SLM CORP
Form 10-Q
October 21, 2015

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

Form 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-13251

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

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 52-2013874<br>(I.R.S. Employer Identification No.) |
| 300 Continental Drive, Newark, Delaware<br>(Address of principal executive offices) | 19713<br>(Zip Code) |

(302) 451-0200
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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 | ¨ |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | 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  ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    Yes ¨ 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 September 30, 2015 |
| --- | --- |
| Common Stock, $0.20 par value | 426,108,435 shares |

SLM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
INDEX

SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $1,281,797 | $2,359,780 |
| Available-for-sale investments at fair value (cost of $190,249 and $167,740, respectively) | 190,944 | 168,934 |
| Loans held for investment (net of allowance for losses of $104,203 and $83,842, respectively) | 11,909,148 | 9,509,786 |
| Restricted cash and investments | 25,605 | 4,804 |
| Other interest-earning assets | 47,604 | 72,479 |
| Accrued interest receivable | 634,423 | 469,697 |
| Premises and equipment, net | 80,224 | 78,470 |
| Acquired intangible assets, net | 2,115 | 3,225 |
| Tax indemnification receivable | 200,704 | 240,311 |
| Other assets | 77,980 | 64,757 |
| Total assets | $14,450,544 | $12,972,243 |
| | | |
| Liabilities | | |
| Deposits | $10,610,879 | $10,540,555 |
| Short-term borrowings | 710,005 | — |
| Long-term borrowings | 593,687 | — |
| Income taxes payable, net | 117,531 | 191,499 |
| Upromise related liabilities | 283,688 | 293,004 |
| Other liabilities | 137,420 | 117,227 |
| Total liabilities | 12,453,210 | 11,142,285 |
| | | |
| Commitments and contingencies | | |
| | | |
| Equity | | |
| Preferred stock, par value $0.20 per share, 20 million shares authorized | | |
| Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of $50 per share | 165,000 | 165,000 |
| Series B: 4 million and 4 million shares issued, respectively, at stated value of $100 per share | 400,000 | 400,000 |
| Common stock, par value $0.20 per share, 1.125 billion shares authorized: 430 million and 425 million shares issued, respectively | 86,075 | 84,961 |
| Additional paid-in capital | 1,128,494 | 1,090,511 |
| Accumulated other comprehensive loss (net of tax benefit of $14,847 and $7,186, respectively) | (23,515) | (11,393) |
| Retained earnings | 281,761 | 113,066 |
| Total SLM Corporation stockholders' equity before treasury stock | 2,037,815 | 1,842,145 |
| Less: Common stock held in treasury at cost: 4 million and 1 million shares, respectively | (40,481) | (12,187) |
| Total equity | 1,997,334 | 1,829,958 |

| | | |
|---|---|---|
| Total liabilities and equity | $14,450,544 | $12,972,243 |

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income: | | | | |
| Loans | $205,274 | $164,106 | $598,417 | $486,379 |
| Investments | 2,640 | 2,917 | 7,746 | 6,121 |
| Cash and cash equivalents | 987 | 1,180 | 2,568 | 3,145 |
| Total interest income | 208,901 | 168,203 | 608,731 | 495,645 |
| Interest expense: | | | | |
| Deposits | 29,110 | 24,177 | 86,961 | 67,842 |
| Interest expense on short-term borrowings | 1,951 | — | 4,719 | — |
| Interest expense on long-term borrowings | 2,398 | — | 2,398 | — |
| Total interest expense | 33,459 | 24,177 | 94,078 | 67,842 |
| Net interest income | 175,442 | 144,026 | 514,653 | 427,803 |
| Less: provisions for loan losses | 27,497 | 14,898 | 59,673 | 55,071 |
| Net interest income after provisions for loan losses | 147,945 | 129,128 | 454,980 | 372,732 |
| Noninterest income: | | | | |
| Gains on sales of loans, net | — | 85,147 | 76,874 | 120,963 |
| (Losses) gains on derivatives and hedging activities, net | (547) | 5,401 | 4,347 | (4,821) |
| Other | 10,455 | 5,461 | 29,374 | 28,826 |
| Total noninterest income | 9,908 | 96,009 | 110,595 | 144,968 |
| Expenses: | | | | |
| Compensation and benefits | 39,304 | 31,597 | 119,079 | 92,931 |
| Other operating expenses | 53,560 | 40,482 | 144,771 | 103,226 |
| Total operating expenses | 92,864 | 72,079 | 263,850 | 196,157 |
| Acquired intangible asset amortization expense | 370 | 1,150 | 1,110 | 4,145 |
| Restructuring and other reorganization expenses | 910 | 14,079 | 6,311 | 27,828 |
| Total expenses | 94,144 | 87,308 | 271,271 | 228,130 |
| Income before income tax expense | 63,709 | 137,829 | 294,304 | 289,570 |
| Income tax expense | 17,985 | 54,903 | 109,865 | 115,502 |
| Net income | 45,724 | 82,926 | 184,439 | 174,068 |
| Less: net loss attributable to noncontrolling interest | — | — | — | (434) |
| Net income attributable to SLM Corporation | 45,724 | 82,926 | 184,439 | 174,502 |
| Preferred stock dividends | 4,913 | 4,850 | 14,606 | 8,078 |
| Net income attributable to SLM Corporation common stock | $40,811 | $78,076 | $169,833 | $166,424 |
| | | | | |
| Basic earnings per common share attributable to SLM Corporation | $0.10 | $0.18 | $0.40 | $0.39 |
| Average common shares outstanding | 426,019 | 423,079 | 425,384 | 424,187 |
| Diluted earnings per common share attributable to SLM Corporation | $0.09 | $0.18 | $0.39 | $0.38 |
| Average common and common equivalent shares outstanding | 432,547 | 431,604 | 432,531 | 432,324 |

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

| | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| Net income | $45,724 | $82,926 | $184,439 | $174,068 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on investments | 2,008 | (525) | (499) | 3,629 |
| Unrealized losses on cash flow hedges | (21,751) | (1,883) | (19,284) | (1,883) |
| Total unrealized (losses) gains | (19,743) | (2,408) | (19,783) | 1,746 |
| Income tax benefit (expense) | 7,676 | 921 | 7,661 | (574) |
| Other comprehensive (loss) income, net of tax benefit (expense) | (12,067) | (1,487) | (12,122) | 1,172 |
| Comprehensive income | 33,657 | 81,439 | 172,317 | 175,240 |
| Less: comprehensive loss attributable to noncontrolling interest | — | — | — | (434) |
| Total comprehensive income attributable to SLM Corporation | $33,657 | $81,439 | $172,317 | $175,674 |

See accompanying notes to consolidated financial statements.

