as viable alternatives to LIBOR. If one or more replacement benchmark or reference rates is available, it is unknown at this time, and we are unable to predict, whether any such alternatives will be acceptable to investors, financial markets or regulators, or applied consistently and concurrently to various assets, obligations or financial instruments. Certain of our existing assets and obligations do not include provisions clearly specifying a method for transitioning from LIBOR to an alternative benchmark rate. Given this situation, it is unclear what consents or approvals, if any, will be required, and from whom they will be required, to replace LIBOR under our various agreements. As a result of these potential changes and related uncertainties, the interest rates on and value of our assets and obligations tied to LIBOR, and the revenue and expenses associated with those assets and obligations, could be affected in disparate ways at disparate times, which could have an adverse effect on our business and results of operation.

Defaults on our loans, particularly Private Education Loans and Personal Loans, could adversely affect our business, financial position, results of operations and/or cash flows.

We bear the full credit exposure on our Private Education Loans and Personal Loans. If they were to default at rates much higher than anticipated, our business, financial position, results of operations and/or cash flows could be adversely affected. Delinquencies are an important indicator of the potential future credit performance of those loan portfolios. Our Private Education Loan delinquencies (loans greater than 30 days past due), as a percentage of Private Education Loans in repayment, were 2.6 percent at December 31, 2018. Our Personal Loan delinquencies (loans greater than 30 days past due), as a percentage of Personal Loans in repayment, were 1.5 percent at December 31, 2018. In addition, we will bear full credit exposure on credit cards and other products we may introduce to the market.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition, and/or results of operations.

The evaluation of our allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. As of December 31, 2018, our allowance for Private Education Loan losses was approximately $278 million. During the year ended December 31, 2018, we recognized provisions for Private Education Loan losses of approximately $169 million. As of December 31, 2018, our allowance for Personal Loan losses was approximately $62 million. During the year ended December 31, 2018, we recognized provisions for Personal Loan losses of approximately $74 million. The provision for loan losses reflects the respective Private Education Loan and Personal Loan performance for the applicable period and establishes the allowance at a level that management believes is appropriate to cover probable losses inherent in the loan portfolio. However, future defaults can be higher than anticipated due to a variety of factors outside of our control, such as downturns in the economy, rising interest rates, regulatory or operational changes and other unforeseen future trends. Losses on Private Education Loans are also determined by risk characteristics such as school type, loan status (in-school, grace, forbearance, repayment and delinquency), loan seasoning (number of months in active repayment), underwriting criteria (e.g., credit scores), presence of a cosigner and the current economic environment. Losses on Personal Loans are affected by risk characteristics such as FICO scores at origination and seasoning. Worsening general economic and employment conditions may lead to higher rates of loan defaults. In addition, our product offerings may prove to be unprofitable and may result in higher than expected losses. If actual loan performance is worse than currently estimated, it could materially increase our estimate of the allowance for loan losses in our balance sheet and the related provision for loan losses in our statements of income and, as a result, adversely affect our capital, financial condition and results of operations.

Changes in accounting standards could adversely affect our capital levels, results of operation and/or financial condition.

We are subject to the requirements of entities that set and interpret the accounting standards governing the preparation of our financial statements and other financial reports. These entities, which include the Financial Accounting Standards Board (“FASB”), the SEC, banking regulators and our independent registered public accounting firm, may

add new requirements or change their interpretations of how those standards should be applied.

For example, the FASB approved a final accounting standard in 2016 related to the calculation of loan loss reserves that will require us to apply a current expected credit loss ("CECL") model when recording impairment of loans and other financial instruments. The CECL model, which will become effective on January 1, 2020, will require us to record an allowance for estimated life of loan losses at each balance sheet date. Currently, for those Private Education Loans that are not TDRs (as defined below), we apply an inherent loss model and only record an allowance for losses expected to be realized in the 12 months following the balance sheet date. Adoption of the CECL life of loan model will significantly increase our allowance for loan losses and thereby materially affect our financial condition, results of operations and capital levels. See Notes to Consolidated Financial Statements, Note 2, "Significant Accounting Policies — Recently Issued but Not Yet Adopted Accounting Pronouncements" for further details.

The Bank is subject to various regulatory capital requirements administered by the FDIC and the UDFI. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on our business, results of operations and/or financial condition.

Under U.S. Basel III and the regulatory framework for prompt corrective action, the Bank must meet specific capital standards that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and its classification under the prompt corrective action framework are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

The Bank is required to maintain the following minimum regulatory capital ratios under U.S. Basel III: a Common Equity Tier 1 risk-based capital ratio of 4.5 percent, a Tier 1 risk-based capital ratio of 6.0 percent, a Total risk-based capital ratio of 8.0 percent, and a Tier 1 leverage ratio of 4.0 percent. In addition, on a fully phased-in basis by January 1, 2019, banks will be subject to a greater than 2.5 percent Common Equity Tier 1 capital conservation buffer; in 2018, the phase-in amount of the buffer was 75 percent of the fully phased-in requirement. Institutions that do not maintain the buffer will face restrictions on dividend payments, share repurchases and the payment of discretionary bonuses to executive officers. Including the buffer, as of January 1, 2019, the Bank is required to maintain the following minimum capital ratios: a Common Equity Tier 1 risk-based capital ratio of greater than 7.0 percent, a Tier 1 risk-based capital ratio of greater than 8.5 percent and a Total risk-based capital ratio of greater than 10.5 percent. To qualify as "well capitalized" under the prompt corrective action framework for insured depository institutions, an insured depository institution must maintain a Common Equity Tier 1 risk-based capital ratio of at least 6.5 percent, a Tier 1 risk-based capital ratio of at least 8.0 percent, a Total risk-based capital ratio of at least 10.0 percent, and a Tier 1 leverage ratio of at least 5.0 percent. As of December 31, 2018, the Bank had a Common Equity Tier 1 risk-based capital ratio of 12.1 percent, a Tier 1 risk-based capital ratio of 12.1 percent, a Total risk-based capital ratio of 13.3 percent and a Tier 1 leverage ratio of 11.1 percent.

If the Bank fails to satisfy regulatory risk-based or leverage capital requirements, it may be subject to serious regulatory sanctions that could prevent us from successfully executing our business plan and may have a material adverse effect on our business, results of operations, financial position and/or cash flows. See Item 1. "Business — Supervision and Regulation — Regulation of Sallie Mae Bank — Regulatory Capital Requirements."

Unfavorable results from the periodic stress tests we conduct under regulatory guidance may adversely affect our business and result in regulatory action that could adversely affect our cost of capital and liquidity position.

Pursuant to regulatory guidance, the Bank conducts annual capital stress tests utilizing systemic and company-specific stress scenarios. In 2018, the Bank conducted its annual capital stress tests and the results of these tests were presented to and reviewed by the Bank’s senior management, the Bank’s Board of Directors and the Board’s Risk Committee. In addition, the Bank made the results of the stress tests available to its prudential regulators - the FDIC and UDFI. Generally, the stress test results include certain measures that evaluate the Bank’s ability to absorb losses in severely adverse economic and financial conditions. From time to time, our regulators may require the Bank to raise additional capital or take other actions, or may impose restrictions on our business, based on the results of the stress tests. We may not be able to raise additional capital if required to do so, or may not be able to do so on terms which are advantageous to us. Any such capital raises, if required, may also be dilutive to our existing stockholders.

We also conduct annual and quarterly liquidity stress tests to evaluate the adequacy of our liquidity sources under several stress scenarios, including a severely adverse scenario. The results of these scenarios may lead regulators to demand that higher levels of liquidity be maintained at significant incremental expense to the Bank.

Operations

Failure of our operating systems or infrastructure or the inability to adapt to changes could disrupt our business, cause significant losses, result in regulatory action or damage our reputation.

Our business is dependent on our ability to process and monitor large numbers of transactions in compliance with legal and regulatory standards and our product specifications. As processing demands change and our loan portfolios grow in both volume and differing terms and conditions, developing and maintaining our operating systems and infrastructure become increasingly challenging. There is no assurance we can adequately or efficiently develop, maintain or acquire access to such systems and infrastructure.

Our loan originations and the servicing, financial, accounting, data processing or other operating systems and facilities that support them may fail to operate properly, become disabled as a result of events beyond our control or be unable to be rapidly configured to timely address regulatory changes, in each case potentially adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our customers, result in financial loss or liability to our customers and investors, disrupt our business, result in regulatory action or cause reputational damage. Despite the plans and facilities we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, internet, information technology, transportation or other services used by us or third-parties with whom we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could adversely affect our business, financial condition, results of operations and/or cash flows.

Our business processes are becoming increasingly dependent upon technological advancement, and we could lose market share if we are not able to keep pace with rapid changes in technology.

Our future success depends, in part, on our ability to underwrite and approve loans, and process loan applications and payments and provide other customer services in a safe, automated manner with high-quality service standards. The volume of loan originations we are able to process is based, in large part, on the systems and processes we have implemented and developed. These systems and processes are becoming increasingly dependent upon technological advancement, such as the ability to process loans and payments over the internet via personal computers or mobile devices, accept electronic signatures and provide initial decisions instantly. Our future success also depends, in part, on our ability to develop and implement technology solutions that anticipate and keep pace with continuing changes in technology, industry standards and client preferences, including FinTech developments, and technological innovations such as bitcoin. We may not be successful in anticipating or responding to these developments on a timely basis. We have made, and need to continue to make, investments in our technology platform to provide competitive products and services. We may be required to expend significant funds to develop or acquire new technologies. If competitors introduce products, services, systems and processes that are better than

ours or that are more cost-effective or that gain greater market acceptance, those we offer or use may become obsolete or noncompetitive and we could lose market share. Any one of these circumstances could have a material adverse effect on our business reputation and ability to obtain and retain clients and, therefore, could materially adversely affect our business, financial condition and/or results of operations.

