SLM CORP
Form 10-Q
May 06, 2010

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2010**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File Number: 001-13251

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

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

(703) 810-3000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	**Outstanding at March 31, 2010**
Voting common stock, $.20 par value	485,753,600 shares

SLM CORPORATION

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March 31, 2010

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2010	December 31, 2009
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $119,522 and $104,219, respectively)	$ 47,928,753	$ 42,978,874
FFELP Stafford Loans Held-for-Sale	16,418,101	9,695,714
FFELP Consolidation Loans (net of allowance for losses of $66,693 and $56,949, respectively)	82,177,664	68,378,560
Private Education Loans (net of allowance for losses of $2,018,676 and $1,443,440, respectively)	35,361,689	22,753,462
Other loans (net of allowance for losses of $77,159 and $73,985, respectively)	334,879	420,233
Investments:		
Available-for-sale	746,556	1,273,275
Other	654,503	740,553
Total investments	1,401,059	2,013,828
Cash and cash equivalents	6,840,902	6,070,013
Restricted cash and investments	6,115,399	5,168,871
Retained Interest in off-balance sheet securitized loans		1,828,075
Goodwill and acquired intangible assets, net	1,167,599	1,177,310
Other assets	9,767,040	9,500,358
Total assets	$ 207,513,085	$ 169,985,298
Liabilities		
Short-term borrowings	$ 41,102,389	$ 30,896,811
Long-term borrowings	157,983,266	130,546,272
Other liabilities	3,671,734	3,263,593
Total liabilities	202,757,389	164,706,676
Commitments and contingencies		
Equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized:		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000

Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock; 810 and 810 shares, respectively, issued at liquidation preference of $1,000 per share	810,370	810,370
Common stock, par value $.20 per share, 1,125,000 shares authorized: 553,408 and 552,220 shares issued, respectively	110,682	110,444
Additional paid-in capital	5,106,094	5,090,891
Accumulated other comprehensive loss (net of tax benefit of $24,535 and $23,448, respectively)	(42,511)	(40,825)
Retained earnings	72,062	604,467
Total SLM Corporation stockholders equity before treasury stock	6,621,697	7,140,347
Common stock held in treasury at cost: 67,564 and 67,222 shares, respectively	1,866,020	1,861,738
Total SLM Corporation stockholders equity	4,755,677	5,278,609
Noncontrolling interest	19	13
Total equity	4,755,696	5,278,622
Total liabilities and equity	$ 207,513,085	$ 169,985,298

Supplemental information significant assets and liabilities of variable interest entities:

	March 31, 2010	December 31, 2009
FFELP Stafford and Other Student Loans	$ 62,163,939	$ 51,067,680
FFELP Consolidation Loans	81,460,381	67,664,019
Private Education Loans	23,860,189	10,107,298
Restricted cash and investments	5,724,454	4,596,147
Other assets	4,323,164	3,639,918
Short-term borrowings	33,766,308	23,384,051
Long-term borrowings	130,114,526	101,012,628

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

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

	Three Months Ended March 31,	
	2010	**2009**
Interest income:		
FFELP Stafford and Other Student Loans	$ 283,437	$ 342,816
FFELP Consolidation Loans	523,325	489,362
Private Education Loans	565,154	387,041
Other loans	8,996	16,420
Cash and investments	4,949	5,971
Total interest income	1,385,861	1,241,610
Total interest expense	531,384	1,026,547
Net interest income	854,477	215,063
Less: provisions for loan losses	359,120	250,279
Net interest income (loss) after provisions for loan losses	495,357	(35,216)
Other income (loss):		
Securitization servicing and Residual Interest revenue (loss)		(95,305)
Gains on sales of loans and securities, net	8,653	
Gains (losses) on derivative and hedging activities, net	(82,410)	104,025
Contingency fee revenue	80,311	74,815
Collections revenue	21,966	43,656
Guarantor servicing fees	36,090	34,008
Other	190,410	192,458
Total other income	255,020	353,657
Expenses:		
Salaries and benefits	150,385	135,142
Other operating expenses	177,635	159,974
Restructuring expenses	26,282	3,773
Total expenses	354,302	298,889
Income (loss) from continuing operations, before income tax expense (benefit)	396,075	19,552
Income tax expense (benefit)	155,795	(5,517)
Net income from continuing operations	240,280	25,069
Loss from discontinued operations, net of tax benefit		(46,174)

Net income (loss)		240,280		(21,105)
Less: net income attributable to noncontrolling interest		140		281
Net income (loss) attributable to SLM Corporation		240,140		(21,386)
Preferred stock dividends		18,678		26,395
Net income (loss) attributable to SLM Corporation common stock	$	221,462	$	(47,781)
Net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	$	240,140	$	24,788
Discontinued operations, net of tax				(46,174)
Net income (loss) attributable to SLM Corporation	$	240,140	$	(21,386)
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:				
Continuing operations	$	.46	$	
Discontinued operations	$		$	(.10)
Total	$	.46	$	(.10)
Average common shares outstanding		484,259		466,761
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:				
Continuing operations	$	.45	$	
Discontinued operations	$		$	(.10)
Total	$	.45	$	(.10)
Average common and common equivalent shares outstanding		526,631		466,761
Dividends per common share attributable to SLM Corporation common shareholders	$		$	

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

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

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
ssued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
,411,271	(66,958,400)	467,452,871	$ 1,714,770	$ 106,883	$ 4,684,112	$ (76,476)	$ 426,175	$ (1,856,39
							(21,386)	
						950		
						5,409		
						(333)		
							(2,875)	
							(2,520)	
							(20,840)	
							(7)	
286,846	98	286,944		57	2,045			
					160		(160)	
					(4,495)			
					12,333			

	(147,058)	(147,058)						(3,56
4,698,117	(67,105,360)	467,592,757	$ 1,714,770	$ 106,940	$ 4,694,155	$ (70,450)	$ 378,387	$ (1,859,95
2,219,576	(67,221,942)	484,997,634	$ 1,375,370	$ 110,444	$ 5,090,891	$ (40,825)	$ 604,467	$ (1,861,73
							240,140	
						63		
						(1,712)		
						(37)		
							(2,875)	
							(955)	
							(14,688)	
							(11)	
1,188,209		1,188,209		238	6,401			
					160		(160)	
					(3,593)			
					12,235			
							(753,856)	
	(341,846)	(341,846)						(4,28

3,407,785	(67,563,788)	485,843,997	$	1,375,370	$	110,682	$	5,106,094	$	(42,511)	$	72,062	$ (1,866,02

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Operating activities		
Net income (loss)	$ 240,280	$ (21,105)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss from discontinued operations, net of tax benefit		46,174
Gains on sales of loans and securities, net	(8,653)	
Stock-based compensation cost	12,278	13,243
Unrealized (gains)/losses on derivative and hedging activities	(122,044)	(15,273)
Provisions for loan losses	359,120	250,279
Student loans originated for sale, net	(6,722,387)	(6,411,932)
Decrease in restricted cash other	25,755	35,270
(Increase) decrease in accrued interest receivable	(158,066)	458,024
Increase (decrease) in accrued interest payable	79,833	(284,223)
Adjustment for non-cash loss related to Retained Interest		249,833
Decrease in other assets, goodwill and acquired intangible assets, net	747,834	192,020
Decrease in other liabilities	(3,366)	(60,767)
Cash used in operating activities continuing operations	(5,789,696)	(5,527,352)
Cash provided by operating activities discontinued operations		80,299
Total net cash used in operating activities	(5,549,416)	(5,468,158)
Investing activities		
Student loans acquired	(2,638,358)	(2,589,083)
Loans purchased from securitized trusts		(2,194)
Reduction of student loans:		
Installment payments, claims and other	3,484,121	2,708,857
Proceeds from sales of student loans	75,493	462,311
Other loans originated		(37,017)
Other loans repaid	82,688	67,186
Other investing activities, net	80,089	22,718
Purchases of available-for-sale securities	(18,688,583)	(20,521,734)
Proceeds from sales of available-for-sale securities		100,056
Proceeds from maturities of available-for-sale securities	19,182,117	20,726,497
Purchases of held-to-maturity and other securities	(10,458)	
Proceeds from maturities of held-to-maturity securities and other securities	39,007	43,994
Increase in restricted cash on-balance sheet trusts	(52,489)	(344,780)

Net cash provided by investing activities		1,553,627		636,811
Financing activities				
Borrowings collateralized by loans in trust issued		1,544,073		1,330,930
Borrowings collateralized by loans in trust repaid		(2,099,724)		(1,432,135)
Asset-backed commercial paper conduits, net		(441,723)		682,937
ED Participation Program, net		6,740,199		6,164,514
ED Conduit Program facility, net		368,537		
Other short-term borrowings issued				100,002
Other short-term borrowings repaid				(212,720)
Other long-term borrowings issued		1,463,534		1,156,263
Other long-term borrowings repaid		(2,541,703)		(3,024,590)
Other financing activities, net		(247,746)		(905,832)
Excess tax benefit from the exercise of stock-based awards		100		
Common stock issued		11		
Preferred dividends paid		(18,517)		(26,235)
Noncontrolling interest, net		(363)		(7,988)
Net cash provided by financing activities		4,766,678		3,825,146
Net increase (decrease) in cash and cash equivalents		770,889		(1,006,201)
Cash and cash equivalents at beginning of period		6,070,013		4,070,002
Cash and cash equivalents at end of period	$	6,840,902	$	3,063,801
Cash disbursements made (refunds received) for:				
Interest	$	549,075	$	1,403,858
Income taxes, net	$	(493,132)	$	12,965

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at March 31, 2010 and for the three months ended
March 31, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company or Sallie Mae) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results for the year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

Reclassifications

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2009 to be consistent with classifications adopted for 2010, and had no effect on net income, total assets, or total liabilities.