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

| | | Common Stock Shares | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock Shares | Issued | Treasury | Outstanding | Preferred Stock | Common Stock | Additional Paid-In Capital | Navient's Subsidiary Investment | Accumulated Other Comprehensi Income (Loss) | Re Ea |
| Balance at December 31, 2013 | — | — | — | — | $— | $— | $— | $1,164,495 | $(3,024) | $— |
| Net income (loss) | — | — | — | — | — | — | — | 68,173 | — | 106 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | — | — | 1,172 | — |
| Total comprehensive income (loss) | — | — | — | — | — | — | — | — | — | — |
| Net transfers from affiliate | — | — | — | — | — | — | — | 479,409 | — | — |
| Separation adjustments related to Spin-Off of Navient Corporation | 7,300,000 | 422,790,320 | — | 422,790,320 | 565,000 | 84,558 | 1,062,519 | (1,712,077 ) | — | — |
| Sale of non-controlling interest | — | — | — | — | — | — | — | — | — | — |
| Cash dividends: Preferred Stock, series A ($.87 per share) | — | — | — | — | — | — | — | — | — | (4, |
| Preferred Stock, series B ($.49 per share) | — | — | — | — | — | — | — | — | — | (3, |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | 41 | — | — | (41 |
| Issuance of common shares | — | 1,089,716 | — | 1,089,716 | — | 219 | 4,391 | — | — | — |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Stock-based compensation expense | — | — | — | — | — | — | 11,550 | — | — | — |
| Shares repurchased related to employee stock-based compensation plans | — | — | (715,393) | (715,393) | — | — | — | — | — | — |
| Balance at September 30, 2014 | 7,300,000 | 423,880,036 | (715,393) | 423,164,643 | $565,000 | $84,777 | $1,078,501 | $— | $(1,852) | $9 |

See accompanying notes to consolidated financial statements.

5

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

| | | Common Stock Shares | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock Shares | Issued | Treasury | Outstanding | Preferred Stock | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Tr St |
| Balance at December 31, 2014 | 7,300,000 | 424,804,125 | (1,365,277) | 423,438,848 | $565,000 | $84,961 | $1,090,511 | $(11,393) | $113,066 | $( |
| Net income | — | — | — | — | — | — | — | — | 184,439 | — |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | — | (12,122) | — | — |
| Total comprehensive income | — | — | — | — | — | — | — | — | — | — |
| Cash dividends: | | | | | | | | | | |
| Preferred Stock, series A ($.87 per share) | — | — | — | — | — | — | — | — | (8,625) | — |
| Preferred Stock, series B ($.51 per share) | — | — | — | — | — | — | — | — | (5,981) | — |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | 1,138 | — | (1,138) | — |
| Issuance of common shares | — | 5,569,853 | | 5,569,853 | — | 1,114 | 14,329 | — | — | — |
| Tax benefit related to employee stock-based compensation | — | — | — | — | — | — | 6,093 | — | — | — |
| Stock-based compensation | — | — | — | — | — | — | 16,423 | — | — | — |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| expense | | | | | | | | | | |
| Shares repurchased related to employee stock-based compensation plans | — | — | (2,900,266) | (2,900,266) | — | — | — | — | — | (2 |
| Balance at September 30, 2015 | 7,300,000 | 430,373,978 | (4,265,543) | 426,108,435 | $565,000 | $86,075 | $1,128,494 | $(23,515) | $281,761 | $( |

See accompanying notes to consolidated financial statements.

6

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Nine Months Ended September | |
|---|---|---|
| | 2015 | 2014 |
| Operating activities | | |
| Net income | $184,439 | $174,068 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provisions for loan losses | 59,673 | 55,071 |
| Income tax expense | 109,865 | 115,502 |
| Amortization of brokered deposit placement fee | 8,006 | 7,548 |
| Amortization of asset-backed commercial paper upfront fee | 1,790 | — |
| Amortization of deferred loan origination costs and fees, net | 2,563 | 1,446 |
| Net accretion of discount on borrowings | 108 | — |
| Net accretion of underwriter fees on borrowings | 108 | — |
| Net amortization of discount on investments | 1,332 | 433 |
| Depreciation of premises and equipment | 5,427 | 4,289 |
| Amortization of acquired intangibles | 1,110 | 2,783 |
| Stock-based compensation expense | 16,423 | 20,127 |
| Unrealized (gains)/losses on derivative and hedging activities, net | (1,985) | 1,307 |
| Gains on sale of loans, net | (76,874) | (120,963) |
| Changes in operating assets and liabilities: | | |
| Net decrease in loans held for sale | 55 | 6,448 |
| Origination of loans held for sale | (55) | (6,448) |
| Increase in accrued interest receivable | (316,263) | (220,273) |
| Increase in restricted cash and investments - other | (2,596) | (1,503) |
| Decrease (increase) in other interest-earning assets | 24,875 | (46,333) |
| Decrease in tax indemnification receivable | 39,607 | 29,816 |
| Increase in other assets | (18,022) | (18,918) |
| Decrease in income tax payable, net | (176,172) | (294,116) |
| Increase in accrued interest payable | 7,227 | 2,639 |
| (Decrease) increase in payable due to entity that is a subsidiary of Navient | (5,368) | 18,114 |
| Increase in other liabilities | 5,895 | 30,741 |
| Total adjustments | (313,271) | (412,290) |
| Total net cash used in operating activities | (128,832) | (238,222) |
| Investing activities | | |
| Loans acquired and originated | (3,786,946) | (3,535,740) |
| Net proceeds from sales of loans held for investment | 790,094 | 1,994,017 |
| Proceeds from claim payments | 91,000 | 88,251 |
| Net decrease (increase) in loans held for investment | 672,665 | 476,955 |
| Increase in restricted cash and investments - variable interest entities | (18,205) | — |

| | | |
|---|---|---|
| Purchases of available-for-sale securities | (50,062 ) | (55,928 ) |
| Proceeds from sales and maturities of available-for-sale securities | 26,222 | 7,337 |
| Total net cash used in investing activities | (2,275,232) | (1,025,108) |
| Financing activities | | |
| Brokered deposit placement fee | (477 ) | (5,533 ) |
| Net increase (decrease) in certificates of deposit | 161,096 | (614,953 ) |
| Net (decrease) increase in other deposits | (129,412 ) | 804,874 |
| Borrowings collateralized by loans in securitization trusts - issued | 620,681 | — |
| Borrowings collateralized by loans in securitization trusts - repaid | (27,195 ) | — |
| Borrowings under ABCP facility | 713,746 | — |

7

| | | |
|---|---|---|
| Repayment of borrowings under ABCP facility | (3,741 ) | — |
| Fees paid on ABCP facility | (104 ) | — |
| Net decrease in deposits with entity that is a subsidiary of Navient | — | (5,633 ) |
| Special cash contribution from Navient | — | 472,718 |
| Net capital contributions from entity that is a subsidiary of Navient | — | 7,448 |
| Excess tax benefit from the exercise of stock-based awards | 6,093 | — |
| Preferred stock dividends paid | (14,606 ) | (8,078 ) |
| Net cash provided by financing activities | 1,326,081 | 650,843 |
| Net decrease in cash and cash equivalents | (1,077,983 ) | (612,487 ) |
| Cash and cash equivalents at beginning of period | 2,359,780 | 2,182,865 |
| Cash and cash equivalents at end of period | $1,281,797 | $1,570,378 |
| Cash disbursements made for: | | |
| Interest | $79,917 | $64,987 |
| Income taxes paid | $171,114 | $294,116 |

See accompanying notes to consolidated financial statements.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise noted)

## 1. Significant Accounting Policies

### Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation ("we," "us," "our," "Sallie Mae," or the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K").