We depend on secure information technology and a breach of those systems or those of third-party vendors could result in significant losses, unauthorized disclosure of confidential customer information and reputational damage, which could materially adversely affect our business, financial condition and/or results of operations and could lead to significant financial and legal exposure.

Our operations rely on the secure collection, processing, storage and transmission of personal, confidential and other information in a significant number of customer transactions on a continuous basis through our computer systems and networks and those of our third-party service providers. To access our products and services, our customers may use computers, smart phones, tablets and other mobile devices that are outside our security systems and those of our third-party service providers. Information security risks for financial institutions and third-party service providers have increased in recent years and continue to evolve in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties, including foreign state-sponsored actors. These parties also may fraudulently induce employees, customers and others who use our or our service providers' systems or have access to our or our customers' data, to gain access to our and our customers' data. As further evidence that cyber incidents have been accelerating in frequency and impact, in recent years several financial institutions and major companies across industries have reported cyber-attacks that compromised significant customer or employee data, or resulted in the theft of funds, or the theft or destruction of corporate information or other assets.

While we have not been materially impacted by these reported or other cyber incidents, we continue to evolve our security controls to effectively prevent, detect and respond to the continually changing threats, and we may be required to expend significant additional resources in the future to modify and enhance our security controls in response to new or more sophisticated threats, new regulations related to cybersecurity and other developments. Additionally, while we, and our third-party service providers, commit resources to the design, implementation, maintenance, and monitoring of our networks and systems, there is no guarantee that our security controls, or those of our third-party service providers, can provide absolute security.

Despite the measures we and our third-party service providers implement to protect our systems and our or our customers' data, we may not be able to anticipate, identify, prevent or detect cyber-attacks, particularly because the techniques used by attackers change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties who are or may be involved in organized crime or linked to terrorist organizations or hostile foreign governments. Such third parties may seek to gain unauthorized access to our systems either directly or using equipment or security passwords belonging to employees, customers, third-party service providers or other users of our systems. Or, they may seek to disrupt or disable our or our service providers' services through attacks such as denial-of-service and ransomware attacks. In addition, we or our service providers may be unable to identify, or may be significantly delayed in identifying, cyber-attacks and incidents due to the increasing use of techniques and tools that are designed to circumvent controls, to avoid detection, and to remove or obfuscate forensic artifacts. As a result, our computer systems, software and networks, as well as those of third-party vendors we utilize, may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. Our staff, technologies, systems, networks and those of third-parties we utilize also may become the target of cyber-attacks, unauthorized access, malicious code, computer viruses, denial of service attacks, ransomware, and physical attacks that could result in information security breaches, the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third-party service providers' business operations. We also routinely transmit and receive personal, confidential and proprietary information, some through third parties, which may be vulnerable to interception, misuse or mishandling.

If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through our computer systems and networks, or those of third-party vendors, could be compromised or

could cause interruptions or malfunctions in our or our customers’ or service providers’ operations that could result in significant losses, loss

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of confidence by and business from customers, customer dissatisfaction, significant litigation, regulatory exposures and harm to our reputation and brand.

In the event personal, confidential or other information is threatened, intercepted, misused, mishandled, accessed, acquired or otherwise compromised without authorization, we may be required to expend significant additional resources to modify our protective measures, to investigate the circumstances surrounding the event and implement mitigation and remediation measures. We also may be subject to fines, penalties, litigation (including securities fraud class action lawsuits) and regulatory investigation costs and settlements and financial losses that are either not insured against or not fully covered through any insurance maintained by us. If one or more of such events occur, our business, financial condition and/or results of operations could be significantly and adversely affected.

While we seek to mitigate cyber and related risks associated with outsourcing to third-party service providers, including through our vendor management processes, both operational and technological cyber risks remain and certain risks are beyond our security and control systems. Cyber-attacks targeted at our service providers may result in unauthorized interception, misuse, mishandling, access, acquisition, loss or destruction of our or our customers' data, or other cyber incidents, that may affect the availability of our services, and impose costs and other liabilities that significantly and adversely affect us in the ways discussed above.

We depend significantly on third-parties for a wide array of our operations and customer services and key components of our information technology infrastructure, and a breach of security or service levels, or violation of law by one of these third-parties, could disrupt our business or provide our competitors with an opportunity to enhance their position at our expense.

We depend significantly on third-parties for a wide array of our operations and customer services and key components of our information technology and security infrastructures. Third-party vendors are significantly involved in aspects of our servicing for Private Education Loans, FFELP Loans and Personal Loans, Bank deposit-taking activities, payroll software and systems development, data center and operations, including the timely and secure transmission of information across our data communication network, and for other telecommunications, email, processing, storage, remittance and technology-related services in connection with our business. If a service provider fails to provide the services we require or expect, or fails to meet applicable regulatory or contractual requirements, such as service levels, protection of our customers' personal and confidential information, or compliance with applicable laws, that failure could negatively impact our business by adversely affecting our ability to process customers' transactions in a timely and accurate manner, otherwise hampering our ability to serve our customers and investors, or subjecting us to litigation and regulatory risk for matters as diverse as poor vendor oversight, improper release or protection of personal information, or release of incorrect information. Such a failure could adversely affect the perception of the reliability of our networks and services, and the quality of our brands, and could materially adversely affect our business, financial condition or results of operations.

We may face risks from our operations related to litigation or regulatory actions that could result in significant legal expenses and settlement or damage awards.

Pursuant to the terms of the Separation and Distribution Agreement, and as contemplated by the structure of the Spin-Off, Navient is legally obligated to indemnify the Bank against all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to the Spin-Off, except for certain liabilities specifically assumed by the Bank in the agreement as to which the Bank would be obligated to indemnify Navient. Among other things, Navient is obligated to indemnify us for any liabilities, costs or expenses we may incur arising from any action or threatened action related to the servicing, operations and collections activities of pre-Spin-Off SLM and its subsidiaries with respect to Private Education Loans and FFELP Loans that were assets of the Bank or Navient at the time of the Spin-Off, but that obligation extends only to claims or potential claims for which Navient has received notice from us on or before April 30, 2017. Due to Navient's indemnification obligations and the smaller, relatively younger vintages of our Private Education Loans, over the near term our dispute-related expenses may be lower than might otherwise be expected. As our business grows, we will likely be subject to additional claims and litigation, which could seriously harm our business and require us to incur significant costs. Defending against litigation may require significant attention and resources of management and, regardless of the outcome, such actions could result in significant expenses. If we are a party to material litigation and if the defenses we assert are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for

large damages and that could have a material adverse effect on our business, results of operations and/or financial condition. Likewise, similar material



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adverse effects could occur if Navient is unwilling or unable to honor its indemnification or other obligations under the Separation and Distribution Agreement.

Our ability to sustain or exceed our recent rates of earnings growth over the long term is dependent upon, among other things, achieving our goal of diversifying our consumer products beyond Private Education Loans, which may be difficult.

Our success in sustaining or exceeding our recent rates of earnings growth over the long term is dependent upon, among other things, our ability to profitably acquire or originate a more diversified suite of complimentary consumer products. Our ability to profitably acquire or originate complimentary consumer products is in turn dependent on a number of factors, some of which are beyond our control, including general economic conditions, demographic trends, demand for other consumer products, and capital markets conditions. There also may be substantial regulatory, operational and credit challenges, risks and uncertainties associated with these efforts. We may invest significant time and resources in developing, launching and/or attempting to acquire new products or services, yet not be successful in achieving our goal regarding earnings growth, credit performance and/or profitability due to any or all of the factors, risks and uncertainties noted above, as well as others. In addition, our initial timetables for the introduction and development or acquisition of new products or services may not be met, market acceptance may fall short of our expectations, and price and profitability targets for any or all of our products may not prove achievable, which could in turn unnecessarily divert management's attention and focus and have a material negative effect on our perception in the marketplace, our business, results of operations and/or financial condition.

In 2019, we expect to continue our diversification efforts by originating unsecured Personal Loans or other types of financial products. The various risks and uncertainties described above are inherent in each of these efforts. For example, if we are unable to originate Personal Loans of acceptable credit quality and in sufficient quantities; or our Personal Loan portfolio and program does not otherwise perform as expected; or the third-parties from whom we purchased Personal Loans or who service them for us suffer compliance or operational lapses in their businesses, then our business, results of operations and/or financial condition could be significantly and negatively affected.

The expected launch of a new credit card raises risks and uncertainties specific to that particular product. For example, economic conditions can reduce the usage of credit cards in general and the average purchase amount of transactions industry-wide, including our card, which reduces interest income and transaction fees. Competition is intense in the credit card industry, and customers may frequently switch credit cards or transfer balances to another card. Competition in credit cards is also based on the value provided to the customer by a related rewards program. Our rewards program could be viewed as less attractive to customers than other credit card issuers' reward programs and thereby adversely impact the timing and/or success of any new credit card product of ours.