Recently Issued Accounting Standards

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

In June 2009, the Financial Accounting Standards Board (FASB) issued topic updates to Accounting Standards Codification (ASC) 860, Transfers and Servicing, and to ASC 810, Consolidation.

The topic update to ASC 860, among other things, (1) eliminates the concept of a qualifying special purpose entity (QSPE), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. The topic update to ASC 860 is effective for transactions which occur after December 31, 2009. The impact of ASC 860 to future transactions will depend on how such transactions are structured. ASC 860 relates primarily to the Company s secured borrowing facilities. All of the Company s secured borrowing facilities entered into in 2008 and 2009, including securitization trusts, have been accounted for as on-balance sheet financing facilities. These transactions would have been accounted for in the same manner if ASC 860 had been effective during these years.

The topic update to ASC 810, significantly changes the consolidation model for variable interest entities (VIEs). The topic update amends ASC 810 and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining which entity should consolidate a VIE that is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional

disclosure. The topic update to ASC 810 is effective as of January 1, 2010.

Under ASC 810, if an entity has a variable interest in a VIE and that entity is determined to be the primary beneficiary of the VIE then that entity will consolidate the VIE. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2010 and for the three months ended
March 31, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

potentially be significant to the VIE. As it relates to the Company s securitized assets, the Company is the servicer of the securitized assets and owns the Residual Interest of the securitization trusts. As a result, the Company is the primary beneficiary of its securitization trusts and consolidated those trusts that are off-balance sheet at their historical cost basis on January 1, 2010. The historical cost basis is the basis that would exist if these securitization trusts had remained on-balance sheet since they settled. ASC 810 did not change the accounting of any other VIEs the Company has a variable interest in as of January 1, 2010. These new accounting rules will also apply to new transactions entered into from January 1, 2010 forward.

Upon adoption of topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet and the Company consolidated $35.0 billion of assets ($32.6 billion of which are student loans, net of an approximate $550 million allowance for loan loss) and $34.4 billion of liabilities (primarily trust debt), which resulted in an approximate $750 million after-tax reduction of stockholders equity (recorded as a cumulative effect adjustment to retained earnings). After the adoption of topic updates to ASC 810, the Company s results of operations no longer reflect securitization servicing and Residual Interest revenue related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties, consistent with the Company s accounting treatment of prior on-balance securitization trusts. As of January 1, 2010, there are no longer differences between the Company s GAAP and Core Earnings presentation for securitization accounting. As a result, effective January 1, 2010, the Company s Managed and on-balance sheet (GAAP) student loan portfolios are the same.

Fair Value Measurements

In January 2010, the FASB issued a topic update to ASC 820, Fair Value Measurements and Disclosures. The update improves reporting by requiring separate disclosures of the amounts of significant transfers in and out of Level 1 and 2 of fair value measurements and a description of the reasons for the transfers. In addition, a reporting unit should report separately information about purchases, sales, issuances, and settlements within the reconciliation of activity in Level 3 fair value measurements. Finally, the update clarifies existing disclosure requirements regarding the level of disaggregation in reporting classes of assets and liabilities and discussion of the inputs and valuation techniques used for Level 2 and 3 fair values. This topic update is effective for annual and interim periods beginning January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for annual and interim periods beginning January 1, 2011.

2. Allowance for Loan Losses

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2010 and for the three months ended March 31, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

The following table summarizes the total loan provisions for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Private Education Loans	$ 325,022	$ 203,545
FFELP Stafford and Other Student Loans	22,996	34,398
Mortgage and consumer loans	11,102	12,336
Total provisions for loan losses	$ 359,120	$ 250,279

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Allowance at beginning of period	$ 1,443,440	$ 1,308,043
Provision for Private Education Loan losses	325,022	203,545
Charge-offs	(284,478)	(138,815)
Reclassification of interest reserve	10,642	11,681
Consolidation of off-balance sheet trusts[1]	524,050	
Allowance at end of period	$ 2,018,676	$ 1,384,454
Charge-offs as a percentage of average loans in repayment (annualized)	4.7%	5.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.4%	4.7%
Allowance as a percentage of the ending total loan balance	5.3%	5.9%
Allowance as a percentage of ending loans in repayment	8.2%	12.3%
Allowance coverage of charge-offs (annualized)	1.7	2.5
Ending total loans[2]	$ 38,292,920	$ 23,564,123
Average loans in repayment	$ 24,645,633	$ 11,107,102
Ending loans in repayment	$ 24,705,990	$ 11,233,368

(1) Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

(2) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2010 and for the three months ended
March 31, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of March 31, 2010, December 31, 2009, and March 31, 2009.

	Private Education Loan Delinquencies					
	March 31, 2010		December 31, 2009		March 31, 2009	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 11,452		$ 8,910		$ 11,205	
Loans in forbearance[2]	1,338		967		861	
Loans in repayment and percentage of each status:						
Loans current	21,699	87.9%	12,421	86.4%	9,410	83.8%
Loans delinquent 31-60 days[3]	842	3.4	647	4.5	515	4.6
Loans delinquent 61-90 days[3]	576	2.3	340	2.4	403	3.6
Loans delinquent greater than 90 days[3]	1,589	6.4	971	6.7	905	8.0
Total Private Education Loans in repayment	24,706	100%	14,379	100%	11,233	100%
Total Private Education Loans, gross	37,496		24,256		23,299	
Private Education Loan unamortized discount	(912)		(559)		(535)	
Total Private Education Loans	36,584		23,697		22,764	
Private Education Loan receivable for partially charged-off loans	797		499		265	
Private Education Loan allowance for losses	(2,019)		(1,443)		(1,384)	
Private Education Loans, net	$ 35,362		$ 22,753		$ 21,645	
Percentage of Private Education Loans in repayment		65.9%		59.3%		48.2%
		12.2%		13.6%		16.2%

Delinquencies as a percentage of Private Education Loans in repayment			
Loans in forbearance as a percentage of loans in repayment and forbearance	5.1%	6.3%	7.1%

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

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

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2010 and for the three months ended
March 31, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,	
	2010	2009
Allowance at beginning of period	$ 161,168	$ 137,543
Provision for FFELP loan losses	22,996	34,398
Charge-offs	(21,404)	(18,880)
Decrease for student loan sales and other	(1,694)	(767)
Consolidation of off-balance sheet trusts[1]	25,149	
Allowance at end of period	$ 186,215	$ 152,294
Charge-offs as a percentage of average loans in repayment (annualized)	.1%	.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.1%	.1%
Allowance as a percentage of the ending total loan balance	.1%	.1%
Allowance as a percentage of ending loans in repayment	.2%	.2%
Allowance coverage of charge-offs (annualized)	2.1	2.0
Ending total loans, gross	$ 143,914,476	$ 126,453,600
Average loans in repayment	$ 82,437,527	$ 69,595,581
Ending loans in repayment	$ 82,457,392	$ 68,614,707

(1) Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of March 31, 2010, 47 percent of the FFELP loan portfolio was subject to 3 percent Risk Sharing, 52 percent was subject to 2 percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing.

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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of March 31, 2010, December 31, 2009 and March 31, 2009.