On April 30, 2014, we completed our plan to legally separate into two distinct publicly traded entities - an education loan management, servicing and asset recovery business, Navient Corporation ("Navient"), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the "Spin-Off") was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business.

For periods before the Spin-Off, the financial statements are presented on a basis of accounting that reflects a change in reporting entity and have been adjusted for the effects of the Spin-Off. These carved-out financial statements and selected financial information represent only those operations, assets, liabilities and equity that form Sallie Mae on a stand-alone basis. Because the Spin-Off occurred on April 30, 2014, the balances before that date include the carved-out financial results.

### Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions.

### Restricted Cash and Investments

Restricted cash and investments primarily includes amounts held in student loan securitization trusts and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

### Recently Issued Accounting Pronouncements

On February 18, 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which amends the current consolidation guidance. The amendments reduce the number of consolidation models through the elimination of the indefinite deferral of ASC 810 and place more emphasis on risk of loss when determining a controlling financial interest. The standard is effective January 1, 2016, with early adoption permitted during an interim period in fiscal year 2015. In the third quarter of 2015, we elected to early adopt the new accounting guidance retrospectively to July 1, 2015. The early adoption of this standard had no impact on our consolidated financial statements.

9

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

2. Loans Held for Investment

Loans Held for Investment consist of Private Education Loans and FFELP Loans.

“Private Education Loans” are education loans to students or their families that are not issued, insured, or guaranteed by any state or federal government. Our Private Education Loans are made largely to bridge the gap between the cost of higher education and the amount funded through financial aid, government loans, or customers’ resources. Private Education Loans bear the full credit risk of the borrower and any cosigners. We manage this risk through risk-performance underwriting strategies and the addition of qualified cosigners. Our Private Education Loans generally carry a variable interest rate indexed to LIBOR. As of September 30, 2015, 82 percent of all Private Education Loans were indexed to LIBOR. We provide incentives for customers to include a cosigner on our Private Education Loans, and the vast majority of Private Education Loans in our portfolio are cosigned. We also encourage our Private Education Loan customers to make payments while in school.

FFELP Loans are insured by the federal government as to their principal and accrued interest in the event of default, subject to a risk sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement on all qualifying claims. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying claims. For loans disbursed prior to October 1, 1993, we receive 100 percent reimbursement on all qualifying claims.

Loans held for investment are summarized as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Private Education Loans | $10,840,261 | $8,311,376 |
| Deferred origination costs | 26,283 | 13,845 |
| Allowance for loan losses | (100,033) | (78,574) |
| Total Private Education Loans, net | 10,766,511 | 8,246,647 |
| | | |
| FFELP Loans | 1,143,595 | 1,264,807 |
| Unamortized acquisition costs, net | 3,212 | 3,600 |
| Allowance for loan losses | (4,170) | (5,268) |
| Total FFELP Loans, net | 1,142,637 | 1,263,139 |
| | | |
| Loans held for investment, net | $11,909,148 | $9,509,786 |

The estimated weighted average life of education loans in our portfolio was approximately 6.3 years and 6.2 years at September 30, 2015 and December 31, 2014, respectively.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
2. Loans Held for Investment (Continued)

The average balance and the respective weighted average interest rates of education loans in our portfolio are summarized as follows:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | Average Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate |
| Private Education Loans | $9,869,025 | 7.87 % | $7,407,774 | 8.20 % | $9,563,290 | 7.96 % | $7,394,985 | 8.19 % |
| FFELP Loans | 1,161,288 | 3.27 | 1,339,748 | 3.23 | 1,196,491 | 3.22 | 1,373,945 | 3.25 |
| Total portfolio | $11,030,313 | | $8,747,522 | | $10,759,781 | | $8,768,930 | |

11

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses
Our provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses in the held-for-investment loan portfolios. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

Allowance for Loan Losses Metrics

| | Allowance for Loan Losses Three Months Ended September 30, 2015 | | |
|---|---|---|---|
| | FFELP Loans | Private Education Loans | Total |
| Allowance for Loan Losses | | | |
| Beginning balance | $4,556 | $ 87,310 | $91,866 |
| Total provision | 143 | 27,354 | 27,497 |
| Net charge-offs: | | | |
| Charge-offs | (529) | (14,121) | (14,650) |
| Recoveries | — | 1,361 | 1,361 |
| Net charge-offs | (529) | (12,760) | (13,289) |
| Loan sales[1] | — | (1,871) | (1,871) |
| Ending Balance | $4,170 | $ 100,033 | $104,203 |
| Allowance: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 43,001 | $43,001 |
| Ending balance: collectively evaluated for impairment | $4,170 | $ 57,032 | $61,202 |
| Loans: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 231,286 | $231,286 |
| Ending balance: collectively evaluated for impairment | $1,143,595 | $ 10,608,975 | $11,752,570 |
| Net charge-offs as a percentage of average loans in repayment (annualized)[2] | 0.25 % | 0.83 % | |
| Allowance as a percentage of the ending total loan balance | 0.36 % | 0.92 % | |
| Allowance as a percentage of the ending loans in repayment[2] | 0.50 % | 1.50 % | |
| Allowance coverage of net charge-offs (annualized) | 1.97 | 1.96 | |
| Ending total loans, gross | $1,143,595 | $ 10,840,261 | |
| Average loans in repayment[2] | $839,090 | $ 6,118,678 | |
| Ending loans in repayment[2] | $836,585 | $ 6,657,228 | |

(1) Represents fair value write-downs on loans sold.
(2) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

| | Allowance for Loan Losses Three Months Ended September 30, 2014 | | |
|---|---|---|---|
| | FFELP Loans | Private Education Loans | Total |
| Allowance for Loan Losses | | | |
| Beginning balance | $6,212 | $ 54,315 | $60,527 |
| Total provision | 291 | 14,607 | 14,898 |
| Net charge-offs: | | | |
| Charge-offs | (761) | (4,378) | (5,139) |
| Recoveries | — | — | — |
| Net charge-offs | (761) | (4,378) | (5,139) |
| Loan sales[1] | — | (4,571) | (4,571) |
| Ending Balance | $5,742 | $ 59,973 | $65,715 |
| Allowance: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 2,966 | $2,966 |
| Ending balance: collectively evaluated for impairment | $5,742 | $ 57,007 | $62,749 |
| Loans: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 13,115 | $13,115 |
| Ending balance: collectively evaluated for impairment | $1,317,963 | $ 7,816,305 | $9,134,268 |
| Net charge-offs as a percentage of average loans in repayment (annualized)[2] | 0.32 % | 0.39 % | |
| Allowance as a percentage of the ending total loan balance | 0.44 % | 0.77 % | |
| Allowance as a percentage of the ending loans in repayment[2] | 0.61 % | 1.31 % | |
| Allowance coverage of net charge-offs (annualized) | 1.89 | 3.42 | |
| Ending total loans, gross | $1,317,963 | $ 7,829,420 | |
| Average loans in repayment[2] | $953,620 | $ 4,453,775 | |
| Ending loans in repayment[2] | $945,230 | $ 4,575,143 | |