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

The preparation of our consolidated financial statements requires us to make critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Incorrect estimates and assumptions by us in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets, liabilities, income and expenses. A description of our critical accounting estimates and assumptions may be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" and Notes to Consolidated Financial Statements, Note 2, "Significant Accounting Policies" to the consolidated financial statements included in this Form 10-K. If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could materially and adversely affect our business, financial condition and/or results of operations.

Our framework for managing risks may not be effective in mitigating our risk of loss.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, monitor, control and report the types of risk to which we are subject. We seek to monitor and control our risk exposure through a framework of policies, procedures, limits and reporting requirements.

We also rely on quantitative models to measure and manage risks and estimate certain financial values. Models may be used in such processes as product pricing, extending credit, measuring interest rate and other market risk, estimating losses,

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calculating and assessing capital levels, estimating the value of financial instruments and balance sheet items, and various other processes. If the models that we use to measure and/or mitigate these risks and values are poorly designed, based upon incorrect or incomplete information, poorly implemented, or are otherwise inadequate, our business decisions may be adversely affected, we may provide inaccurate information to the public or regulators, and/or we may incur increased losses.

In addition, there may be existing or developing risks that we have not appropriately anticipated, identified or mitigated. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and our business, financial condition and/or results of operations could be materially adversely affected.

Our internal controls over financial reporting and disclosure controls may be ineffective.

Our management is responsible for maintaining, regularly assessing and, as necessary, making changes to our internal controls over financial reporting and our disclosure controls. Nevertheless, our internal controls over financial reporting and our disclosure controls can provide only reasonable assurances regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles in the United States (“GAAP”) and may not prevent or detect misstatements. Any failure or circumvention of our internal controls over financial reporting or our disclosure controls, failure to comply with rules and regulations related to such controls or failure to make sound and appropriate application of the criteria established in the framework set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission could have a material adverse effect on our financial condition and/or results of operations.

We are subject to reputational and other risks.

Our reputation as an originator and servicer of high-quality Private Education Loans and Personal Loans is very dependent upon how our customers, our regulators, legislators, the education community and the broader market perceive our business practices, financial heath and integrity and the business practices, financial health and integrity of the overall student loan market or personal loan market, as applicable. Negative publicity, including as a result of our actual or alleged conduct or public opinion of the student loan or personal loan industry generally, could damage our reputation and business and adversely impact the price of our common stock.

Any internal, market or other developments, including those relating to our competitors, that result in a negative impact on our reputation or the reputation of the student loan industry or personal loan industry could have an adverse effect on our ability to originate, service and retain Private Education Loans or Personal Loans, as applicable, result in greater regulatory, legislative and media scrutiny, increase our risk of litigation and regulatory sanctions or other actions, and have a material adverse effect on our financial condition and/or results of operations.

As described above, any failure of our operating systems or infrastructure or cyber-attacks on or other unauthorized access to our information technology systems could harm our reputation and brand and result in significant financial losses. In addition, employee and customer misconduct could severely harm our reputation, subjecting us to financial losses, lawsuits and/or regulatory sanctions. Misconduct by our customers could include such activities as providing fraudulent credentials, information or authorization on behalf of a family member or other cosigner through identification theft or by other means in order to secure loan approval. Customers also may attempt to fraudulently secure Private Education Loan or Personal Loan proceeds. Misconduct by our employees could include, among other things, theft of our or our customers’ confidential information, or making unauthorized payments on behalf of a collection client in order to meet certain incentive thresholds.

If our operating systems or infrastructure fail or our security and other internal controls fail to prevent or detect compromised records or data, data breaches or an occurrence of customer or employee fraud, or if any resulting loss is not insured or exceeds applicable insurance limits, or if insurance is denied, such occurrence could have a material adverse effect on our reputation, financial condition and/or results of operations.

A low ESG or sustainability score could result in the exclusion of our common shares from consideration by certain investment funds and a negative perception of us by certain investors.

Certain organizations that provide corporate governance and other corporate risk information to investors and shareholders have developed scores and ratings to evaluate companies and investment funds based upon environmental, social

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and governance (“ESG”) or “sustainability” metrics. Currently, there are no universal standards for such scores or ratings, but the importance of sustainability evaluations is becoming more broadly accepted by investors and shareholders. Indeed, many investment funds focus on positive ESG business practices and sustainability scores when making investments. In addition, investors, particularly institutional investors, use these scores to benchmark companies against their peers and if a company is perceived as lagging, these investors may engage with companies to require improved ESG disclosure or performance. Moreover, certain members of the broader investment community may consider a company’s sustainability score as a reputational or other factor in making an investment decision. Consequently, a low sustainability score could result in exclusion of the Company’s common shares from consideration by certain investment funds, engagement by investors seeking to improve such scores and a negative perception of the Company by certain investors.

Risks Related to the Spin-Off

We continue to rely on Navient’s Private Education Loan data and, because of Navient’s indemnification obligations, have significant exposures to risks related to its creditworthiness. If we are unable to rely on this data or to obtain indemnification payments from Navient, we could experience higher than expected costs and operating expenses and our results of operations, cash flows and/or financial condition could be materially and adversely affected.

Through the end of 2018, Navient regularly provided us with a significant amount of current and historical data on their portfolios of Private Education Loans, including data that supported, among other things, the tracking of loan performance metrics such as default and recovery rates on those loans, including loans classified as troubled debt restructurings, and, in connection with our ABS financing transactions, our ability to provide investors with historical information about Private Education Loan performance. We also used these metrics in the development of certain critical accounting assumptions.

Pursuant to the terms of the Separation and Distribution Agreement, and as contemplated by the structure of the Spin-Off, Navient is legally obligated to indemnify the Bank against all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to the Spin-Off, except for certain liabilities specifically assumed by the Bank in the agreement as to which the Bank would be obligated to indemnify Navient. Some significant examples of the types of indemnification obligations Navient has under the Separation and Distribution Agreement and related ancillary agreements include:

- Navient is required to indemnify us for any liabilities, costs or expenses we may incur arising from any action or threatened action related to the servicing, operations and collections activities of pre-Spin-Off SLM and its subsidiaries with respect to Private Education Loans and FFELP Loans that were assets of the Bank or Navient at the time of the Spin-Off; provided that written notice was provided to Navient on or prior to April 30, 2017, the third anniversary date of the Spin-Off. Navient is not required to indemnify for changes in law or changes in prior existing interpretations of law that occur on or after April 30, 2014.

- In connection with the Spin-Off, we recorded a liability related to uncertain tax positions of $27 million for which we are indemnified by Navient. As of December 31, 2018, the remaining balance of the indemnification receivable related to those uncertain tax positions was $24 million.

The Separation and Distribution Agreement provides specific processes and procedures pursuant to which we may submit claims for indemnification to Navient. If for any reason Navient is unable or unwilling to pay claims made against it, our costs, operating expenses, cash flows and/or financial condition could be materially and adversely affected over time.

Risks Related to Our Securities

Our common and preferred stock prices may fluctuate significantly.

The market price of shares of our common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- Actual or anticipated fluctuations in our operating results;
- Our smaller market capitalization as compared to pre-Spin-Off SLM;
- Changes in earnings estimated by securities analysts or our ability to meet those estimates;
- Any existence or lack of, or change in, capital return initiatives or policies regarding our common stock;
- The operating and stock price performance of comparable companies;
- News reports relating to trends, concerns and other issues in the student loan industry or other parts of the financial services industry, including regulatory actions against other financial institutions or proposed legislation that may affect the student loan industry or other parts of the financial services industry;
- Perceptions in the marketplace regarding us and/or our competitors;
- New technology used, or services offered, by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Changes to the regulatory and legal environment under which we and our subsidiaries operate;
- Our ability to securitize our loans; and
- Domestic and worldwide economic conditions.

The market price of shares of our preferred stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- Significant sales of our preferred stock, or the expectation of significant sales;
- Lack of or a downgrade of credit agency ratings;
- Movements in interest rates and spreads that negatively affect return; and
- Call and redemption features.

In addition, when the market price of a company's common stock drops significantly, stockholders often institute securities class action lawsuits against the company. A securities class action lawsuit against the Company could cause it to incur substantial costs and could divert the time and attention of its management and other resources, which could materially adversely affect our business, financial condition and/or results of operations.

An investment in our securities is not an insured deposit.

Our common stock, preferred stock and indebtedness are not bank deposits and, therefore, are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of securities of any company. As a result, if you acquire our common stock, preferred stock or indebtedness, you may lose some or all of your investment.