	FFELP Loan Delinquencies					
	March 31, 2010		December 31, 2009		March 31, 2009	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 43,719		$ 35,079		$ 44,679	
Loans in forbearance[2]	17,738		14,121		13,160	
Loans in repayment and percentage of each status:						
Loans current	68,141	82.6%	57,528	82.4%	57,925	84.4%
Loans delinquent 31-60 days[3]	4,817	5.9	4,250	6.1	3,710	5.4
Loans delinquent 61-90 days[3]	2,962	3.6	2,205	3.1	2,017	3.0
Loans delinquent greater than 90 days[3]	6,537	7.9	5,844	8.4	4,963	7.2
Total FFELP loans in repayment	82,457	100%	69,827	100%	68,615	100%
Total FFELP loans, gross	143,914		119,027		126,454	
FFELP loan unamortized premium	2,796		2,187		2,428	
Total FFELP loans	146,710		121,214		128,882	
FFELP loan allowance for losses	(186)		(161)		(152)	
FFELP loans, net	$ 146,524		$ 121,053		$ 128,730	
Percentage of FFELP loans in repayment		57.3%		58.7%		54.3%
Delinquencies as a percentage of FFELP loans in repayment		17.4%		17.6%		15.6%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		17.7%		16.8%		16.1%

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for borrowers who have requested extension of grace period during employment transition or who have temporarily ceased making full payments due to hardship or other factors.

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, and need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

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

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3. Investments

A summary of investments and restricted investments as of March 31, 2010 and December 31, 2009 follows:

	March 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale				
U.S. Treasury securities	$ 2,262	$	$	$ 2,262
Other securities:				
Asset-backed securities	81,705	245	(1,075)	80,875
Commercial paper and asset-backed commercial paper	649,992			649,992
Municipal bonds	9,935	2,055		11,990
Other	1,554		(117)	1,437
Total investment securities available-for-sale	$ 745,448	$ 2,300	$ (1,192)	$ 746,556
Restricted Investments				
Available-for sale				
U.S. Treasury securities	$ 24,835	$	$	$ 24,835
Guaranteed investment contracts	35,006			35,006
Total restricted investments available-for-sale	$ 59,841	$	$	$ 59,841
Held-to-maturity				
Guaranteed investment contracts	$ 3,550	$	$	$ 3,550
Total restricted investments held-to-maturity	$ 3,550	$	$	$ 3,550

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3. Investments (Continued)

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale				
U.S. Treasury securities	$ 272	$	$	$ 272
Other securities:				
Asset-backed securities	110,336	306	(893)	109,749
Commercial paper and asset-backed commercial paper	1,149,981			1,149,981
Municipal bonds	9,935	1,942		11,877
Other	1,550		(154)	1,396
Total investment securities available-for-sale	$ 1,272,074	$ 2,248	$ (1,047)	$ 1,273,275
Restricted Investments				
Available-for sale				
U.S. Treasury securities	$ 25,026	$	$	$ 25,026
Guaranteed investment contracts	26,951			26,951
Total restricted investments available-for-sale	$ 51,977	$	$	$ 51,977
Held-to-maturity				
Guaranteed investment contracts	$ 3,550	$	$	$ 3,550
Other	215			215
Total restricted investments held-to-maturity	$ 3,765	$	$	$ 3,765

In addition to the restricted investments detailed above, at March 31, 2010 and December 31, 2009, the Company had restricted cash and cash equivalents of $6.0 billion and $5.1 billion, respectively. As of March 31, 2010 and December 31, 2009, $25 million (all of which is in restricted cash and investments on the balance sheet) and $50 million ($25 million of which is in restricted cash and investments on the balance sheet), respectively, of available-for-sale investment securities were pledged as collateral.

There were no sales of investments, including available-for-sale securities, during the three months ended March 31, 2010. In the three months ended March 31, 2009, the Company sold available-for-sale securities with a fair value of

$100 million, resulting in no realized gain or loss. The cost basis for these securities was determined through specific identification of the securities sold.

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3. Investments (Continued)

As of March 31, 2010, the stated maturities for the investments (including restricted investments) are shown in the following table:

	March 31, 2010		
	Held-to-Maturity	Available-for-Sale[1]	Other
Year of Maturity			
2010	$	$ 678,526	$ 583,740
2011			5,080
2012			
2013		676	5,916
2014			
2015-2019		11,990	59,768
After 2019	3,550	115,205	4,744
Total	$ 3,550	$ 806,397	$ 659,248

[1] Available-for-sale securities are stated at fair value.

At March 31, 2010 and December 31, 2009, the Company also had other investments of $659 million and $741 million, respectively. At March 31, 2010 and December 31, 2009, other investments included $582 million and $636 million, respectively, of receivables for cash collateral posted with derivative counterparties. Other investments also included leveraged leases which at March 31, 2010 and December 31, 2009, totaled $65 million and $66 million, respectively, that are general obligations of American Airlines and Federal Express Corporation. At December 31, 2009, other investments also included the Company s remaining investment in The Reserve Primary Fund totaling $32 million. The Company received $32 million from The Reserve Primary Fund on January 29, 2010, resulting in an investment balance of zero.

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4. Goodwill and Acquired Intangible Assets

Goodwill

All acquisitions must be assigned to a reporting unit or units. A reporting unit is the same as or one level below an operating segment. The following table summarizes the Company s historical allocation of goodwill to its reporting units, accumulated impairments and net goodwill for each reporting unit.

	As of March 31, 2010 and December 31, 2009		
(Dollars in millions)	**Gross**	**Accumulated Impairments**	**Net**
Lending	$ 412	$ (24)	$ 388
APG	401		401
Guarantor Servicing	62		62
Upromise	140		140
Other	1	(1)	
Total	$ 1,016	$ (25)	$ 991

Impairment Testing

The Company performs goodwill impairment testing annually in the fourth quarter as of a September 30 valuation date or more frequently if an event occurs or circumstances change such that there is a potential that the fair value of a reporting unit or reporting units may be below their respective carrying values.

On March 30, 2010, President Obama signed into law H.R. 4872, which included the Student Aid and Fiscal Responsibility Act (SAFRA). Effective July 1, 2010, the legislation eliminates the authority to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Student Loan Program (DSLP). The new law does not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law. This restructuring will result in both a significant amount of restructuring expenses incurred as well as a significant reduction of on-going operating costs once the restructuring is complete. See Note 12, Restructuring Activities for further details.

In connection with the passage of SAFRA legislation on March 30, 2010, a trigger event occurred for the Lending, APG and Guarantor Servicing reporting units which requires the Company to assess potential goodwill impairment as of March 31, 2010. As part of the impairment assessment, the Company considered the implications of the SAFRA legislation to these reporting units as well as continued uncertainty in the economy and the tight credit markets during

the first quarter of 2010. The impairment assessment methodology utilized a discounted cash flow analysis for each reporting unit affected by the new SAFRA legislation. This assessment resulted in estimated fair values of the Company s reporting units in excess of their carrying values at March 31, 2010. Accordingly, there was no indicated impairment for these reporting units in the first quarter of 2010. Likewise, in conjunction with the Company s annual impairment assessment in the fourth quarter of 2009, the cash flow projections for the Lending, APG and Guarantor Servicing reporting units were valued assuming the proposed SAFRA legislation was passed. There was no indicated impairment for any of the reporting units in the fourth quarter of 2009.

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4. Goodwill and Acquired Intangible Assets (Continued)

As a result of the passage of the SAFRA legislation, certain revenue streams in the Lending and APG reporting units and the entire revenue stream of the Guarantor Servicing reporting unit will wind down over time. As these revenue streams wind down, goodwill impairment may be triggered for the Lending and APG reporting units and will definitely be triggered for the Guarantor Servicing reporting unit due to the passage of time and depletion of projected cash flows stemming from FFELP-related contracts.

Management acknowledges that the economic slowdown could adversely affect the operating results of the Company s reporting units. If the forecasted performance of the Company s reporting units is not achieved, or if the Company s stock price declines to a depressed level resulting in deterioration in the Company s total market capitalization, the fair value of one or more of the reporting units could be significantly reduced, and the Company may be required to record a charge, which could be material, for an impairment of goodwill.

Goodwill by Reportable Segments

A summary of changes in the Company s goodwill by reportable segment is as follows:

(Dollars in millions)	December 31, 2009	Acquisitions/ Other	March 31, 2010
Lending	$ 388	$	$ 388
Asset Performance Group	401		401
Corporate and Other	202		202
Total	$ 991	$	$ 991

(Dollars in millions)	December 31, 2008	Acquisitions/ Other	December 31, 2009
Lending	$ 388	$	$ 388
Asset Performance Group	401		401
Corporate and Other	202		202
Total	$ 991	$	$ 991

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4. Goodwill and Acquired Intangible Assets (Continued)

Acquired Intangible Assets

Acquired intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of March 31, 2010 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	13 years	$ 332	$ (217)	$ 115
Software and technology	7 years	98	(90)	8
Non-compete agreements		11	(11)	
Total		441	(318)	123
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (318)	$ 177

(Dollars in millions)	Average Amortization Period	As of December 31, 2009 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 332	$ (208)	$ 124
Software and technology	7 years	98	(89)	9
Non-compete agreements		11	(11)	
Total		441	(308)	133
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (308)	$ 187

The Company recorded amortization of acquired intangible assets from continuing operations totaling $10 million for both the three months ended March 30, 2010 and 2009, respectively. The Company will continue to amortize its

intangible assets with definite useful lives over their remaining estimated useful lives.