(1) Represents fair value write-downs on loans sold.
(2) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

13

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

| | Allowance for Loan Losses Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | FFELP Loans | Private Education Loans | Total |
| Allowance for Loan Losses | | | |
| Beginning balance | $5,268 | $ 78,574 | $83,842 |
| Total provision | 1,044 | 58,629 | 59,673 |
| Net charge-offs: | | | |
| Charge-offs | (2,142) | (36,127) | (38,269) |
| Recoveries | — | 4,529 | 4,529 |
| Net charge-offs | (2,142) | (31,598) | (33,740) |
| Loan sales[1] | — | (5,572) | (5,572) |
| Ending Balance | $4,170 | $ 100,033 | $104,203 |
| Allowance: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 43,001 | $43,001 |
| Ending balance: collectively evaluated for impairment | $4,170 | $ 57,032 | $61,202 |
| Loans: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 231,286 | $231,286 |
| Ending balance: collectively evaluated for impairment | $1,143,595 | $ 10,608,975 | $11,752,570 |
| Net charge-offs as a percentage of average loans in repayment (annualized)[2] | 0.33 % | 0.72 % | |
| Allowance as a percentage of the ending total loan balance | 0.36 % | 0.92 % | |
| Allowance as a percentage of the ending loans in repayment[2] | 0.50 % | 1.50 % | |
| Allowance coverage of net charge-offs (annualized) | 1.46 | 2.37 | |
| Ending total loans, gross | $1,143,595 | $ 10,840,261 | |
| Average loans in repayment[2] | $868,649 | $ 5,848,345 | |
| Ending loans in repayment[2] | $836,585 | $ 6,657,228 | |

(1) Represents fair value write-downs on loans sold.
(2) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

| | Allowance for Loan Losses Nine Months Ended September 30, 2014 | | |
|---|---|---|---|
| | FFELP Loans | Private Education Loans | Total |
| Allowance for Loan Losses | | | |
| Beginning balance | $6,318 | $ 61,763 | $68,081 |
| Total provision | 1,482 | 53,589 | 55,071 |
| Charge-offs | (2,058) | (4,378) | (6,436) |
| Loan sales[1] | — | (51,001) | (51,001) |
| Ending Balance | $5,742 | $ 59,973 | $65,715 |
| Allowance: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 2,966 | $2,966 |
| Ending balance: collectively evaluated for impairment | $5,742 | $ 57,007 | $62,749 |
| Loans: | | | |
| Ending balance: individually evaluated for impairment | $— | $ 13,115 | $13,115 |
| Ending balance: collectively evaluated for impairment | $1,317,963 | $ 7,816,305 | $9,134,268 |
| Charge-offs as a percentage of average loans in repayment (annualized)[2] | 0.28% | 0.13% | |
| Allowance as a percentage of the ending total loan balance | 0.44% | 0.77% | |
| Allowance as a percentage of the ending loans in repayment[2] | 0.61% | 1.31% | |
| Allowance coverage of charge-offs (annualized) | 2.09 | 10.27 | |
| Ending total loans, gross | $1,317,963 | $ 7,829,420 | |
| Average loans in repayment[2] | $980,733 | $ 4,408,852 | |
| Ending loans in repayment[3] | $945,230 | $ 4,575,143 | |

(1) Represents fair value write-downs on loans sold.
(2) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

15

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

Troubled Debt Restructurings ("TDRs")
All of our loans are collectively assessed for impairment, except for loans classified as TDRs (where we conduct individual assessments of impairment). We modify the terms of loans for certain borrowers when we believe such modifications may increase the ability and willingness of a borrower to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. In the first nine months after a loan enters full principal and interest repayment, the loan may be in forbearance for up to six months without it being classified as a TDR. Once the initial nine-month period described above is over, however, any loan that receives more than three months of forbearance in a twenty-four month period is classified as a TDR. Also, a loan becomes a TDR when it is modified to reduce the interest rate on the loan (regardless of when such modification occurs and/or whether such interest rate reduction is temporary). The majority of our loans that are considered TDRs involve a temporary forbearance of payments and do not change the contractual interest rate of the loan. Approximately 22 percent and 10 percent of the loans granted forbearance as of September 30, 2015 and December 31, 2014, respectively, have been classified as TDRs due to their forbearance status.
Prior to the Spin-Off, we did not have TDR loans because the loans generally were sold to a now unrelated affiliate in the same month that the terms were restructured. Subsequent to May 1, 2014, we have individually assessed $251 million of Private Education Loans as TDRs. When these TDR loans are determined to be impaired, we provide for an allowance for losses sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan's original effective interest rate.
Within the Private Education Loan portfolio, loans greater than 90 days past due are considered to be nonperforming. FFELP Loans are at least 97 percent guaranteed as to their principal and accrued interest by the federal government in the event of default, and therefore, we do not deem FFELP Loans as nonperforming from a credit risk perspective at any point in their life cycle prior to claim payment, and we continue to accrue interest on those loans through the date of claim.
At September 30, 2015 and December 31, 2014, all our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

| | Recorded Investment | Unpaid Principal Balance | Allowance |
|---|---|---|---|
| September 30, 2015 | | | |
| TDR Loans | $234,360 | $231,286 | $43,001 |
| December 31, 2014 | | | |
| TDR Loans | $60,278 | $59,402 | $9,815 |

The following table provides the average recorded investment and interest income recognized for our TDR loans.

| | Three Months Ended September 30, 2015 | | Three Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |

| | | | | |
|---|---|---|---|---|
| TDR Loans | $210,039 | $4,198 | $8,740 | $129 |

16

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

| | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| TDR Loans | $150,240 | $9,314 | $3,958 | $160 |

The following table provides information regarding the loan status of TDR loans and the aging of TDR loans that are past due.

| | September 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Balance | % | | Balance | % | |
| TDR loans in in-school/grace/deferment[1] | $4,940 | | | $2,915 | | |
| TDR loans in forbearance[2] | 50,878 | | | 18,620 | | |
| TDR loans in repayment and percentage of each status: | | | | | | |
| Loans current | 154,984 | 88.3 | % | 34,554 | 91.2 | % |
| Loans delinquent 31-60 days[3] | 11,042 | 6.3 | | 1,953 | 5.2 | |
| Loans delinquent 61-90 days[3] | 6,336 | 3.6 | | 983 | 2.6 | |
| Loans delinquent greater than 90 days[3] | 3,106 | 1.8 | | 377 | 1.0 | |
| Total TDR loans in repayment | 175,468 | 100.0 | % | 37,867 | 100.0 | % |
| Total TDR loans, gross | $231,286 | | | $59,402 | | |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the loans (e.g., residency periods for medical students or a grace period for bar exam preparation).
(2) Loans for customers 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)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