The holders of our preferred stock have rights that are senior to those of our common shareholders.
At December 31, 2018, we had issued and outstanding 4.0 million shares of our Series B Preferred Stock.
Our Series B Preferred Stock is senior to our shares of common stock in right of payment of dividends and other distributions. Generally, we must be current on dividends payable to holders of our Series B Preferred Stock before any dividends can be paid on our common stock. We also must comply with certain provisions that are protective of the Series B Preferred Stock in order to effectuate any repurchases under our new common stock share repurchase program. In the event of our bankruptcy, dissolution or liquidation, the holders of our Series B Preferred Stock must be satisfied before any distributions can be made to our common shareholders.
We may be limited in our ability to pay dividends on, and repurchase, our common stock.
On January 23, 2019, we announced that we had initiated a new policy to pay a regular, quarterly cash dividend on our common stock, beginning in the first quarter of 2019, and our Board of Directors had approved a new common stock share repurchase program.
The declaration and payment of future common stock dividends, as well as the amount thereof, are subject to determination by, and the discretion of, our Board of Directors. In addition, we may change our policy regarding the payment of dividends and reduce or eliminate our common stock dividend in the future, which could adversely affect the market price of our common stock.
The new share repurchase program, which was effective upon announcement and expires on January 22, 2021, permits us to repurchase from time to time shares of our common stock up to an aggregate repurchase price not to exceed $200 million. The timing and volume of any repurchases will be subject to market conditions, and there can be no guarantee that we will repurchase up to the limit of the program or at all, which could adversely affect the market price of our common stock.
We are dependent on funds obtained from the Bank to fund dividend payments and any share repurchases. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In particular, the Bank is subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to us, or that prohibit such transfers altogether in certain circumstances. These laws, regulations and rules may hinder our ability to access funds that we may need to make payments in respect of our stock or to satisfy our other responsibilities. The FDIC has the authority to prohibit or limit the payment of dividends by the Bank and SLM Corporation.
Restrictions on Ownership
The ability of a third-party to acquire us is limited under applicable U.S. and state banking laws and regulations. Under the Change in Bank Control Act of 1978, as amended (“CIBC Act”), the FDIC’s regulations thereunder, and similar Utah banking laws, any person, either individually or acting through or in concert with one or more other persons, must provide notice to, and effectively receive prior approval from, the FDIC and UDFI before acquiring “control” of us. In practice, the process for obtaining such approval is complicated and time-consuming, often taking longer than six months, and a proposed acquisition may be disapproved for a variety of factors, including, but not limited to, antitrust concerns, financial condition and managerial competence of the applicant, and failure of the applicant to furnish all required information. Under the FDIC’s CIBC Act regulations, control is rebuttably presumed to exist, and notice is required, where a person owns, controls or holds with the power to vote 10 percent or more of any class of our voting shares and no other person owns, controls or holds with the power to vote a greater percentage of that class of voting shares.
Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

The following table lists the principal facility owned by us as of December 31, 2018:

| Location | Function | Approximate Square Feet |
|---|---|---|
| Newark, DE | Headquarters | 160,000 |

The following table lists the principal facilities leased by us as of December 31, 2018:

| Location | Function | Approximate Square Feet |
|---|---|---|
| Indianapolis, IN | Administrative Offices | 115,000 |
| New Castle, DE | Loan Servicing Center | 57,000 |
| Reston, VA | Administrative Offices | 32,000 |
| Newton, MA | Administrative Offices | 24,000 |
| Salt Lake City, UT | Sallie Mae Bank | 17,000 |

The facility that we own is not encumbered by a mortgage. We believe that our headquarters, loan servicing centers, data center, back-up facility and data management and collection centers are generally adequate to meet our long-term lending and business goals. Our headquarters are currently located in owned space at 300 Continental Drive, Newark, Delaware, 19713.

Item 3. Legal Proceedings

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. It is common for the Company, our subsidiaries and affiliates to receive information and document requests and investigative demands from state attorneys general, legislative committees and administrative agencies. These requests may be for informational or regulatory purposes and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. Our practice has been and continues to be to cooperate with these bodies and be responsive to any such requests.

Pursuant to the terms of the Spin-Off and applicable law, Navient is responsible for all liabilities (whether accrued, contingent or otherwise and whether known or unknown) arising out of or resulting from the conduct of pre-Spin-Off SLM and its subsidiaries' businesses prior to the Spin-Off, other than certain specifically identified liabilities relating to the conduct of our consumer banking business for which the Bank is responsible. Nonetheless, given the prior usage of the Sallie Mae and SLM names by entities now owned by Navient, we and our subsidiaries may from time to time be improperly named as defendants in legal proceedings where the allegations at issue are the legal responsibility of Navient. Most of these legal proceedings involve matters that arose in whole or in part in the ordinary course of business of pre-Spin-Off SLM. Likewise, as the period of time since the Spin-Off increases, so does the likelihood any allegations that may be made may be in part for our own actions in a post-Spin-Off time period and in part for Navient's conduct in a pre-Spin-Off time period. We will not be providing information on these proceedings unless there are material issues of fact or disagreement with Navient as to the bases of the proceedings or responsibility therefor that we believe could have a material, adverse impact on our business, assets, financial condition, liquidity or outlook if not resolved in our favor.

On January 18, 2017, the Illinois Attorney General filed a lawsuit in Illinois state court against Navient - its subsidiaries Navient Solutions, Inc., Pioneer Credit Recovery, Inc., and General Revenue Corporation - and the Bank arising out of the Multi-State Investigation. On March 20, 2017, the Bank moved to dismiss the Illinois Attorney General action as to the Bank, arguing, among other things, the complaint failed to allege with sufficient particularity or specificity how the Bank was responsible for any of the alleged conduct, most of which predated the Bank's existence. On July 10, 2018, the Court granted the Bank's motion to dismiss without prejudice. On August 7, 2018, the Illinois Attorney General filed a First Amended Complaint and, on October 9, 2018, the Bank again moved to dismiss the action based on grounds similar to those raised in its March 20, 2017 motion. The Illinois Attorney General filed its response on November 21, 2018, and the Bank filed its reply on December 10, 2018. Oral argument on the motion took place on January 9, 2019. The Court took the motion under advisement.

On July 17, 2018, the Mississippi Attorney General filed a lawsuit in Mississippi state court against Navient, Navient Solutions, LLC, and the Bank arising out of the Multi-State Investigation. The complaint alleges unfair and deceptive trade practices against all three defendants as to private loan origination practices from 2000 to 2009, and against the two Navient defendants as to servicing practices between 2010 and the present. The complaint further alleges that Navient assumed responsibility for these matters under the Separation and Distribution Agreement for alleged conduct that pre-dated the Spin-Off. On September 27, 2018, the Mississippi Attorney General filed an amended complaint. On October 8, 2018, the Bank moved to dismiss the Mississippi Attorney General's action as to the Bank, arguing, among other things, that the complaint failed to allege with sufficient particularity or specificity how the Bank was responsible for any of the alleged conduct, most of which predated the Bank's existence. On November 20, 2018, the Mississippi Attorney General filed an opposition brief and the Bank filed a reply on December 21, 2018. A hearing on the motion to dismiss is scheduled for April 11, 2019.

To date, three other state attorneys general (California, Washington and Pennsylvania) have filed suits against Navient and one or more of its current subsidiaries arising out of the Multi-State Investigation. Neither SLM, the Bank, nor any of their current subsidiaries are named in, or otherwise a party to, the California, Washington or Pennsylvania lawsuits, and no claims are asserted against them. Each complaint asserts in its own fashion that Navient assumed responsibility under the Separation and Distribution Agreement for the alleged conduct in the complaints prior to the Spin-Off. On September 24, 2018, the Washington Attorney General served a third-party subpoena on the Bank calling for the production of certain records. The Bank has responded to the subpoena.

Additional lawsuits may arise from the Multi-State Investigation which may or may not name the Company, the Bank or any of their current subsidiaries as parties to these suits. Pursuant to the terms of the Separation and Distribution

Agreement, and as contemplated by the structure of the Spin-Off, Navient is legally obligated to indemnify the Bank against all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to

the Spin-Off, except for certain liabilities related to the conduct of the pre-Spin-Off consumer banking business that were specifically assumed by the Bank (and as to which the Bank is obligated to indemnify Navient). Navient has acknowledged its indemnification obligations under the Separation and Distribution Agreement, in connection with the Multi-State Investigation and the related lawsuits in which the Bank has been named as a party, and has indemnified the Bank for all costs incurred to date in defending the Illinois lawsuit. Navient has informed the Bank, however, that it believes that the Bank may be responsible to indemnify Navient against certain potential liabilities arising from the above-described lawsuits under the Separation and Distribution Agreement and/or a separate loan servicing agreement between the parties, and has suggested that the parties defer further discussion regarding indemnification obligations, and reimbursement of ongoing legal costs, in connection with the lawsuits until the lawsuits are resolved. The Bank disagrees with Navient's position and the Bank has reiterated to Navient that Navient is responsible for promptly indemnifying the Bank against all liabilities arising out of the conduct of pre-Spin-Off SLM that are at issue in the Multi-State Investigation and in the above-described lawsuits.

Regulatory Update

On May 13, 2014, the Bank reached settlement with the DOJ regarding compliance with the SCRA. In connection with the settlement, the Bank became subject to the DOJ Consent Order, which was approved by the U.S. District Court for the District of Delaware on September 29, 2014. Under the terms of the Separation and Distribution Agreement, Navient is responsible for funding all liabilities under the order and, as of the date hereof, has funded all liabilities other than fines directly levied against the Bank in connection with these matters which the Bank is required to pay.

The DOJ Consent Order expired by its terms on September 29, 2018, and the related case was dismissed with prejudice on October 4, 2018.

In May 2014, the Bank received a CID from the CFPB as part of the CFPB Investigation. Two state attorneys general also provided the Bank identical CIDs and other state attorneys general have become involved in the Multi-State Investigation. To the extent requested, the Bank has been cooperating fully with the CFPB and the attorneys general conducting the Multi-State Investigation. Given the timeframe covered by the CIDs, the CFPB Investigation and the Multi-State Investigation, and the focus on practices and procedures previously conducted by Navient and its servicing subsidiaries prior to the Spin-Off, Navient is leading the response to these investigations. Consequently, we have no basis from which to estimate either the duration or ultimate outcome of these investigations.