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5. Borrowings

The following table summarizes the Company s borrowings as of March 31, 2010 and December 31, 2009.

	March 31, 2010			December 31, 2009		
(Dollars in millions)	Short Term	Long Term	Total	Short Term	Long Term	Total
Unsecured borrowings	$ 4,831	$ 22,214	$ 27,045	$ 5,185	$ 22,797	$ 27,982
Unsecured term bank deposits	1,208	4,202	5,410	842	4,795	5,637
ED Participation Program facility	15,746		15,746	9,006		9,006
ED Conduit Program facility	14,682		14,682	14,314		14,314
ABCP borrowings	3,278	5,000	8,278		8,801	8,801
Securitizations		122,277	122,277		89,200	89,200
Indentured trusts	60	1,505	1,565	64	1,533	1,597
Other[(1)]	1,159		1,159	1,472		1,472
Total before fair value adjustments	40,964	155,198	196,162	30,883	127,126	158,009
ASC 815 fair value adjustments	138	2,786	2,924	14	3,420	3,434
Total	$ 41,102	$ 157,984	$ 199,086	$ 30,897	$ 130,546	$ 161,443

(1) Other primarily consists of cash collateral held related to derivative exposures that are recorded as a short-term debt obligation.

As of March 31, 2010, the Company had $3.5 billion in unsecured revolving credit facilities which provide liquidity support for general corporate purposes. The Company has never drawn on these facilities. These facilities include a $1.9 billion revolving credit facility maturing in October 2010 and a $1.6 billion revolving credit facility maturing in October 2011. On May 5, 2010, the $1.9 billion revolving credit facility maturing in October 2010 was terminated.

The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $2.9 billion as of March 31, 2010. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters adjusted Core Earnings financial performance. The Company was compliant with both of the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended March 31, 2010. The Company has not relied upon the Company s unsecured revolving credit facilities as a primary source of liquidity. Even though the

Company has never borrowed under these facilities, the revolving credit facility maturing October 2011 remains available to be drawn upon for general corporate purposes.

Secured Borrowings

VIEs are required to be consolidated by their primary beneficiaries. The criteria to be considered the primary beneficiary changed on January 1, 2010 upon the adoption of topic updates to ASC 810 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion). A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity s activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

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5. Borrowings (Continued)

The Company currently consolidates a number of financing entities that are VIEs as a result of being the entities primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. The Company is the primary beneficiary of and currently consolidates the following financing VIEs as of March 31, 2010 and December 31, 2009:

	March 31, 2010						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 15,746	$	$ 15,746	$ 16,148	$ 176	$ 152	$ 16,476
ED Conduit Program facility	14,682		14,682	14,952	411	396	15,759
ABCP borrowings	3,278	5,000	8,278	9,202	170	83	9,455
Securitizations		122,277	122,277	125,349	4,753	3,671	133,773
Indentured trusts	60	1,505	1,565	1,834	214	21	2,069
Total before fair value adjustments	33,766	128,782	162,548	167,485	5,724	4,323	177,532
ASC 815 fair value adjustment		1,333	1,333				
Total	$ 33,766	$ 130,115	$ 163,881	$ 167,485	$ 5,724	$ 4,323	$ 177,532

	December 31, 2009						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 9,006	$	$ 9,006	$ 9,397	$ 115	$ 61	$ 9,573

ED Conduit Program facility	14,314		14,314	14,594	478	372	15,444
ABCP borrowings		8,801	8,801	9,929	204	100	10,233
Securitizations		89,200	89,200	93,021	3,627	3,083	99,731
Indentured trusts	64	1,533	1,597	1,898	172	24	2,094
Total before fair value adjustments	23,384	99,534	122,918	128,839	4,596	3,640	137,075
ASC 815 fair value adjustment		1,479	1,479				
Total	$ 23,384	$ 101,013	$ 124,397	$ 128,839	$ 4,596	$ 3,640	$ 137,075

Asset-Backed Financing Facilities

During the first quarter of 2008, the Company entered into three new asset-backed financing facilities (the 2008 Asset-Backed Financing Facilities) to fund FFELP and Private Education Loans. In 2009, the FFELP facilities were subsequently amended and reduced and the Private Education facility was retired.

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5. Borrowings (Continued)

On January 15, 2010, the Company terminated the 2008 Asset-Backed Financing Facilities for FFELP and entered into new multi-year ABCP facilities (the 2010 Facility) which will continue to provide funding for the Company s federally guaranteed student loans. The 2010 Facility provides for maximum funding of $10 billion for the first year, $5 billion for the second year and $2 billion for the third year. Upfront fees related to the 2010 Facility were approximately $4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be commercial paper issuance cost plus 0.50 percent, excluding up-front commitment and unused fees.

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. Funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the Company s failure to comply with the principal financial covenants in its unsecured revolving credit facilities. Increases in the borrowing rate of up to LIBOR plus 450 basis points could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 200 basis points to LIBOR plus 300 basis points over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon. As of March 31, 2010, there was approximately $8.3 billion outstanding under this facility. The book basis of the assets securing this facility at March 31, 2010 was $9.5 billion.

The Department of Education (ED) Funding Programs

In August 2008, ED implemented the Purchase Program and the Loan Purchase Participation Program (the Participation Program) pursuant to ECASLA. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under the Participation Program, ED provides short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate equal to the preceding quarter commercial paper rate plus 0.50 percent on the principal amount of participation interests outstanding. Under the terms of the Participation Program, on September 30, 2010, AY 2009-2010 loans funded under the Participation Program must be either repurchased by the Company or sold to ED pursuant to the Participation Program, which has identical economics to the Purchase Program. Given the state of the credit markets, the Company currently expects to sell all of the loans funded under the Participation Program to ED. Loans eligible for the Participation or Purchase Programs are limited to FFELP Stafford or PLUS Loans, first disbursed on or after May 1, 2008 but no later than July 1, 2010, with no ongoing borrower benefits other than permitted rate reductions of 0.25 percent for automatic payment processing. As of March 31, 2010, the Company had $15.7 billion of advances outstanding under the Participation Program. No Company loans from AY 2009-2010 have been sold to ED as of March 31, 2010.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS Loans from a conduit vehicle established to provide funding for eligible student lenders (the ED Conduit Program). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1,

2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements, including those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and will accept eligible loans through July 1, 2010. The ED Conduit Program has a term of five years and will expire on January 19, 2014. Funding for the ED Conduit Program is

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5. Borrowings (Continued)

provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank (FFB). The FFB will hold the notes for a short period of time and, if at the end of that time the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through the Put Agreement at a price of 97 percent of the face amount of the loans. As of March 31, 2010, approximately $15.0 billion face amount of the Company s Stafford and PLUS Loans were funded through the ED Conduit Program. For the first quarter of 2010, the average interest rate paid on this facility was approximately 0.62 percent. As of March 31, 2010, there is less than $200 million face amount of additional FFELP Stafford and PLUS Loans (excluding loans currently in the Participation Program) that can be funded through the ED Conduit Program.

Securitizations

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. The Term Asset-Backed Securities Loan Facility (TALF) was initiated on March 17, 2009 and provided investors who purchase eligible ABS with funding of up to five years. Eligible ABS include AAA rated student loan ABS backed by FFELP and Private Education Loans first disbursed since May 1, 2007. For student loan collateral, TALF expired on March 31, 2010.

In 2009, the Company completed four FFELP long-term ABS transactions totaling $5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the TALF.

During 2009, the Company completed $7.5 billion of Private Education Loan term ABS transactions, all of which were private placement transactions. On January 6, 2009, the Company closed a $1.5 billion 12.5 year ABS based facility. This facility is used to provide up to $1.5 billion term financing for Private Education Loans. The fully utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent. In connection with this facility, the Company completed one Private Education Loan term ABS transaction totaling $1.5 billion in the first quarter of 2009. The net funding received under the ABS based facility for this issuance was $1.1 billion. In addition, the Company completed $6.0 billion of Private Education Loan term ABS transactions which were TALF-eligible.

During the first quarter of 2010, the Company completed a $1.6 billion Private Education Loan term ABS transaction which was TALF-eligible. The issuance included one $149 million tranche bearing a coupon of Prime minus 0.05 percent and a second $1.401 billion tranche bearing a coupon of 1-month LIBOR plus 3.25 percent.