The following tables provides the amount of modified loans (which includes forbearance and reductions in interest rates) that became TDRs in the periods presented. Additionally, for the periods presented, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the relevant period presented and within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure.

| | Three Months Ended September 30, 2015 | | | Three Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Modified Loans[(1)] | Charge-offs | Payment-Default | Modified Loans[(1)] | Charge-offs | Payment-Default |
| TDR Loans | $49,975 | $3,456 | $16,719 | $7,840 | $87 | $252 |

| | Nine Months Ended September 30, 2015 | | | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Modified Loans[(1)] | Charge-offs | Payment-Default | Modified Loans[(1)] | Charge-offs | Payment-Default |
| TDR Loans | $189,066 | $5,845 | $29,895 | $14,880 | $87 | $320 |

(1) Represents the principal balance of loans that have been modified during the period and resulted in a TDR.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators
For Private Education Loans, the key credit quality indicators are FICO scores, the existence of a cosigner, loan status, and loan seasoning. The FICO scores are assessed at origination and periodically refreshed/updated through the loan's term. The following table highlights the gross principal balance of our Private Education Loan portfolio stratified by key credit quality indicators.

| | Private Education Loans Credit Quality Indicators | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2015 | | | December 31, 2014 | | |
| Credit Quality Indicators: | Balance[1] | % of Balance | | Balance[1] | % of Balance | |
| Cosigners: | | | | | | |
| With cosigner | $9,748,371 | 90 | % | $7,465,339 | 90 | % |
| Without cosigner | 1,091,890 | 10 | | 846,037 | 10 | |
| Total | $10,840,261 | 100 | % | $8,311,376 | 100 | % |
| FICO at Origination: | | | | | | |
| Less than 670 | $706,688 | 6 | % | $558,801 | 7 | % |
| 670-699 | 1,582,381 | 15 | | 1,227,860 | 15 | |
| 700-749 | 3,470,300 | 32 | | 2,626,238 | 32 | |
| Greater than or equal to 750 | 5,080,892 | 47 | | 3,898,477 | 46 | |
| Total | $10,840,261 | 100 | % | $8,311,376 | 100 | % |
| Seasoning[2]: | | | | | | |
| 1-12 payments | $3,575,055 | 33 | % | $2,373,117 | 29 | % |
| 13-24 payments | 1,729,120 | 16 | | 1,532,042 | 18 | |
| 25-36 payments | 871,590 | 8 | | 755,143 | 9 | |
| 37-48 payments | 411,596 | 4 | | 411,493 | 5 | |
| More than 48 payments | 281,508 | 2 | | 212,438 | 3 | |
| Not yet in repayment | 3,971,392 | 37 | | 3,027,143 | 36 | |
| Total | $10,840,261 | 100 | % | $8,311,376 | 100 | % |

(1) Balance represents gross Private Education Loans.
(2) Number of months in active repayment (whether interest only payment, fixed payment, or full principal and interest payment status) for which a scheduled payment was due.

FFELP Loans are at least 97 percent insured and guaranteed as to their principal and accrued interest in the event of default; therefore, there are no key credit quality indicators associated with FFELP Loans. Included within our FFELP portfolio as of September 30, 2015 are $700 million of FFELP rehabilitation loans. These loans have previously defaulted but have subsequently been brought current according to a loan rehabilitation agreement. The credit performance on rehabilitation loans is worse than the remainder of our FFELP portfolio. At September 30, 2015 and December 31, 2014, 61 percent and 62 percent, respectively, of our FFELP portfolio consisted of rehabilitation loans.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

The following tables provide information regarding the loan status of our Private Education Loans and the aging of our past due Private Education Loans. Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

| | Private Education Loans | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2015 | | | December 31, 2014 | | |
| | Balance | % | | Balance | % | |
| Loans in-school/grace/deferment[1] | $3,971,392 | | | $3,027,143 | | |
| Loans in forbearance[2] | 211,641 | | | 135,018 | | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 6,529,855 | 98.1 | % | 5,045,600 | 98.0 | % |
| Loans delinquent 31-60 days[3] | 79,794 | 1.2 | | 63,873 | 1.2 | |
| Loans delinquent 61-90 days[3] | 34,743 | 0.5 | | 29,041 | 0.6 | |
| Loans delinquent greater than 90 days[3] | 12,836 | 0.2 | | 10,701 | 0.2 | |
| Total loans in repayment | 6,657,228 | 100.0 | % | 5,149,215 | 100.0 | % |
| Total loans, gross | 10,840,261 | | | 8,311,376 | | |
| Deferred origination costs | 26,283 | | | 13,845 | | |
| Total loans | 10,866,544 | | | 8,325,221 | | |
| Allowance for loan losses | (100,033 ) | | | (78,574 ) | | |
| Total loans, net | $10,766,511 | | | $8,246,647 | | |
| Percentage of loans in repayment | | 61.4 | % | | 62.0 | % |
| Delinquencies as a percentage of loans in repayment | | 1.9 | % | | 2.0 | % |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 3.1 | % | | 2.6 | % |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the loans (e.g., residency periods for medical students or a grace period for bar exam preparation).

(2) Loans for customers 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)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

Accrued Interest Receivable

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

| | Private Education Loan Accrued Interest Receivable | | |
|---|---|---|---|
| | Total Interest Receivable | Greater Than 90 Days Past Due | Allowance for Uncollectible Interest |
| September 30, 2015 | $606,218 | $489 | $2,979 |
| December 31, 2014 | $445,710 | $443 | $3,517 |

21

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 4. Deposits

The following table summarizes total deposits at September 30, 2015 and December 31, 2014.

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Deposits - interest bearing | $10,610,592 | $10,539,953 |
| Deposits - non interest bearing | 287 | 602 |
| Total deposits | $10,610,879 | $10,540,555 |

### Interest Bearing

Interest bearing deposits as of September 30, 2015 and December 31, 2014 consisted of retail non-maturity savings and money market deposits, brokered and retail certificates of deposit, and brokered money market deposits. These deposit products are serviced by third party providers. Placement fees associated with the brokered certificates of deposit are amortized into interest expense using the effective interest rate method.
Interest bearing deposits at September 30, 2015 and December 31, 2014 are summarized as follows:

| | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Amount | Qtr.-End Weighted Average Stated Rate[1] | Amount | Year-End Weighted Average Stated Rate[1] |
| Money market | $4,436,095 | 1.18 % | $4,527,448 | 1.15 % |
| Savings | 665,941 | 0.82 | 703,687 | 0.81 |
| Certificates of deposit | 5,508,556 | 0.99 | 5,308,818 | 1.00 |
| Deposits - interest bearing | $10,610,592 | | $10,539,953 | |

(1) Includes the effect of interest rate swaps in effective hedge relationships.

As of September 30, 2015 and December 31, 2014, there were $194,714 and $253,953, respectively, of deposits exceeding Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Accrued interest on deposits was $22,637 and $16,082 at September 30, 2015 and December 31, 2014, respectively.