With regard to the CFPB Investigation, we note that on January 18, 2017, the CFPB filed a complaint in federal court in Pennsylvania against Navient, along with its subsidiaries, Navient Solutions, Inc. and Pioneer Credit Recovery, Inc. The complaint alleges these Navient entities, among other things, engaged in deceptive practices with respect to their historic servicing and debt collection practices. Neither SLM, the Bank, nor any of their current subsidiaries are named in, or otherwise a party to, the lawsuit and are not alleged to have engaged in any wrongdoing. The CFPB's complaint asserts Navient's assumption of these liabilities pursuant to the Separation and Distribution Agreement.

## Item 4. Mine Safety Disclosures

N/A

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and has traded on the Nasdaq Global Select Market ("Nasdaq") under the symbol SLM since December 12, 2011. Previously, our common stock was listed and traded on the New York Stock Exchange. As of January 31, 2019, there were 436,802,555 shares of our common stock outstanding and 287 holders of record.

For the years ended December 31, 2018 and 2017, we did not pay dividends on our common stock.

On January 23, 2019, we announced that we had initiated a new policy to pay a regular, quarterly cash dividend on our common stock, beginning in the first quarter of 2019. Common stock dividend declarations are subject to determination by, and the discretion of, our Board of Directors. We may change our new common stock dividend policy at any time.

Issuer Purchases of Equity Securities

The following table provides information relating to our purchase of shares of our common stock in the three months ended December 31, 2018. We only repurchased common stock acquired as a result of taxes withheld in connection with award exercises and vesting under our employee stock-based compensation plans.

| (In thousands, except per share data) | Total Number of Shares Purchased[1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs |
|---|---|---|---|---|
| Period: | | | | |
| October 1 - October 31, 2018 | 3 | $10.26 | — | — |
| November 1 - November 30, 2018 | 12 | $10.36 | — | — |
| December 1 - December 31, 2018 | 15 | $8.84 | — | — |
| Total fourth-quarter 2018 | 30 | $9.60 | — | |

(1) All shares purchased are shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercises of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.

The closing price of our common stock on Nasdaq on December 31, 2018 was $8.31.

On January 23, 2019, we announced that our Board of Directors had approved a new common share repurchase program. The new share repurchase program, which was effective upon announcement and expires on January 22, 2021, permits us to repurchase from time to time shares of our common stock up to an aggregate repurchase price not to exceed $200 million. The timing and volume of any repurchases will be subject to market conditions, and there can be no guarantee that we will repurchase up to the limit of the program or at all. In addition to any repurchases that we may make under the new share repurchase program, we expect to repurchase common stock acquired as a result of taxes withheld in connection with award exercises and vesting under our employee stock-based compensation plans.

Stock Performance

The following graph compares the five-year cumulative total returns of SLM Corporation, the S&P Supercomposite Consumer Finance Sub-Industry Index, and the S&P 400 Regional Bank Sub-Industry Index. In previous years, we used the S&P Midcap 400 Index and the KBW Bank Index as our comparators. We changed our comparators in this 2018 annual report because we believe the new comparators provide a more appropriate basis for comparison of the performance of our business. In addition, the new comparators are used by the Nominations, Governance and Compensation Committee of our Board of Directors in assessing portions of the long-term incentive plan compensation for our executive officers.
This graph assumes $100 was invested in the stock or the relevant index on December 31, 2013, and also assumes the reinvestment of dividends through December 31, 2018, including the Company's distribution to its shareholders of one share of Navient Corporation common stock for every share of SLM Corporation on April 30, 2014. For the purpose of this graph, the Navient Corporation distribution is treated as a non-taxable cash dividend of $16.56 that would have been reinvested in SLM Corporation common stock at the close of business on April 30, 2014.

Five-Year Cumulative Total Stockholder Return

| Company/Index | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 | 12/31/17 | 12/31/18 |
|---|---|---|---|---|---|---|
| SLM Corporation | $100.0 | $110.6 | $70.8 | $119.6 | $122.6 | $90.2 |
| S&P Supercomposite Consumer Finance Sub-Industry Index | 100.0 | 109.0 | 87.4 | 105.0 | 125.7 | 104.9 |
| S&P 400 Regional Bank Sub-Industry Index | 100.0 | 101.2 | 107.8 | 143.4 | 150.9 | 118.6 |
| S&P Midcap 400 Index | 100.0 | 109.7 | 107.3 | 129.6 | 150.6 | 133.9 |
| KBW Bank Index | 100.0 | 109.4 | 109.9 | 141.2 | 167.5 | 137.8 |

Source: Bloomberg Total Return Analysis

Item 6. Selected Financial Data.
Selected Financial Data 2014-2018
(Dollars in millions, except per share amounts)
The following table sets forth our selected financial and other operating information. The selected financial data in the table is derived from our consolidated financial statements. The data should be read in conjunction with the consolidated financial statements, related notes, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | 2018 | 2017 | 2016 | 2015 | 2014[(1)] |
|---|---|---|---|---|---|
| Operating Data: | | | | | |
| Net interest income | $1,413 | $1,129 | $891 | $702 | $578 |
| Non-interest income (loss) | (52) | (3) | 69 | 183 | 157 |
| Total revenue | 1,361 | 1,126 | 960 | 885 | 735 |
| Net income attributable to SLM Corporation | $487 | $289 | $250 | $274 | $194 |
| Basic earnings per common share attributable to SLM Corporation | $1.08 | $0.63 | $0.54 | $0.60 | $0.43 |
| Diluted earnings per common share attributable to SLM Corporation | $1.07 | $0.62 | $0.53 | $0.59 | $0.42 |
| Dividends per common share attributable to SLM Corporation common shareholders[(2)] | $— | $— | $— | $— | $— |
| Return on common stockholders' equity | 20% | 14% | 14% | 18% | 15% |
| Net interest margin | 6.10 | 5.93 | 5.68 | 5.49 | 5.26 |
| Return on assets | 2.01 | 1.43 | 1.52 | 2.04 | 1.68 |
| Average equity/average assets | 11.22 | 11.92 | 13.40 | 14.49 | 13.92 |
| Non-GAAP operating efficiency ratio[(3)] | 41.0 | 39.6 | 40.1 | 46.9 | 45.1 |
| Balance Sheet Data: | | | | | |
| Total education loan portfolio, net | $21,143 | $18,174 | $15,125 | $11,631 | $9,510 |
| Total Personal Loans, net | 1,128 | 394 | 13 | — | — |
| Total assets | 26,638 | 21,780 | 18,533 | 15,214 | 12,972 |
| Total deposits | 18,943 | 15,505 | 13,436 | 11,488 | 10,541 |
| Total borrowings | 4,284 | 3,275 | 2,168 | 1,079 | — |
| Total SLM Corporation stockholders' equity | 2,973 | 2,474 | 2,347 | 2,096 | 1,830 |
| Book value per common share | 5.90 | 4.80 | 4.15 | 3.59 | 2.99 |

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(1) For the year ended December 31, 2014, the selected financial data is presented on a basis of accounting that reflects a change in reporting entity and has been adjusted for the effects of the Spin-Off. The carved-out financial information represents only those operations, assets, liabilities and equity that form SLM on a stand-alone basis.
(2) As of December 31, 2018, we have not paid dividends on our common stock. On January 23, 2019, however, we announced that we had initiated a new policy to pay a regular, quarterly cash dividend on our common stock, beginning in the first quarter of 2019. Common stock dividend declarations are subject to determination by, and the discretion of, our Board of Directors. We may change our new common stock dividend policy at any time.
(3) Our operating efficiency ratio is a non-GAAP measure because we adjust (a) the total non-interest expense numerator by deducting restructuring and other reorganization expenses, and (b) the net revenue denominator (which otherwise would consist of net interest income, before provisions for credit losses, and non-interest income) by excluding any gains and losses on sales of loans and securities, net and the net impact of derivative accounting as defined in the Core Earnings adjustments to GAAP table set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Financial Measures — Core Earnings" of this Annual Report on Form 10-K. We believe doing so provides useful information to investors because it is a measure used by our management team to monitor our effectiveness in managing operating expenses. Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate our ratio. Accordingly,

our non-GAAP operating efficiency ratio may not be comparable to similar measures used by other companies.



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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis also contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in "Forward-Looking and Cautionary Statements" and Item 1A. "Risk Factors" in this Annual Report on Form 10-K.
Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

### Overview

The following discussion and analysis presents a review of our business and operations as of and for the year ended December 31, 2018.

### Key Financial Measures

Set forth below are brief summaries of our key financial measures. Our operating results are primarily driven by net interest income from our Private Education Loan portfolio, provision expense for credit losses, and operating expenses. The growth of our business and the strength of our financial condition are primarily driven by our ability to achieve our annual Private Education Loan origination goals while sustaining credit quality and maintaining cost-efficient funding sources to support our originations.

### Net Interest Income

Most of our earnings are generated from the interest income earned on assets in our education loan portfolios and on Personal Loans, net of the interest expense we pay on the funding for those loans. We report these earnings as net interest income. We also often refer to the net interest margin, which is the net interest yield earned on our interest-earning assets less the rate paid on our related interest-bearing liabilities. The majority of our interest income comes from our Private Education Loan portfolio. FFELP Loans have a lower net interest yield and carry lower risk than Private Education Loans, as a result of the federal government guarantee supporting FFELP Loans. Personal Loans tend to be higher risk and shorter term than Private Education Loans and also have a higher overall interest rate. We do not expect to acquire more FFELP Loans, and the balance of our FFELP Loan portfolio is expected to decline due to normal amortization.