On April 12, 2010, the Company priced a $1.2 billion FFELP long-term ABS transaction. The transaction settled on April 15, 2010 and includes $1.2 billion A Notes bearing a coupon of 1-month LIBOR plus 0.40 percent and $37 million B Notes bearing a coupon of 1-month LIBOR plus 0.90 percent. The B Notes were purchased by the

Company in their entirety on the settlement date. This transaction was composed primarily of FFELP Stafford and PLUS loans.

The Company has $5.3 billion face amount of Private Education Loan securitization bonds outstanding at March 31, 2010, where the Company has the ability to call the bonds at a discount to par between 2011 and 2014. The Company has concluded that it is probable it will call these bonds at the call date at the respective

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5. Borrowings (Continued)

discount. Probability is based on the Company s assessment of whether these bonds can be refinanced at the call date at or lower than a breakeven cost of funds based on the call discount. As a result, the Company is accreting this call discount as a reduction to interest expense through the call date. If it becomes less than probable that the Company will call these bonds at a future date, it will result in the Company reversing this prior accretion as a cumulative catch-up adjustment. The Company has accreted approximately $86 million, cumulatively, and $26 million in the first quarter of 2010 as a reduction of interest expense.

Auction Rate Securities

At March 31, 2010, the Company had $3.3 billion of taxable and $1.1 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of the Company s auction rate securities interest rates are set. As a result, $3.6 billion of the Company s auction rate securities as of March 31, 2010 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on the Company s taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company s tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 0.84 percent during the first quarter of 2010. As of March 31, 2010, $0.8 billion of auction rate securities with shorter weighted average terms to maturity have had successful auctions, resulting in an average rate of 1.56 percent.

Indentured Trusts

The Company has secured assets and outstanding bonds in indentured trusts resulting from the acquisition of various student loan providers in prior periods. The indentures were created and bonds issued to finance the acquisition of student loans guaranteed under the Higher Education Act. The bonds are limited obligations of the Company and are secured by and payable from payments associated with the underlying secured loans.

Federal Home Loan Bank in Des Moines (FHLB-DM)

On January 15, 2010, HICA Education Loan Corporation (HICA), a subsidiary of the Company, entered into a lending agreement with the FHLB-DM. Under the agreement, the FHLB-DM will provide advances backed by Federal Housing Finance Agency approved collateral which includes federally-guaranteed student loans. The initial borrowing of $25 million at a rate of 0.23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of March 31, 2010, subject to available collateral, is approximately $11 billion. As of March 31, 2010, borrowing under the facility totaled $90 million. The Company has provided a guarantee to the FHLB-DM for the performance and payment of HICA s obligations.

6. Student Loan Securitization

The Company securitizes its FFELP Stafford loans, FFELP Consolidation Loans and Private Education Loan assets. Prior to the adoption of topic updates to the FASB s ASC 810 on January 1, 2010, for transactions qualifying as sales, the Company retained a Residual Interest and servicing rights (as the Company retained the servicing responsibilities), all of which were referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest was the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if

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6. Student Loan Securitization (Continued)

any), other fees, and the principal and interest on the bonds backed by the student loans. As a result of adopting the topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further details).

Securitization Activity

The following table summarizes the Company s securitization activity for the three months ended March 31, 2010 and 2009. The securitizations in the periods presented below were accounted for as financing under ASC 860.

	Three Months Ended March 31,			
	2010		2009	
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**No. of Transactions**	**Loan Amount Securitized**
Securitizations:				
FFELP Stafford/PLUS Loans		$		$
FFELP Consolidation Loans				
Private Education Loans	1	1,929	1	2,891
Total securitizations	1	$ 1,929	1	$ 2,891

The following table summarizes cash flows received from or paid to the off-balance sheet securitization trusts during the three months ended March 31, 2009.

(Dollars in millions)	**Three Months Ended March 31, 2009**
Net proceeds from new securitizations completed during the period	$
Cash distributions from trusts related to Residual Interests	114
Servicing fees received[1]	58
Purchases of previously transferred financial assets for representation and warranty violations	(3)
Reimbursements of borrower benefits[2]	(8)

Purchases of delinquent Private Education Loans from securitization trusts using delinquent loan call option
Purchases of loans using clean-up call option

(1) The Company receives annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to its FFELP Stafford, FFELP Consolidation Loan and Private Education Loan securitizations, respectively.

(2) Under the terms of the securitizations, the transaction documents require that the Company reimburse the trusts for any borrower benefits afforded the borrowers of the underlying securitized loans.

Retained Interest in Securitized Receivables

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

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6. Student Loan Securitization (Continued)

as sales as of December 31, 2009. As noted previously, the Residual Interest was removed from the balance sheet on January 1, 2010.

	As of December 31, 2009			
(Dollars in millions)	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests	$ 243	$ 791	$ 794	$ 1,828
Underlying securitized loan balance	5,377	14,369	12,986	32,732
Weighted average life	3.3yrs.	9.0yrs.	6.3yrs.	
Prepayment speed (annual rate)[2]				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal)[3][4]	.10%	.25%	5.31%	
Residual cash flows discount rate	10.6%	12.3%	27.5%	

(1) Includes $569 million related to the fair value of the Embedded Floor Income as of December 31, 2009.

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

(3) Remaining expected credit losses as of the respective balance sheet date.

(4) For Private Education Loan trusts, estimated defaults from settlement to maturity are 12.2 percent at December 31, 2009. These estimated defaults do not include recoveries related to defaults but do include prior purchases of loans at par by the Company when loans reached 180 days delinquent (prior to default) under a contingent call option. Although these loan purchases do not result in a realized loss to the trust, the Company has included them here. Not including these purchases in the disclosure would result in estimated defaults of 9.3 percent at December 31, 2009.

The Company recorded net unrealized mark-to-market losses in securitization servicing and Residual Interest revenue (loss) of $261 million for the three months ended March 31, 2009.

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6. Student Loan Securitization (Continued)

As of March 31, 2009, the Company had changed the following significant assumptions compared to those used as of December 31, 2008, to determine the fair value of the Residual Interests:

Life of loan default rate assumptions for Private Education Loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $49 million unrealized mark-to-market loss.

The discount rate assumption related to the Private Education Loan was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate for the purpose of arriving at a discount rate, in light of the current economic and credit uncertainty that exists in the market as of March 31, 2009. This discount rate was applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium by 500 basis points to take into account the level of cash flow uncertainty and lack of liquidity that existed with the Residual Interests as of March 31, 2009. This resulted in a $126 million unrealized mark-to-market loss.

The table below shows the Company s off-balance sheet Private Education Loan delinquencies as of March 31, 2009.

	Off-Balance Sheet Private Education Loan Delinquencies March 31, 2009	
(Dollars in millions)	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 3,419	
Loans in forbearance[2]	619	
Loans in repayment and percentage of each status:		
Loans current	8,570	90.0%
Loans delinquent 31-60 days[3]	297	3.1
Loans delinquent 61-90 days[3]	222	2.3
Loans delinquent greater than 90 days[3]	434	4.6
Total off-balance sheet Private Education Loans in repayment	9,523	100%
Total off-balance sheet Private Education Loans, gross	$ 13,561	

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

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

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

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6. Student Loan Securitization (Continued)

The following table summarizes charge-off activity for Private Education Loans in the off-balance sheet trusts for the three months ended March 31, 2009.

(Dollars in millions)	Three Months Ended March 31, 2009
Charge-offs	$ 63
Charge-offs as a percentage of average loans in repayment (annualized)	2.7%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	2.5%
Ending off-balance sheet total Private Education Loans[1]	$ 13,669
Average off-balance sheet Private Education Loans in repayment	$ 9,413
Ending off-balance sheet Private Education Loans in repayment	$ 9,523

[1] Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans (see Note 2, Allowance for Loan Losses).

7. Derivative Financial Instruments

Derivative instruments are used as part of the Company s interest rate and foreign currency risk management strategy and include interest rate swaps, basis swaps, cross-currency interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities. (For a full discussion of the Company s risk management strategy and use of derivatives, please see the Company s 2009 Form 10-K, Note 9, Derivative Financial Instruments, to the consolidated financial statements.) The accounting of the Company s derivatives requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company s derivative instruments are classified and accounted for by the Company as fair value hedges, cash flow hedges or trading activities.

Fair Value Hedges

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. The Company also enters into cross-currency interest rate swaps to convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. Changes in value for both the hedge and the hedged item are recorded to earnings. These amounts offset each other with the net amount representing the ineffectiveness of the relationship.

Cash Flow Hedges

Cash flow hedges are used by the Company to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on the effective portion of a qualifying hedge are accumulated in other comprehensive income and ineffectiveness is recorded immediately to earnings.