### Non Interest Bearing

Non interest bearing deposits were $287 and $602 as of September 30, 2015 and December 31, 2014, respectively. For both periods, these were comprised of money market accounts related to our Employee Stock Purchase Plan account.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 5. Borrowings

Outstanding borrowings consist of secured borrowings issued through our term asset backed securitization ("ABS") program and our asset backed commercial paper ("ABCP") funding facility. The following table summarizes our secured borrowings at September 30, 2015. We had no secured borrowings outstanding at December 31, 2014.

| | September 30, 2015 | | |
|---|---|---|---|
| | Short-Term | Long-Term | Total |
| Secured borrowings: | | | |
| Private Education Loan term securitization | $— | $593,687 | $593,687 |
| ABCP borrowings | 710,005 | — | 710,005 |
| Total | $710,005 | $593,687 | $1,303,692 |

On July 30, 2015, we executed our $714 million SMB Private Education Loan Trust 2015-B term ABS transaction, which was accounted for as an on-balance sheet secured financing. We retained a 5 percent or $33 million interest in the Class A and B notes, a 100 percent or $50 million interest in the Class C notes and 100 percent of the residual certificates issued in the securitization. $631 million of notes from the securitization were sold to third parties, raising $623 million of gross proceeds. The Class A and B notes had a weighted average life of 4.8 years and priced at a weighted average LIBOR equivalent cost of 1 month LIBOR plus 1.53 percent. At September 30, 2015, $692 million of our Private Education Loans were encumbered as a result of this transaction.

On-Balance Sheet Term Securitizations

| Issue | Date Issued | Total Issued To Third Parties | Weighted Average Cost of Funds[1] | Weighted Average Life |
|---|---|---|---|---|
| Private Education: | | | | |
| 2015-B | July 2015 | $630,800 | 1 month LIBOR plus 1.53% | 4.82 |
| Total notes issued in 2015 | | $630,800 | | |
| Total loan amount securitized in on-balance sheet term securitizations in 2015 | | $745,580 | | |

(1) Represents LIBOR equivalent cost of funds for floating and fixed rate bonds, excluding issuance costs.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

5. Borrowings (Continued)

Asset-Backed Commercial Paper Funding Facility

On December 19, 2014, we closed on a $750 million ABCP Private Education Loan funding facility. Pursuant to FDIC safe harbor guidelines, we retained a 5 percent or $37.5 million ownership interest in the ABCP facility, resulting in $712.5 million of funds being available for us to draw under the facility. We incur financing costs under the ABCP facility of approximately 0.40 percent on unused borrowing capacity and approximately 3 month LIBOR plus 0.80 percent on outstandings under the facility. At September 30, 2015, $710 million had been drawn and remained outstanding under the facility, net of our 5 percent retention. At September 30, 2015, $902 million of our Private Education Loans were encumbered as a result of this transaction.

We consolidate our financing entities that are variable interest entities ("VIEs") as a result of our being the entities' primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. We consolidate the following financing VIEs as of September 30, 2015:

| | September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| | Short-Term | Long-Term | Total | Loans | Restricted Cash | Other Assets | Total |
| Secured borrowings: | | | | | | | |
| Private Education Loan term securitization | $— | $593,687 | $593,687 | $692,379 | $8,135 | $49,717 | $750,231 |
| ABCP borrowings | 710,005 | — | 710,005 | 901,515 | 10,070 | 54,297 | 965,882 |
| Total | $710,005 | $593,687 | $1,303,692 | $1,593,894 | $18,205 | $104,014 | $1,716,113 |

Other Borrowing Sources

We maintain discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $100,000 at September 30, 2015. The interest rate we are charged on these lines of credit is priced at Fed Funds plus a spread at the time of borrowing, and is payable daily. We did not utilize these lines of credit in the three and nine months ended September 30, 2015 and September 30, 2014.

We established an account at the Federal Reserve Bank ("FRB") to meet eligibility requirements for access to the Primary Credit borrowing facility at the FRB's Discount Window ("Window"). The Primary Credit borrowing facility is a lending program available to depository institutions that are in generally sound financial condition. All borrowings at the Window must be fully collateralized. We can pledge asset-backed and mortgage-backed securities, as well as FFELP Loans and Private Education Loans, to the FRB as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At September 30, 2015 and December 31, 2014, the value of our pledged collateral at the FRB totaled $1.5 billion and $1.4 billion, respectively.

The interest rate charged to us is the discount rate set by the FRB. We did not utilize this facility in the three and nine months ended September 30, 2015 and September 30, 2014.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 6. Private Education Loan Term Securitizations

We securitize Private Education Loan assets by selling these assets to securitization trusts. If a transfer of loans qualifies as a sale, we derecognize the loan and recognize a gain or loss as the difference between compensation received and the carrying basis of the loans sold and liabilities retained. We recognize the results of a transfer of loans based upon the settlement date of the transaction. If we have a variable interest in a VIE (e.g., a securitization trust) and have determined that we are the primary beneficiary, then we will consolidate the VIE and the transfer is accounted for as a financing as opposed to a sale.

On July 30, 2015, we executed a $714 million Private Education Loan term ABS transaction that was accounted for as an on-balance sheet secured financing. We retained a 5 percent interest in the Class A and B notes, a 100 percent interest in the Class C notes and 100 percent of the residual certificates issued in the securitization. $631 million of notes were sold to third parties, raising $623 million of gross proceeeds. At September 30, 2015, $692 million of our Private Education Loans are encumbered as a result of this transaction.

On April 23, 2015, we sold $738 million of Private Education Loans through a securitization transaction to qualified institutional buyers. The transaction qualified for sale treatment and removed the principal balance of the loans backing the securitization trust from our balance sheet on the settlement date. We continue to service the loans in the trust. In the second quarter of 2015, we recorded a pre-tax gain of $77 million on the sale, net of closing adjustments and transaction costs, a 10.4 percent premium.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

7. Derivative Financial Instruments

We maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate changes. Our goal is to manage interest rate sensitivity by modifying the repricing frequency and underlying index characteristics of certain balance sheet assets and liabilities so the net interest margin is not, on a material basis, adversely affected by movements in interest rates. We do not use derivative instruments to hedge credit risk. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. Income or loss on the derivative instruments linked to the hedged assets and liabilities will generally offset the effect of this unrealized appreciation or depreciation for the period the item is being hedged. We view this strategy as a prudent management of interest rate sensitivity. Please refer to “Note 11 - Derivative Financial Instruments” in our 2014 Form 10-K for a full discussion of our risk management strategy.

Although we use derivatives to offset (or minimize) the risk of interest rate changes, the use of derivatives does expose us to both market and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates, foreign exchange rates, and market liquidity. Credit risk is the risk a counterparty will not perform its obligations under a contract and it is limited to the loss of the fair value gain in a derivative the counterparty owes us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no credit risk exposure to the counterparty; however, the counterparty has exposure to us. We minimize the credit risk in derivative instruments by entering into transactions with highly rated counterparties that are reviewed regularly by our Credit Department.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. (“ISDA”) Credit Support Annexes (“CSAs”), or clearinghouses for Over the Counter (“OTC”) derivatives. CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held or plus any collateral posted.