### Allowance for Loan Losses

Management estimates and maintains an allowance for loan losses at a level sufficient to cover charge-offs expected over the next year, plus an additional allowance to cover life-of-loan expected losses for loans classified as troubled debt restructurings ("TDRs"). See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Allowance for Loan Losses." Allowances for loan losses are an important indicator of management's perspective on the future performance of a loan portfolio. Each quarter, management makes an adjustment to the allowance for loan losses to reflect its most up-to-date estimate of future losses by recording a charge against quarterly revenues known as provision expense. As they occur, actual loan charge-offs and recoveries are then charged or credited, respectively, against the allowance for loan losses rather than against earnings.
The allowance for loan losses and provision expense rise when future charge-offs are expected to increase and fall when future charge-offs are expected to decline. We bear the full credit exposure on our Private Education Loans and Personal Loans. Losses on our Private Education Loans are affected by risk characteristics such as loan status (in-school, grace, forbearance, repayment and delinquency), loan seasoning (number of months in active repayment), underwriting criteria (e.g., credit scores), presence of a cosigner and the current economic environment. Losses typically emerge once a borrower separates from school and enters full principal and interest repayment after the borrower's grace period (six months, typically) ends. Our experience indicates that approximately 50 percent of expected losses on a Private Education Loan occur in the first two years after a loan enters full principal and interest repayment. Therefore, changes in our allowance for loan losses will be driven in large measure

by the amount and age of our Private Education Loans in full principal and interest repayment. As a larger proportion of our Private Education Loan portfolio enters full principal and interest repayment in the coming years, we would expect the amount of TDRs, as well as our allowance for loan losses and charge-offs, to increase. Losses on our Personal Loans are affected by risk characteristics such as FICO scores at origination and seasoning.

Our allowance for loan losses for FFELP Loans and related periodic provision expense are small because we generally bear a maximum of three percent loss exposure due to the federal guarantee on such loans. We maintain an allowance for loan losses for our FFELP Loans at a level sufficient to cover charge-offs expected over the next two years.

We maintain an allowance for Personal Loan losses at an amount sufficient to absorb losses estimated and viewed at the reporting date as probable credit losses to be incurred in the portfolio. In determining the allowance for loan losses on our Personal Loans that are not TDRs, we estimate the principal amount of the loans that will default over the next twelve months (twelve months being the expected period between a loss event and default) and how much we expect to recover over the same twelve-month period related to the defaulted amounts. The expected defaults less our expected recoveries adjusted for any qualitative factors equal the allowance related to this portfolio of Personal Loans that are not TDRs.

Charge-Offs and Delinquencies

Delinquencies are another important indicator of potential future credit performance. When a Private Education Loan or Personal Loan reaches 120 days delinquent, it is charged against the allowance for loan losses. Charge-off data provides relevant information with respect to the actual performance of a loan portfolio over time. Management focuses on delinquencies as well as the progression of loans from early to late stage delinquency as a key metric in estimating the allowance for loan losses and tailoring its future collections strategies. We manage our charged-off loans through a mix of in-house collectors, third-party collectors and to third-parties.

Operating Expenses

The cost of operating our business directly affects our profitability. We continue to measure our effectiveness in managing operating expenses by monitoring our non-GAAP operating efficiency ratio. We calculate and report our non-GAAP operating efficiency ratio as the ratio of (a) the total non-interest expense numerator to (b) the net revenue denominator (which consists of the sum of net interest income, before provision for credit losses, and non-interest income, excluding any gains and losses on sales of loans and securities, net and the net impact of derivative accounting as defined in our “Core Earnings” adjustments to GAAP table in “- ‘Core Earnings’ ’’ in this Form 10-K). We believe doing so provides useful information to investors because it is a measure used by our management team to monitor our effectiveness in managing operating expenses. Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate our ratio. Accordingly, our non-GAAP operating efficiency ratio may not be comparable to similar measures used by other companies. Our long-term objective is to achieve steady declines in this ratio over the next several years.

Core Earnings

We prepare financial statements in accordance with GAAP. However, we also produce and report our after-tax earnings on a separate basis that we refer to as "Core Earnings." The difference between our "Core Earnings" and GAAP results for periods presented generally is driven by the unrealized, mark-to-market gains (losses) on derivatives contracts recognized in GAAP, but not in "Core Earnings."

"Core Earnings" recognizes the difference in accounting treatment based upon whether a derivative qualifies for hedge accounting treatment. We enter into derivative instruments to economically hedge interest rate and cash flow risk associated with our portfolio. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. Those derivative instruments that qualify for hedge accounting treatment have their related cash flows recorded in interest income or interest expense along with the hedged item. Some of our derivatives do not qualify for hedge accounting treatment and the stand-alone derivative must be marked-to-fair value in the income statement with no consideration for the corresponding change in fair value of the hedged item. These gains and losses, recorded in "Gains (losses) on derivatives and hedging activities, net," are primarily caused by interest rate volatility and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment. Cash flows on derivative instruments that do not qualify for hedge accounting are not recorded in interest income and interest expense; they are recorded in non-interest income: "Gains (losses) on derivatives and hedging activities, net."

In the third quarter of 2018, we elected to early adopt Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," effective July 1, 2018. The new standard requires the recording of any accounting ineffectiveness in the same line item in the consolidated statements of income that is used to present the earnings effect of the hedged item. As such, accounting ineffectiveness for hedging relationships will no longer be recorded in "Gains (losses) on derivatives and hedging activities, net." Under the new standard, for fair value hedges, the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness is recorded in the same line item in the consolidated statements of income that is used to present the earnings effect of the hedged item. For cash flow hedges, the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness is recorded in other comprehensive income (loss) and subsequently reclassified to earnings, in the same line item in the consolidated statements of income as impacted by the hedged item, when the hedged item affects earnings. See Note 2, "Significant Accounting Policies," to the Notes to the Consolidated Financial Statements for further details.

Beginning with the third quarter of 2018, we have changed our definition of "Core Earnings" to no longer exclude ineffectiveness related to derivative instruments that are receiving hedge accounting treatment. As such, the only adjustments required to reconcile from our "Core Earnings" results to our GAAP results of operations, net of tax, relate to differing treatments for those derivative instruments used to hedge our economic risks that do not qualify for hedge accounting treatment. For periods beginning July 1, 2018, the amount recorded in "Gains (losses) on derivatives and hedging activities, net" includes (a) the accrual of the current payment on those interest rate swaps that do not qualify for hedge accounting treatment and (b) the change in fair values related to future expected cash flows for derivatives that do not qualify for hedge accounting treatment. For purposes of "Core Earnings," we are including in GAAP earnings the current period accrual amounts (interest reclassification) on the swaps and excluding the change in fair values for those derivatives not qualifying for hedge accounting treatment. "Core Earnings" is meant to represent what earnings would have been had these derivatives qualified for hedge accounting and there was no ineffectiveness. ASU No. 2017-12 significantly reduces the future expected ineffectiveness for our derivatives that receive hedge accounting treatment to an immaterial amount. As our previous definition of "Core Earnings" was intended to exclude the impact of ineffectiveness, we believe the change in definition will have an immaterial effect on "Core Earnings" in future periods. Prior period "Core Earnings" were not restated using the updated definition because the changes would have been immaterial if ASU No. 2017-12 had been applied for "Core Earnings" purposes to those past periods.

For periods prior to July 1, 2018, the amount recorded in "Gains (losses) on derivatives and hedging activities, net" includes (a) the accrual of the current payment on those interest rate swaps that do not qualify for hedge accounting treatment, (b) the change in fair values related to future expected cash flows for derivatives that do not qualify for hedge accounting treatment and (c) ineffectiveness on derivatives that receive hedge accounting treatment. For

purposes of “Core Earnings” in those periods prior to July 1, 2018, we are including in GAAP earnings the current period accrual amounts (interest reclassification) on the swaps and excluding the remaining ineffectiveness (and change in fair values for those derivatives not qualifying for hedge accounting treatment). “Core Earnings” in those periods is meant to represent what earnings would have been had these derivatives qualified for hedge accounting and there was no ineffectiveness.

Core Earnings" are not a substitute for reported results under GAAP. We provide a "Core Earnings" basis of presentation because (i) earnings per share computed on a "Core Earnings" basis is one of several measures we utilize in establishing management incentive compensation and (ii) we believe it better reflects the financial results for derivatives that are economic hedges of interest rate risk, but which do not qualify for hedge accounting treatment.
GAAP provides a uniform, comprehensive basis of accounting. Our "Core Earnings" basis of presentation differs from GAAP in the way it treats derivatives as described above.
The following table shows the amount in "Losses on derivatives and hedging activities, net" that relates to the interest reclassification on the derivative contracts.

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2018 | 2017 | 2016 |
| Hedge ineffectiveness (losses) gains prior to adoption of ASU No. 2017-12[1] | $2,684 | $(4,504) | $(2,615) |
| Unrealized losses on instruments not in a hedging relationship | (1,400) | (3,693) | (513) |
| Interest reclassification | (1,371) | (69) | 2,170 |
| Losses on derivatives and hedging activities, net | $(87) | $(8,266) | $(958) |

(1) The hedge ineffectiveness gains of $2.7 million for the year ended December 31, 2018 relate to hedging relationships that were discontinued in 2018 prior to the adoption of ASU No. 2017-12.