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7. Derivative Financial Instruments (Continued)

Trading Activities

When instruments do not qualify as hedges, they are accounted for as trading where all changes in fair value of the derivatives are recorded through earnings. In general, derivative instruments included in trading activities include Floor Income Contracts, basis swaps and various other derivatives that do not qualify for hedge accounting under ASC 815.

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at March 31, 2010 and December 31, 2009, and their impact on other comprehensive income and earnings for the three months ended March 31, 2010 and 2009.

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow Mar. 31, 2010	Cash Flow Dec. 31, 2009	Fair Value Mar. 31, 2010	Fair Value Dec. 31, 2009	Trading Mar. 31, 2010	Trading Dec. 31, 2009	Total Mar. 31, 2010	Total Dec. 31, 2009
Fair Values[1]									
Derivative Assets									
Interest rate swaps	Interest rate	$	$	$ 754	$ 684	$ 129	$ 133	$ 883	$ 817
Cross currency interest rate swaps	Foreign currency and interest rate			2,586	2,932	37	44	2,623	2,976
Total derivative assets[3]				3,340	3,616	166	177	3,506	3,793
Derivative Liabilities									
Interest rate swaps	Interest rate	(87)	(78)	(21)	(6)	(580)	(639)	(688)	(723)
Floor Income Contracts	Interest rate					(1,441)	(1,234)	(1,441)	(1,234)
Cross currency interest rate swaps	Foreign currency and interest rate			(320)	(192)	(1)	(1)	(321)	(193)
Other[2]	Interest rate					(24)	(20)	(24)	(20)

Total derivative liabilities[3]	(87)	(78)	(341)	(198)	(2,046)	(1,894)	(2,474)	(2,170)
Net total derivatives	$ (87)	$ (78)	$ 2,999	$ 3,418	$ (1,880)	$ (1,717)	$ 1,032	$ 1,623

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net positive or negative position.

(2) Other includes the fair value of Euro-dollar futures contracts, the embedded derivatives in asset-backed financings, and derivatives related to the ABS based facility. The embedded derivatives are required to be accounted for as derivatives.

(3) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

	Other Assets		**Other Liabilities**	
	March 31, 2010	**December 31, 2009**	**March 31, 2010**	**December 31, 2009**
Gross position	$ 3,506	$ 3,793	$ (2,474)	$ (2,170)
Impact of master netting agreements	(1,017)	(1,009)	1,017	1,009
Derivative values with impact of master netting agreements	2,489	2,784	(1,457)	(1,161)
Cash collateral (held) pledged	(860)	(1,268)	582	636
Net position	$ 1,629	$ 1,516	$ (875)	$ (525)

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7. Derivative Financial Instruments (Continued)

	Cash Flow		Fair Value		Trading		Total	
(Dollars in billions)	Mar. 31, 2010	Dec. 31, 2009	Mar. 31, 2010	Dec. 31, 2009	Mar. 31, 2010	Dec. 31, 2009	Mar. 31, 2010	Dec. 31, 2009
Notional Values								
Interest rate swaps	$ 1.7	$ 1.7	$ 14.4	$ 12.4	$ 150.6	$ 148.2	$ 166.7	$ 162.3
Floor Income Contracts					41.2	47.1	41.2	47.1
Cross currency interest rate swaps			21.6	19.3	.3	.3	21.9	19.6
Other[1]					1.2	1.1	1.2	1.1
Total derivatives	$ 1.7	$ 1.7	$ 36.0	$ 31.7	$ 193.3	$ 196.7	$ 231.0	$ 230.1

(1) Other includes Euro-dollar futures contracts, embedded derivatives bifurcated from securitization debt, as well as derivatives related to the ABS facility.

Impact of Derivatives on Consolidated Statements of Income

	Three Months Ended March 31,							
	Unrealized Gain (Loss) on Derivatives[1][2]		Realized Gain (Loss) on Derivatives[3]		Unrealized Gain (Loss) on Hedged Item[1]		Total Gain (Loss)	
(Dollars in millions)	2010	2009	2010	2009	2010	2009	2010	2009
Fair Value Hedges								
Interest rate swaps	$ 55	$ (183)	$ 120	$ 79	$ (63)	$ 194	$ 112	$ 90
Cross currency interest rate swaps	(1,348)	(922)	101	76	1,363	1,023	116	177
Total fair value derivatives	(1,293)	(1,105)	221	155	1,300	1,217	228	267
Cash Flow Hedges								
Interest rate swaps	(1)	4	(15)	(18)			(16)	(14)
	(1)	4	(15)	(18)			(16)	(14)

Total cash flow derivatives								
Trading								
Interest rate swaps	110	(300)	6	229			116	(71)
Floor Income Contracts	19	167	(210)	(140)			(191)	27
Cross currency interest rate swaps	(7)	(32)	2				(5)	(32)
Other	(6)	64	(2)				(8)	64
Total trading derivatives	116	(101)	(204)	89			(88)	(12)
Total	(1,178)	(1,202)	2	226	1,300	1,217	124	241
Less: realized gains (losses) recorded in interest expense			206	137			206	137
Gains (losses) on derivative and hedging activities, net	$ (1,178)	$ (1,202)	$ (204)	$ 89	$ 1,300	$ 1,217	$ (82)	$ 104

(1) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in Gains (losses) on derivative and hedging activities, net.

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7. Derivative Financial Instruments (Continued)

Impact of Derivatives on Consolidated Statements of Changes in Stockholders Equity (net of tax)

(Dollars in millions)	Three Months Ended March 31, 2010	2009
Total gains (losses) on cash flow hedges	$ (15)	$ (4)
Realized (gains) losses reclassified to interest expense[(1)(2)(3)]	12	11
Hedge ineffectiveness reclassified to earnings[(1)(4)]	1	(2)
Total change in stockholders equity for unrealized gains (losses) on derivatives	$ (2)	$ 5

(1) Amounts included in Realized gain (loss) on derivatives in the Impact of Derivatives on Consolidated Statements of Income table above.

(2) Includes net settlement income/expense.

(3) The Company expects to reclassify $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to net settlement accruals on interest rate swaps.

(4) Recorded in Gains (losses) derivatives and hedging activities, net in the consolidated statements of income.

Collateral

Collateral held and pledged at March 31, 2010 and December 31, 2009 related to derivative exposures between the Company and its derivative counterparties are detailed in the following table:

(Dollars in millions)	March 31, 2010	December 31, 2009
Collateral held:		
Cash (obligation to return cash collateral is recorded in short-term borrowings)[(1)]	$ 860	$ 1,268
	246	112

Securities at fair value corporate derivatives (not recorded in financial statements)[2]				
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[3]		677		717
Total collateral held	$	1,783	$	2,097
Derivative asset at fair value including accrued interest	$	2,987	$	3,119
Collateral pledged to others:				
Cash (right to receive return of cash collateral is recorded in investments)	$	582	$	636
Securities at fair value (recorded in investments)[4]				25
Securities at fair value (recorded in restricted investments)[5]		25		25
Securities at fair value re-pledged (not recorded in financial statements)[5][6]		160		87
Total collateral pledged	$	767	$	773
Derivative liability at fair value including accrued interest and premium receivable	$	804	$	758

(1) At March 31, 2010 and December 31, 2009, $288 million and $447 million, respectively, were held in restricted cash accounts.

(2) Effective with the downgrade in the Company s unsecured credit ratings on May 13, 2009, certain counterparties restrict the Company s ability to sell or re-pledge securities it holds as collateral.

(3) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

(4) Counterparty does not have the right to sell or re-pledge securities.

(5) Counterparty has the right to sell or re-pledge securities.

(6) Represents securities the Company holds as collateral that have been pledged to other counterparties.

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7. Derivative Financial Instruments (Continued)

The Company s corporate derivatives contain credit contingent features. At the Company s current unsecured credit rating, it has fully collateralized its corporate derivative liability position (including accrued interest and net of premiums receivable) of $663 million with its counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades; however, these counterparties are currently in an asset position and would be required to deliver assets to the Company in order to terminate. Trust related derivatives do not contain credit contingent features related to the Company s or trusts credit ratings.

Additionally, as of December 31, 2009, $381 million in collateral related to off-balance sheet trust derivatives were held by these off-balance sheet trusts. Collateral posted by third parties to the off-balance sheet trusts cannot be sold or re-pledged by the trusts. As of January 1, 2010, the off-balance sheet trusts were consolidated with the adoption of topic updates to ASC 810. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model.)

8. Other Assets

The following table provides detail on the Company s other assets at March 31, 2010 and December 31, 2009.