Title VII of the Dodd-Frank Act requires all standardized derivatives, including most interest rate swaps, to be submitted for clearing to central counterparties to reduce counterparty risk. As of September 30, 2015, $4.0 billion notional of our derivative contracts were cleared on the Chicago Mercantile Exchange and the London Clearing House. All derivative contracts cleared through an exchange require collateral to be exchanged based on the fair value of the derivative. Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held or plus any collateral posted. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At September 30, 2015 and December 31, 2014, we had a net positive exposure (derivative gain positions to us less collateral which has been posted by counterparties to us) related to derivatives of $48.9 million and $60.8 million, respectively.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact
The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2015 and December 31, 2014, and their impact on earnings and other comprehensive income for the three and nine months ended September 30, 2015 and 2014.

Impact of Derivatives on the Consolidated Balance Sheet

| | | Cash Flow Hedges | | Fair Value Hedges | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Fair Values[1] | Hedged Risk Exposure | | | | | | | | |
| Derivative Assets:[2] | | | | | | | | | |
| Interest rate swaps | Interest rate | $— | $— | $36,919 | $5,012 | $1,827 | $226 | $38,746 | $5,238 |
| Derivative Liabilities:[2] | | | | | | | | | |
| Interest rate swaps | Interest rate | (40,855) | (21,435) | — | (5,883) | — | (1,370) | (40,855) | (28,688) |
| Total net derivatives | | $(40,855) | $(21,435) | $36,919 | $(871) | $1,827 | $(1,144) | $(2,109) | $(23,450) |

(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) The following table reconciles gross positions with the impact of master netting agreements to the balance sheet classification:

| | Other Assets | | Other Liabilities | |
|---|---|---|---|---|
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Gross position | $38,746 | $5,238 | $(40,855) | $(28,688) |
| Impact of master netting agreement | (11,253) | (4,045) | 11,253 | 4,045 |
| Derivative values with impact of master netting agreements (as carried on balance sheet) | 27,493 | 1,193 | (29,602) | (24,643) |
| Cash collateral (held) pledged[1] | (14,617) | (900) | 47,604 | 72,478 |

| | | | | |
|---|---|---|---|---|
| Net position | $12,876 | $293 | $18,002 | $47,835 |

(1) Cash collateral amount calculations include outstanding accrued interest payable/receivable.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

| | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Notional Values | | | | | | | | |
| Interest rate swaps | $1,110,549 | $1,106,920 | $2,957,443 | $3,044,492 | $836,512 | $973,539 | $4,904,504 | $5,124,951 |

Impact of Derivatives on the Consolidated Statements of Income

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Fair Value Hedges | | | | |
| Interest rate swaps: | | | | |
| Hedge ineffectiveness gains (losses) recorded in earnings[1] | $(1,843) | $1,238 | $(929) | $1,488 |
| Realized gains recorded in interest expense | 7,531 | 3,835 | 22,512 | 14,081 |
| Total | $5,688 | $5,073 | $21,583 | $15,569 |
| Cash Flow Hedges | | | | |
| Interest rate swaps: | | | | |
| Hedge ineffectiveness gains (losses) recorded in earnings[1] | $(273) | $(303) | $(542) | $(303) |
| Realized losses recorded in interest expense | (5,411) | (3,587) | (16,157) | (3,587) |
| Total | $(5,684) | $(3,890) | $(16,699) | $(3,890) |
| Trading | | | | |
| Interest rate swaps: | | | | |
| Interest reclassification | $853 | $(1,170) | $2,846 | $(3,137) |
| Change in fair value of future interest payments recorded in earnings | 716 | 5,636 | 2,972 | (2,870) |
| Total[1] | 1,569 | 4,466 | 5,818 | (6,007) |
| Total | $1,573 | $5,649 | $10,702 | $5,672 |

(1) Amounts included in "(losses) gains on derivatives and hedging activities, net" in the consolidated statements of income.

28

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

Impact of Derivatives on the Statements of Changes in Stockholders' Equity

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Amount of loss recognized in other comprehensive income | $(27,162) | $(5,470) | $(35,441) | $(5,470) |
| Less: amount of loss reclassified in interest expense[1] | 5,411 | 3,587 | 16,157 | 3,587 |
| Total change in other comprehensive income for unrealized losses on derivatives | $(21,751) | $(1,883) | $(19,284) | $(1,883) |

[1] Amounts included in "realized gains (losses) recorded in interest expense" in the "Impact of Derivatives on the Consolidated Statements of Income" table.

Cash Collateral

Cash collateral held related to derivative exposure between us and our derivatives counterparties was $14.6 million and $0.9 million at September 30, 2015 and December 31, 2014, respectively. Collateral held is recorded in "Other Liabilities." Cash collateral pledged related to derivative exposure between us and our derivatives counterparties was $47.6 million and $72.5 million at September 30, 2015 and December 31, 2014, respectively. Collateral pledged is recorded in "Other Assets."

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

8. Stockholders' Equity

The following table summarizes our common share repurchases and issuances.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Shares and per share amounts in actuals) | 2015 | 2014 | 2015 | 2014 |
| Shares repurchased related to employee stock-based compensation plans[1][2] | 136,173 | 356,622 | 2,900,266 | 715,393 |
| Average purchase price per share | $8.88 | $8.68 | $9.76 | $8.68 |
| Common shares issued[3] | 361,779 | 584,787 | 5,569,853 | 1,089,716 |

(1) Comprises 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.
(2) At the present time, we do not have a publicly announced repurchase plan or program.
(3) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on September 30, 2015 was $7.40.

Investment with entities that are now subsidiaries of Navient

Prior to the Spin-Off, there were transactions between us and affiliates of pre-Spin-Off SLM that are now subsidiaries of Navient. As part of the carve-out, expenses of those transactions were included in our results even though the actual payments for the expenses were paid by the aforementioned affiliates. As such, amounts equal to these payments have been treated as equity contributions in the table below. Certain payments made by us to these affiliates prior to the Spin-Off transaction were treated as dividends.

Net transfers (to)/from the entity that is now a subsidiary of Navient are included within Navient's subsidiary investment on the consolidated statements of changes in equity. There were no transfers (to)/from the entity that is now a subsidiary of Navient during the three or nine months ended September 30, 2015 and during the three months ended September 30, 2014. The components of the net transfers (to)/from the entity that is now a subsidiary of Navient for the nine months ended September 30, 2014 are summarized below:

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
8. Stockholders' Equity (Continued)

| | Nine Months Ended September 30, 2014 |
|---|---|
| Capital contributions: | |
| Loan origination activities | $32,452 |
| Loan sales | 45 |
| Corporate overhead activities | 21,216 |
| Other | 492,368 |
| Total capital contributions | 546,081 |
| Corporate push-down | 4,977 |
| Net change in income tax accounts | 15,659 |
| Net change in receivable/payable | (87,277) |
| Other | (31) |
| Total net transfers from the entity that is now a subsidiary of Navient | $479,409 |

Capital Contributions

During the first four months of 2014, pre-Spin-Off SLM contributed capital to Sallie Mae Bank (the “Bank”) by funding loan origination activities, purchases of loans in excess of the loans’ fair values, providing corporate overhead functions and other activities.