The following table reflects adjustments associated with our derivative activities.

| (Dollars in thousands, except per share amounts) | Years Ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| "Core Earnings" adjustments to GAAP: | | | |
| GAAP net income | $487,476 | $288,934 | $250,327 |
| Preferred stock dividends | 15,640 | 15,714 | 21,204 |
| GAAP net income attributable to SLM Corporation common stock | $471,836 | $273,220 | $229,123 |
| Adjustments: | | | |
| Net impact of derivative accounting[1] | (1,284) | 8,197 | 3,127 |
| Net tax effect[2] | (312) | 3,131 | 1,199 |
| Total "Core Earnings" adjustments to GAAP | (972) | 5,066 | 1,928 |
| "Core Earnings" attributable to SLM Corporation common stock | $470,864 | $278,286 | $231,051 |
| GAAP diluted earnings per common share | $1.07 | $0.62 | $0.53 |
| Derivative adjustments, net of tax | — | 0.01 | — |
| "Core Earnings" diluted earnings per common share | $1.07 | $0.63 | $0.53 |

———

(1) Derivative Accounting: "Core Earnings" exclude periodic unrealized gains and losses caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP, but include current period accruals on the derivative instruments. For periods prior to July 1, 2018, "Core Earnings" also exclude the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP, net of tax. Under GAAP, for our derivatives held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0.

(2) "Core Earnings" tax rate is based on the effective tax rate at the Bank where the derivative instruments are held.

### Private Education Loan Originations

Private Education Loans are the principal asset on our balance sheet, and the amount of new Private Education Loan originations we generate each year is a key indicator of the trajectory of our business, including our future earnings and asset growth.

### Funding Sources

#### Deposits

We utilize brokered, retail and other core deposits to meet funding needs and enhance our liquidity position. These deposits can be term or liquid deposits. Term brokered deposits may have terms as long as seven years. Interest rates on most of our long-term deposits are swapped into one-month LIBOR. This structure has the effect of matching our interest rate exposure to the index on which our assets reset, thereby minimizing our financing cost exposure to interest rate risk. Retail deposits are sourced through a direct banking platform and serve as an important source of diversified funding. Brokered deposits are sourced through a network of brokers and provide a stable source of funding. In addition, we accept certain deposits considered non-brokered that are held in large accounts structured to allow FDIC insurance to flow through to underlying individual depositors. In 2016, we began adding deposits from Educational 529 and Health Savings plans as a way to diversify our funding sources. These and other large omnibus accounts, aggregating the deposits of many individual depositors, represented $5.9 billion of our deposit total as of December 31, 2018.

#### Loan Securitizations

We have diversified our funding sources by issuing term ABS and by entering into the Secured Borrowing Facility (which was previously called the asset-backed commercial paper facility, or ABCP Facility). Term ABS financing provides long-term funding for our Private Education Loan portfolio at attractive interest rates and at terms that effectively match the average life of the assets. Loans associated with these transactions will remain on our balance sheet if we retain the residual interest in these trusts. The Secured Borrowing Facility provides an extremely flexible source of funds that can be drawn upon on short notice to meet funding needs within the Bank. Borrowings under our Secured Borrowing Facility are accounted for as secured financings.

Reconciliation of the Effect of Tax-Related Items on the GAAP Consolidated Statements of Income

The Tax Cuts and Jobs Act of 2017 (the "Tax Act"), which was signed into law by President Trump on December 22, 2017, lowered the federal statutory corporate income tax rate from 35 percent to 21 percent, beginning in 2018. Because the Tax Act was enacted during the fourth-quarter 2017, we were required in late 2017 to reflect the application of the lower tax rate in future years to our deferred tax assets, liabilities and indemnification receivables. Therefore, at December 31, 2017, we recorded a provisional estimate that resulted in a $15 million net increase in tax expense and reduced other income by $24 million to reflect the effect of the lower tax rate.

Unrelated to the Tax Act, we also reduced other income in 2017 and 2018 to reflect the reduction in our tax indemnification receivable because of the expiration of certain statutes of limitations related to a portion of our indemnified uncertain tax positions. When reflecting these reductions, income taxes payable and income tax expense were reduced by corresponding amounts for the relevant periods.

We report in this Annual Report certain effects of the Tax Act and reductions to other income due to the reduction in our tax indemnification receivable because of the expiration of certain statutes of limitations related to a portion of our indemnified uncertain tax positions. We believe this additional disclosure will be helpful to investors by illustrating and quantifying the impact of tax-related items. Our financial results absent the effect of the Tax Act and reductions to other income due to the reduction in our tax indemnification receivable because of the expiration of certain statutes of limitations related to a portion of our indemnified uncertain tax positions are unique to our company, are not defined terms within GAAP and may not be comparable to adjustments made by, or to similarly captioned measures reported by, other companies.

The table below reflects the adjustments to certain line items in the GAAP Consolidated Statements of Income related to these tax-related items.

| (Dollars in thousands, except per share amounts) | Year Ended December 31, 2018 As Reported | Tax-Related Items | | Adjusted (Non-GAAP) | Year Ended December 31, 2017 As Reported | Tax-Related Items | | Adjusted (Non-GAAP) |
|---|---|---|---|---|---|---|---|---|
| Non-interest income (loss): | | | | | | | | |
| Gains on sales of loans, net | $2,060 | $ — | | $ 2,060 | $— | $ — | | $ — |
| Losses on sales of securities, net | (1,549 ) | — | | (1,549 ) | — | — | | — |
| Gains (losses) on derivatives and hedging activities, net | (87 ) | — | | (87 ) | (8,266 ) | — | | (8,266 ) |
| Other income (loss) | (52,319 ) | 93,857 | (1) | 41,538 | 5,364 | 34,749 | (3) | 40,113 |
| Total non-interest income (loss) | $(51,895 ) | $ 93,857 | | $ 41,962 | $(2,902 ) | $ 34,749 | | $ 31,847 |
| Income before income tax expense | $559,329 | $ 93,857 | | $ 653,186 | $491,465 | $ 34,749 | | $ 526,214 |
| Income tax expense | $71,853 | $ 93,857 | (2) | $ 165,710 | $202,531 | $ (3,818 ) | (4) | $ 198,713 |
| Net income | $487,476 | $ — | | $ 487,476 | $288,934 | $ 38,567 | | $ 327,501 |
| Net income attributable to SLM Corporation common stock | $471,836 | $ — | | $ 471,836 | $273,220 | $ 38,567 | | $ 311,787 |
| Basic earnings per common share attributable to SLM Corporation | $1.08 | $ — | | $ 1.08 | $0.63 | $ 0.09 | | $ 0.72 |
| Diluted earnings per common share attributable to SLM Corporation | $1.07 | $ — | | $ 1.07 | $0.62 | $ 0.09 | | $ 0.71 |

(1) Represents the reduction in the tax indemnification receivable because of the expiration of certain statutes of limitations related to a portion of indemnified uncertain tax positions.

(2) Represents the net reduction to income tax expense because of the expiration of certain statute of limitations related to a portion of indemnified uncertain tax positions.

(3) Represents the $24 million reduction in a tax-related indemnification receivable due to the lower federal corporate tax rate set forth in the Tax Act and an $11 million reduction in the tax indemnification receivable because of the expiration of certain statutes of limitations related to a portion of indemnified uncertain tax positions.

(4) Represents the net reduction in deferred tax assets and liabilities of $15 million due to the lower federal corporate tax rate set forth in the Tax Act, and an $11 million reduction in the tax indemnification receivable because of the expiration of certain statutes of limitations related to a portion of indemnified uncertain tax positions.

## 2018 Management Objectives

For 2018, we set out the following major goals for ourselves: (1) prudently grow our Private Education Loan assets and revenues while continuing to diversify the mix of our funding sources; (2) maintain our strong capital position; (3) expand our product offerings to increase the level of engagement with our existing customers and attract new customers; (4) manage operating expenses while improving efficiency; (5) maintain our strong governance, risk oversight and compliance infrastructure; and (6) leverage our culture to engage employees, recognize and reward contributions to business results, and develop talent to support our business strategy and growth. The following describes our performance relative to each of these goals.

### Prudently Grow Private Education Loan Assets and Revenues

We pursued managed growth in our Private Education Loan portfolio in 2018 by leveraging our Sallie Mae brand, our relationship with more than 2,000 colleges and universities, and our direct consumer marketing efforts. In 2018, we introduced six new graduate student loan products tailored to meet the needs of students in their specific fields of study and originated $186 million of that product in 2018. We are determined to maintain overall credit quality and cosigner rates in our Smart Option Student Loan originations. Private Education Loan originations were 11 percent higher in 2018 compared with 2017. The average FICO scores at approval and the cosigner rates for originations for the year ended December 31, 2018 were 746 and 87.2 percent, compared with 747 and 88.0 percent for originations in the year ended December 31, 2017, respectively. In addition, to help facilitate the expected increase in our Private Education Loan originations and the increasing percentage of fixed-rate loans being selected by our customers, we continued to diversify the mix of our funding sources in 2018. In 2018, we completed three secured financings totaling $1.9 billion compared with two secured financings totaling $1.4 billion in 2017. We also raised fixed-rate brokered CDs in longer terms to manage potential interest rate risk.