	March 31, 2010		December 31, 2009	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable	$ 3,261,880	33%	$ 2,566,984	27%
Derivatives at fair value	2,488,862	25	2,783,696	29
Income tax asset, net current and deferred	1,533,540	16	1,750,424	18
APG purchased paper receivables and real estate owned	245,822	3	286,108	3
Benefit and insurance-related investments	474,162	5	472,079	5
Fixed assets, net	323,914	3	322,481	3
Accounts receivable general	967,984	10	807,086	9
Other	470,876	5	511,500	6
Total	$ 9,767,040	100%	$ 9,500,358	100%

The Derivatives at fair value line in the above table represents the fair value of the Company s derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At March 31, 2010 and December 31, 2009, these balances included $3.0 billion and $3.4 billion, respectively, of cross-currency interest rate swaps and interest

rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of March 31, 2010 and December 31, 2009, the cumulative mark-to-market adjustment to the hedged debt was $(2.9) billion and $(3.4) billion, respectively.

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9. Stockholders Equity

The following table summarizes the Company s common share repurchases and issuances for the three months ended March 31, 2010 and 2009.

(Shares in millions)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Common shares repurchased:		
Benefit plans[1]	.3	.1
Total shares repurchased	.3	.1
Average purchase price per share	$ 12.53	$ 24.25
Common shares issued	1.2	.3
Authority remaining at end of period for repurchases	38.8	38.8

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

The closing price of the Company s common stock on March 31, 2010 was $12.52.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive loss as of March 31, 2010, December 31, 2009 and March 31, 2009.

	March 31, 2010	December 31, 2009	March 31, 2009
Net unrealized gains (losses) on investments[1][2]	$ 1,692	$ 1,629	$ (293)
Net unrealized gains (losses) on derivatives[3]	(55,611)	(53,899)	(88,577)
Defined benefit pension plans:			

Net gain	11,408	11,445	18,420
Total defined benefit pension plans[4]	11,408	11,445	18,420
Total accumulated other comprehensive loss	$ (42,511)	$ (40,825)	$ (70,450)

[1] Net of tax expense of $.9 million and $.9 million as of March 31, 2010 and December 31, 2009, respectively, and a tax benefit of $.6 million as of March 31, 2009.

[2] Net unrealized gains (losses) on investments includes currency translation gains of $1 million, $.8 million and $.3 million as of March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

[3] Net of tax benefit of $32 million, $31 million and $51 million as of March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

[4] Net of tax expense of $7 million, $7 million and $11 million as of March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

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10. Earnings (Loss) per Common Share

Basic earnings (loss) per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31, 2010	2009
Numerator:		
Net income (loss) from continuing operations attributable to common stock	$ 221,462	$ (1,607)
Adjusted for dividends of convertible preferred stock series C(1)	14,688	
Net income (loss) from continuing operations attributable to common stock, adjusted	236,150	(1,607)
Net income (loss) from discontinued operations		(46,174)
Net income (loss) attributable to common stock, adjusted	$ 236,150	$ (47,781)
Denominator (shares in thousands):		
Weighted average shares used to compute basic EPS	484,259	466,761
Effect of dilutive securities:		
Dilutive effect of convertible preferred stock series C(1)	41,240	
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units and Employee Stock Purchase Plan (ESPP(2))	1,132	
Dilutive potential common shares(3)	42,372	
Weighted average shares used to compute diluted EPS	526,631	466,761
Basic earnings (loss) per common share:		
Continuing operations	$ .46	$
Discontinued operations		(.10)
Total	$ .46	$ (.10)
Diluted earnings (loss) per common share:		
Continuing operations	$ .45	$
Discontinued operations		(.10)
Total	$ .45	$ (.10)

(1) The Company s 7.25 percent mandatory convertible preferred stock Series C was issued on December 31, 2007. The mandatory convertible preferred stock will automatically convert on December 15, 2010, into between approximately 34 million shares and 41 million shares of common stock, depending upon the Company s stock price at that time. Depending upon the amount of the mandatory convertible preferred stock outstanding as of that date, the actual number of shares of common stock issued may be less. These instruments were anti-dilutive for the three months ended March 31, 2009.

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

(3) For the three months ended March 31, 2010 and 2009, stock options covering approximately 33 million shares and 45 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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11. Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,	
	2010	2009
Gains on debt repurchases	$ 90,081	$ 63,755
Late fees and forbearance fees	41,383	36,712
Asset servicing and other transaction fees	27,892	25,055
Loan servicing fees	19,247	10,046
Foreign currency translation gains, net	847	39,684
Other	10,960	17,206
Total	$ 190,410	$ 192,458

The change in other income over the prior period was primarily the result of the gains on debt repurchases and foreign currency translation gains. The Company began repurchasing its outstanding debt in the second quarter of 2008 in both open-market repurchases and public tender offers. The Company repurchased $1.3 billion and $144 million face amount of its senior unsecured notes for the quarters ended March 31, 2010 and 2009, respectively. Since the second quarter of 2008, the Company has repurchased $6.7 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016. The foreign currency translation gains relate to a portion of the Company s foreign currency denominated debt for which the Company does not receive hedge accounting treatment under ASC 815. A partially offsetting loss was recognized during the periods in the gains (losses) on derivative and hedging activities, net line item on the income statement related to the derivatives used to economically hedge these debt instruments.

12. Restructuring Activities

Restructuring expenses of $26 million and $4 million were recorded in the three months ended March 31, 2010 and 2009, respectively. The following details the two restructuring efforts the Company has engaged in:

On March 30, 2010, President Obama signed into law H.R. 4872, which included SAFRA. Effective July 1, 2010, the legislation eliminates the authority to provide new loans under FFELP and requires that all new federal loans are made through the DSLP. The new law does not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law which will result in a significant amount of restructuring costs incurred as well as a significant reduction of operating costs, once the restructuring is complete. In the first quarter of 2010, restructuring

expenses associated with this restructuring plan totaled $23 million. The Company estimates approximately $35 million of additional restructuring expenses will be incurred related to this restructuring plan. The majority of these restructuring expenses are and will be severance costs related to the planned elimination of approximately 2,500 positions, or approximately 30 percent of the workforce.

In response to the College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. This restructuring plan focused on conforming the Company s lending activities to the economic

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12. Restructuring Activities (Continued)

environment, exiting certain customer relationships and product lines, winding down its debt purchased paper businesses, and significantly reducing its operating expenses. This restructuring plan was essentially completed in the fourth quarter of 2009. Under this plan, restructuring expenses of $3 million and $4 million were recognized in continuing operations in the first quarters of 2010 and 2009, respectively. Restructuring expenses from the fourth quarter of 2007 through the first quarter of 2010 totaled $132 million of which $123 million was recorded in continuing operations and $9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 25 percent of the workforce. The Company estimates approximately $4 million of additional restructuring expenses will be incurred related to this restructuring plan.

The following table summarizes the restructuring expenses incurred during the quarters ended March 31, 2010 and 2009 and cumulative restructuring expenses incurred through March 31, 2010.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Cumulative Expense[2] as of March 31, 2010
Severance costs	$ 24,798	$ 1,666	$ 121,098
Lease and other contract termination costs	1,446	675	11,853
Exit and other costs	38	1,432	13,119
Total restructuring costs from continuing operations[1]	26,282	3,773	146,070
Total restructuring costs from discontinued operations		1,000	8,621
Total	$ 26,282	$ 4,773	$ 154,691

(1) Aggregate restructuring expenses from continuing operations incurred across the Company s reportable segments during the three months ended March 31, 2010 and 2009 totaled $21 million and $1 million, respectively, in the Company s Lending reportable segment, $2 million and $1 million, respectively, in the Company s APG reportable segment, and $3 million and $2 million, respectively, in the Company s Corporate and Other reportable segment.

(2) Cumulative expense incurred since the fourth quarter of 2007.

As of March 31, 2010 and 2009, since the fourth quarter of 2007, severance costs have been incurred in conjunction with the aggregate completed and planned position eliminations of approximately 4,200 and 2,900 positions,

respectively, across all of the Company s reportable segments, with position eliminations ranging from senior executives to clerical personnel. Lease and other contract termination costs and exit and other costs incurred during the three months ended March 31, 2010 and 2009, respectively, related primarily to terminated or abandoned facility leases and consulting costs incurred in conjunction with various cost reduction and exit strategies.

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12. Restructuring Activities (Continued)

The following table summarizes the restructuring liability balance, which is included in other liabilities in the accompanying consolidated balance sheet.

	Severance Costs	Lease and Other Contract Termination Costs	Exit and Other Costs	Total
Balance at December 31, 2007	$ 18,329	$	$	$ 18,329
Net accruals from continuing operations	62,599	9,517	11,400	83,516
Net accruals from discontinued operations	259			259
Cash paid	(66,063)	(6,719)	(11,340)	(84,122)
Balance at December 31, 2008	15,124	2,798	60	17,982
Net accruals from continuing operations	11,196	890	1,681	13,767
Net accruals from discontinued operations	6,462	1,900		8,362
Cash paid	(23,587)	(1,807)	(1,741)	(27,135)
Balance at December 31, 2009	9,195	3,781		12,976
Net accruals from continuing operations	24,798	1,446	38	26,282
Net accruals from discontinued operations				
Cash paid	(10,777)	(1,016)	(38)	(11,831)
Balance at March 31, 2010	$ 23,216	$ 4,211	$	$ 27,427

13. Fair Value Measurements

The Company uses estimates of fair value in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

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

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

In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and

In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company s policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company s liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model s output

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13. Fair Value Measurements (Continued)

with market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

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

Level 2 Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.

Level 3 Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

During the three months ended March 31, 2010, there were no significant transfers of financial instruments between levels.

Student Loans

The Company s FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale; however, the fair value is disclosed in compliance with GAAP. FFELP loans classified as held-for-sale are those which the Company has the ability and intent to sell under various ED loan purchase programs. In these instances, the FFELP loans are valued using the committed sales price under the programs. For all other FFELP loans and Private Education Loans, fair value was determined by modeling loan cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, required return on equity, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of the Company s FFELP loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants.

Other Loans

Facilities financings, and mortgage and consumer loans held for investment are accounted for at cost with fair values being disclosed. Mortgage loans held for sale are accounted for at lower of cost or market. Fair value was determined

with discounted cash flow models using the stated terms of the loans and observable market yield curves. In addition, adjustments and assumptions were made for credit spreads, liquidity, prepayment speeds and defaults. A number of significant inputs into the models are not observable.

Cash and Investments (Including Restricted)

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. Investments classified as trading or available-for-sale are carried at fair value in the financial

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13. Fair Value Measurements (Continued)

statements. Investments in U.S. Treasury securities consisted of T-bills that had less than three months to maturity when purchased. The fair value was estimated at amortized cost. Investments in mortgage-backed securities are valued using observable market prices. These securities are primarily collateralized by real estate properties in Utah and are guaranteed by either a government sponsored enterprise or the U.S. government. Other investments (primarily municipal bonds) for which observable prices from active markets are not available were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. These valuations are immaterial to the overall investment portfolio. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. At March 31, 2010, these investments consisted of overnight/weekly instruments with highly-rated counterparties. No additional adjustments were deemed necessary.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Additionally, foreign currency denominated borrowings are re-measured at current spot rates in the financial statements. The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Credit adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Credit adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets.

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair value of a majority of derivative financial instruments was determined by standard derivative pricing and option models using the stated terms of the contracts and observable market inputs. In some cases, management utilized internally developed inputs that are not observable in the market, and as such, classified these instruments as level 3 fair values. Additionally, complex structured derivatives or derivatives that trade in less liquid markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs.

When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company under

derivatives with the Company, the Company fully collateralizes the exposure, minimizing the adjustment necessary to the derivative valuations for the Company s credit risk. While trusts that contain derivatives are not required to post collateral, when the counterparty is exposed to the trust the credit quality and

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13. Fair Value Measurements (Continued)

securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. The net credit risk adjustment (adjustments for the Company s exposure to counterparties net of adjustments for the counterparties exposure to the Company) decreased the valuations by $54 million at March 31, 2010.

Inputs specific to each class of derivatives disclosed in the table below are as follows:

Interest rate swaps Derivatives are valued using standard derivative cash flow models. Derivatives that swap fixed interest payments for LIBOR interest payments (or vice versa) and derivatives swapping quarterly reset LIBOR for daily reset LIBOR were valued using the LIBOR swap yield curve which is an observable input from an active market. These derivatives are a level 2 fair value in the hierarchy. Other derivatives swapping LIBOR interest payments for another variable interest payment (primarily T-Bill or Prime) or swapping interest payments based on the Consumer Price Index for LIBOR interest payments are valued using the LIBOR swap yield curve and observable market spreads for the specified index. The markets for these swaps are generally illiquid as indicated by a wide bid/ask spread. The adjustment made for liquidity decreased the valuations by $270 million at March 31, 2010. These derivatives are a level 3 fair value.

Cross-currency interest rate swaps Derivatives are valued using standard derivative cash flow models. Derivatives hedging foreign-denominated bonds are valued using the LIBOR swap yield curve (for both USD and the respective currency), cross-currency basis spreads, and forward foreign currency exchange rates. The derivatives are primarily GBP and EUR denominated. These inputs are observable inputs from active markets. Therefore, the resulting valuation is a level 2 fair value. Amortizing notional derivatives (derivatives whose notional amounts change based on changes in the balance of, or pool of assets or debt) hedging trust debt use internally derived assumptions for the trust assets prepayment speeds and default rates to model the notional amortization. Additionally, management makes assumptions concerning the extension features of derivatives hedging rate-reset notes denominated in a foreign currency. These inputs are not market observable therefore; these derivatives are a level 3 fair value.

Floor Income Contracts Derivatives are valued using an option pricing model. Inputs to the model include the LIBOR swap yield curve and LIBOR interest rate volatilities. The inputs are observable inputs in active markets and these derivatives are a level 2 fair value.

The carrying value of borrowings designated as the hedged item in an ASC 815 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

Residual Interests

Prior to the adoption of topic updates to ASC 810 on January 1, 2010 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* Transfers of Financial Assets and the VIE Consolidation Model), the Residual

Interests were carried at fair value in the financial statements. No active market exists for student loan Residual Interests; as such, the fair value was calculated using discounted cash flow models and option models. Observable inputs from active markets were used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds costs of funds and discount rates were used in determining the fair value and required significant judgment. These unobservable inputs were internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back-tested its prepayment speeds, default rates and costs of funds assumptions by comparing those assumptions to actual results experienced. Additionally, the Company used non-binding broker quotes and industry analyst reports which show changes in the

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13. Fair Value Measurements (Continued)

indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interests. Market transactions were not available to validate the models results.

The following tables summarize the valuation of the Company s financial instruments that are marked-to-market on a recurring basis in the consolidated financial statements as of March 31, 2010 and December 31, 2009.

	Fair Value Measurements on a Recurring Basis as of March 31, 2010			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale investments:				
U.S. Treasury securities	$	$ 27	$	$ 27
Asset-backed securities		81		81
Commercial paper and asset-backed commercial paper		650		650
Guaranteed investment contracts		35		35
Other		13		13
Total available-for-sale investments		806		806
Derivative instruments:[1]				
Interest rate swaps		801	82	883
Cross currency interest rate swaps		918	1,705	2,623
Total derivative assets		1,719	1,787	3,506
Counterparty netting				(1,017)
Subtotal[3]				2,489
Cash collateral held				(860)
Net derivative assets				1,629
Total	$	$ 2,525	$ 1,787	$ 2,435
Liabilities[2]				
Interest rate swaps	$	$ (277)	$ (411)	$ (688)
Floor Income Contracts		(1,441)		(1,441)
Cross currency interest rate swaps		(164)	(157)	(321)

Other	(2)		(22)	(24)
Total derivative instruments	(2)	(1,882)	(590)	(2,474)
Counterparty netting				1,017
Subtotal[3]				(1,457)
Cash collateral pledged				582
Net derivative liabilities				(875)
Total	$ (2)	$ (1,882)	$ (590)	$ (875)

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

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

(3) As carried on the balance sheet.

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13. Fair Value Measurements (Continued)

	Fair Value Measurements on a Recurring Basis as of December 31, 2009						
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting**	**Total[4]**	**Cash Collateral**	**Net**
Assets							
Available-for-sale investments	$	$ 1,330	$	$	$ 1,330	$	$ 1,330
Retained Interest in off-balance sheet securitized loans			1,828		1,828		1,828
Derivative instruments[1][2]		2,023	1,770	(1,009)	2,784	(1,268)	1,516
Total assets	$	$ 3,353	$ 3,598	$ (1,009)	$ 5,942	$ (1,268)	$ 4,674
Liabilities[3]							
Derivative instruments[1][2]	$ (2)	$ (1,650)	$ (518)	$ 1,009	$ (1,161)	$ 636	$ (525)
Total liabilities	$ (2)	$ (1,650)	$ (518)	$ 1,009	$ (1,161)	$ 636	$ (525)

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

(2) Level 1 derivatives include Euro-dollar futures contracts. Level 2 derivatives include derivatives indexed to interest rate indices and currencies that are considered liquid. Level 3 derivatives include derivatives indexed to illiquid interest rate indices and derivatives for which significant adjustments were made to observable inputs.

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

(4) As carried on the balance sheet.

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13. Fair Value Measurements (Continued)

The following tables summarize the change in balance sheet carrying value associated with Level 3 financial instruments carried at fair value on a recurring basis during the three months ended March 31, 2010 and 2009.