### Maintain Our Strong Capital Position

As our balance sheet grew in 2018, our regulatory capital ratios remained stable and we generated earnings and capital sufficient to cover the growth in our risk-weighted assets and remain significantly in excess of the capital levels required to be considered “well capitalized” by our regulators. As of December 31, 2018, the Bank had a Common Equity Tier 1 risk-based capital ratio of 12.1 percent, a Tier 1 risk-based capital ratio of 12.1 percent, a Total risk-based capital ratio of 13.3 percent and a Tier 1 leverage ratio of 11.1 percent, all exceeding the current regulatory guidelines for “well capitalized” institutions by a significant amount.

### Expand Our Product Offerings to Increase Level of Engagement With Our Existing Customers and Attract New Customers

We made investments in 2018 that accelerated the diversification of our consumer lending platform into the Personal Loan and credit card businesses. In 2018, we began to offer six new graduate student loan products that are tailored to meet the needs of students in their specific fields of study.

In 2018, we began to originate Personal Loans and originated $455 million in total Personal Loans during the year. In addition, in 2018, we acquired $703 million of Personal Loans originated by third parties.

During the year, we began to lay the foundation for our credit card business. This process included identifying and selecting a partner to help issue and service credit card accounts, assembling the team to execute our business plan and limited issuances of credit cards to test our processes and systems.

We believe that these two new consumer finance products are an extension of our core competencies of underwriting, marketing and servicing unsecured credits and that these new product offerings will also enhance our Private Education Loan business.

### Manage Operating Expenses While Improving Efficiency

We measure our effectiveness in managing operating expenses by monitoring our non-GAAP operating efficiency ratio. See Item 6. “Selected Financial Data” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Financial Measures — Operating Expenses,” for a discussion of the method for calculating this ratio. Full-year non-interest expenses grew 24 percent year-over-year, while the non-GAAP operating efficiency ratio was 41.0 percent for the year ended December 31, 2018, compared with 39.6 percent for the year ended December 31, 2017. The non-

GAAP operating efficiency ratio for the year ended December 31, 2018 was unfavorably affected by a $94 million decrease in other income due to a decrease in our tax indemnification receivable arising from the expiration of certain statutes of limitations regarding certain indemnified uncertain tax positions. Excluding this item, the non-GAAP operating efficiency ratio would have been 38.3 percent for the year ended December 31, 2018. The non-GAAP operating efficiency ratio for the year ended December 31, 2017 was unfavorably affected by a $24 million decrease in other income due to a lower valuation of tax indemnification receivables as a result of the reduction of the federal statutory corporate income tax rate from 35 percent to 21 percent under the Tax Act enacted in 2017, and, unrelated to the Tax Act, an $11 million reduction in other income due to the expiration of certain statutes of limitations regarding a portion of indemnified uncertain tax positions. Excluding these tax-related items, the non-GAAP operating efficiency ratio would have been 38.4 percent for the year ended December 31, 2017. The increase in non-interest expenses was driven by growth in our loan portfolio and investments associated with the development of our Personal Loan product, as well as investments related to other product diversification and platform enhancements.

In early 2018, we indicated our intention to invest $40 million to accelerate the diversification of our consumer lending platform into the Personal Loan and credit card businesses and to migrate our technology infrastructure to the cloud. Non-interest expenses associated with these efforts totaled $44 million in 2018. Expenses in our primary education loan business increased 14 percent in 2018 compared to 2017, excluding the technology infrastructure migration costs.

Maintain Our Strong Governance, Risk Oversight and Compliance Infrastructure

We have built customer protection policies, procedures and compliance management systems sufficient to meet or exceed currently applicable regulatory standards. In addition, we have developed a strong governance framework, which includes robust oversight, education, policies and procedures supported by Enterprise Risk Management, Compliance and Internal Audit functions. Our goal is to consistently comply with or exceed regulatory standards for compliance and risk management. The DOJ Consent Order expired by its terms on September 29, 2018, and the related case was dismissed with prejudice on October 4, 2018. This is a further indication of the strength and sustainability of the Bank’s governance, risk oversight and compliance infrastructure.

Leverage Our Culture to Engage Employees, Recognize and Reward Contributions to Business Results, and Develop Talent to Support our Business Strategy and Growth

In the first half of 2018, we completed focus groups with a cross-functional representative sample of employees to better understand and act upon their feedback through the annual employee engagement survey. We continued to reward top performers during the year-end compensation process through differentiation of pay based on the results of the performance measurement process. Each area of the business completed its organizational planning to identify critical talent needed now and in the future, against which leadership will develop talent and employees will align their development plans.

In the second quarter of 2018, we launched a new competency model that will provide a framework and common language to define the type of talent to move the organization forward. The core and leadership competencies will provide several tools for our employees to chart their career development. We also continued to focus on talent development by piloting a leadership development program to enhance leadership competencies and more effectively achieve results. This experience included a launch of a new multi-rater assessment tool that will be leveraged to create individual development plans.

In the third quarter of 2018, we launched a learning management system. The system provides access to learning and development courses. In addition, members of the leadership development program pilot that launched in the second quarter benefited from the expansion of our multi-rater competency assessment tool that will be leveraged in development planning in support of our succession plan.

In the fourth quarter of 2018, we implemented a new applicant tracking system which we use to identify and track the best job applicants - internal and external - to support the growth of our business. Throughout the year, we also recognized our highest performing employees through our Awards of Excellence Program.

Environmental, Social and Governance Practices

Our mission is to equip aspiring minds to create the lives they imagine. That mission is firmly grounded in helping families achieve the dream of a higher education. To further fulfill our mission, we've introduced a number of programs and thought-leadership initiatives, including: (i) Sallie Mae's Bridging the Dream Scholarship Program; (ii) Financial Literacy Initiatives with Educator, Turned Hip-Hop Artist, Dee-1; (iii) national and state partnerships to develop and distribute college planning materials; and (iv) annual research and thought leadership regarding paying and saving for college, as well as management of finances by students. In addition, we are passionate about getting involved and giving back in the communities where we live and work. We strive to help create brighter futures by working directly with not-for-profit organizations in order to help students, families, and individuals in our communities. The Sallie Mae Employee Volunteer Program gives full-time employees paid time off to volunteer in their communities. Also, the Sallie Mae Employee Matching Gift Program encourages employees' voluntary support of non-profit organizations, by matching personal donations to Internal Revenue Service registered charities through our charitable organization (The Sallie Mae Fund) dollar for dollar from $25 to a maximum of $1,000 per employee per calendar year. Since the Spin-Off, the Sallie Mae Fund has contributed more than $1.8 million to address key barriers to college access and support the community. In addition, we continue to make environmental improvements at our facilities as we are committed to improving the environmental sustainability of our business and to using resources and materials thoughtfully.

2019 Management Objectives

In 2019, we intend to devote ourselves to growing our primary student loan business, maintaining and enhancing our best-in-class customer experience platform, and continuing our efforts to diversify into other consumer finance products. We have set out the following major goals for ourselves: (1) prudently grow our Private Education Loan assets and revenues; (2) maintain our strong capital position; (3) continue our Personal Loan and credit card initiatives to increase the level of engagement with our existing customers and attract new customers; (4) manage operating expenses while improving efficiency; (5) maintain our strong governance, risk oversight and compliance infrastructure; and (6) leverage our culture to engage employees, recognize and reward contributions to business results, and develop talent to support our business strategy and growth.

Results of Operations

We present the results of operations below first on a consolidated basis in accordance with GAAP.

GAAP Statements of Income

| | Years Ended December 31, | | | Increase (Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2018 vs. 2017 | | 2017 vs. 2016 | |
| (Dollars in millions, except per share data) | 2018 | 2017 | 2016 | $ | % | $ | % |
| Interest income: | | | | | | | |
| Loans | $1,895 | $1,413 | $1,060 | $482 | 34 % | $353 | 33 % |
| Investments | 6 | 8 | 9 | (2) | (25) | (1) | (11) |
| Cash and cash equivalents | 34 | 16 | 8 | 18 | 113 | 8 | 100 |
| Total interest income | 1,935 | 1,437 | 1,077 | 498 | 35 | 360 | 33 |
| Total interest expense | 522 | 308 | 186 | 214 | 69 | 122 | 66 |
| Net interest income | 1,413 | 1,129 | 891 | 284 | 25 | 238 | 27 |
| Less: provisions for credit losses | 245 | 186 | 159 | 59 | 32 | 27 | 17 |
| Net interest income after provisions for credit losses | 1,168 | 943 | 732 | 225 | 24 | 211 | 29 |
| Non-interest income (loss): | | | | | | | |
| Gains on sales of loans, net | 2 | — | — | 2 | — | — | — |
| Losses on sales of securities, net | (2) | — | — | (2) | — | — | — |
| Losses on derivatives and hedging activities, net | — | (8) | (1) | 8 | 100 | (7) | (700) |
| Other income | (52) | 5 | 70 | (58) | (1,160) | (65) | (93) |
| Total non-interest income (loss) | (52) | (3) | 69 | (49) | (1,633) | (72) | (104) |
| Non-interest expenses: | | | | | | | |
| Total non-interest expenses | 557 | 449 | 386 | 108 | 24 | 63 | 16 |
| Income before income tax expense | 559 | 491 | 415 | 68 | 14 | 76 | 18 |
| Income tax expense | 72 | 203 | 164 | (131) | (65) | 39 | 24 |
| Net income | 487 | 289 | 250 | 199 | 69 | | |