Capital contributed for loan origination activities reflects the fact that loan origination functions were conducted by a subsidiary of pre-Spin-Off SLM (now a subsidiary of Navient). The Bank did not pay for the costs incurred by pre-Spin-Off SLM in connection with these functions. The costs eligible to be capitalized are recorded on the respective balance sheets and the costs not eligible for capitalization have been recognized as expenses in the respective statements of income.

Certain general corporate overhead expenses of the Bank were incurred and paid for by pre-Spin-Off SLM.

Corporate Push-Down

The consolidated balance sheet of the Company includes certain assets and liabilities that historically were held at pre-Spin-Off SLM but which are specifically identifiable or otherwise allocable to the Company. The cash and cash equivalents held by pre-Spin-Off SLM at the corporate level were not allocated to the Bank for any of the periods presented.

Receivable/Payable with Affiliate

All significant intercompany payable/receivable balances between the Bank and pre-Spin-Off SLM are considered to be effectively settled for cash in the combined financial statements at the time the transaction is recorded.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

9. Earnings per Common Share

Basic earnings per common share ("EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| (In thousands, except per share data) | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Net income attributable to SLM Corporation | $45,724 | $82,926 | $184,439 | $174,502 |
| Preferred stock dividends | 4,913 | 4,850 | 14,606 | 8,078 |
| Net income attributable to SLM Corporation common stock | $40,811 | $78,076 | $169,833 | $166,424 |
| Denominator: | | | | |
| Weighted average shares used to compute basic EPS | 426,019 | 423,079 | 425,384 | 424,187 |
| Effect of dilutive securities: | | | | |
| Dilutive effect of stock options, restricted stock and restricted stock units and Employee Stock Purchase Plan ("ESPP") (1)(2) | 6,528 | 8,525 | 7,147 | 8,137 |
| Weighted average shares used to compute diluted EPS | 432,547 | 431,604 | 432,531 | 432,324 |
| Basic earnings per common share attributable to SLM Corporation | $0.10 | $0.18 | $0.40 | $0.39 |
| Diluted earnings per common share attributable to SLM Corporation | $0.09 | $0.18 | $0.39 | $0.38 |

---

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

(2) For the three months ended September 30, 2015 and 2014, securities covering approximately 2 million and 3 million shares, respectively, and for the nine months ended September 30, 2015 and 2014, securities covering approximately 2 million and 3 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 10. Fair Value Measurements

We use estimates of fair value in applying various accounting standards for our financial statements.

We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. For additional information regarding our policies for determining fair value and the hierarchical framework, see Note 2, "Significant Accounting Policies - Fair Value Measurement" in our 2014 Form 10-K.

During the nine months ended September 30, 2015, there were no significant transfers of financial instruments between levels or changes in our methodology or assumptions used to value our financial instruments.

The following table summarizes the valuation of our financial instruments that are marked to fair value on a recurring basis.

| | Fair Value Measurements on a Recurring Basis | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2015 | | | | December 31, 2014 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Mortgage-backed securities | $— | $190,944 | $— | $190,944 | $— | $168,934 | $— | $168,934 |
| Derivative instruments | — | 38,746 | — | 38,746 | — | 5,238 | — | 5,238 |
| Total | $— | $229,690 | $— | $229,690 | $— | $174,172 | $— | $174,172 |
| Liabilities | | | | | | | | |
| Derivative instruments | $— | $(40,855 ) | $— | $(40,855 ) | $— | $(28,688 ) | $— | $(28,688 ) |
| Total | $— | $(40,855 ) | $— | $(40,855 ) | $— | $(28,688 ) | $— | $(28,688 ) |

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
10. Fair Value Measurements (Continued)

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

| | September 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Carrying Value | Difference | Fair Value | Carrying Value | Difference |
| Earning assets | | | | | | |
| Loans held for investment, net | $12,837,892 | $11,909,148 | $928,744 | $10,228,399 | $9,509,786 | $718,613 |
| Cash and cash equivalents | 1,281,797 | 1,281,797 | — | 2,359,780 | 2,359,780 | — |
| Available-for-sale investments | 190,944 | 190,944 | — | 168,934 | 168,934 | — |
| Accrued interest receivable | 634,423 | 634,423 | — | 469,697 | 469,697 | — |
| Tax indemnification receivable | 200,704 | 200,704 | — | 240,311 | 240,311 | — |
| Derivative instruments | 38,746 | 38,746 | — | 5,238 | 5,238 | — |
| Total earning assets | $15,184,506 | $14,255,762 | $928,744 | $13,472,359 | $12,753,746 | $718,613 |
| Interest-bearing liabilities | | | | | | |
| Money-market and savings accounts | $5,102,323 | $5,102,323 | $— | $5,231,736 | $5,231,736 | $— |
| Certificates of deposit | 5,487,525 | 5,508,556 | 21,031 | 5,313,645 | 5,308,818 | (4,827) |
| Short-term borrowings | 710,005 | 710,005 | — | — | — | — |
| Long-term borrowings | 583,314 | 593,687 | 10,373 | — | — | — |
| Accrued interest payable | 23,309 | 23,309 | — | 16,082 | 16,082 | — |
| Derivative instruments | 40,855 | 40,855 | — | 28,688 | 28,688 | — |
| Total interest-bearing liabilities | $11,947,331 | $11,978,735 | $31,404 | $10,590,151 | $10,585,324 | $(4,827) |
| Excess of net asset fair value over carrying value | | | $960,148 | | | $713,786 |

Borrowings are accounted for at cost in the financial statements. The carrying value of short-term borrowings approximated fair value for disclosure purposes, due to the short-term nature of those borrowings. This is a level 1 valuation. The fair value of long-term borrowings is estimated using current market prices. This is a level 2 valuation. Please refer to “Note 15 - Fair Value Measurements” in our 2014 Form 10-K for a full discussion of the methods and assumptions used to estimate the fair value of each class of financial instruments.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 11. Arrangements with Navient Corporation

In connection with the Spin-Off, we entered into a separation and distribution agreement and other ancillary agreements with Navient. Please refer to "Note 16 - Arrangements with Navient Corporation" in our 2014 Form 10-K for a full discussion of these agreements.

Amended Loan Participation and Purchase Agreement
Prior to the Spin-Off, the Bank sold substantially all its Private Education Loans to several former affiliates, now subsidiaries of Navient (collectively, the "Purchasers"), pursuant to a Loan Participation and Purchase Agreement. This agreement predated the Spin-Off, but was significantly amended and reduced in scope in connection with the Spin-Off. Post-Spin-Off, the Bank retains only the right to require the Purchasers to purchase loans (at fair value) for which the borrower also has a separate lending relationship with Navient ("Split Loans") when the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than 6 months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At September 30, 2015, we held approximately $96.1 million of Split Loans.

During the three months ended September 30, 2015, the Bank sold loans to the Purchasers in the amount of $6,552 in principal and $153 in accrued interest income. During the three months ended September 30, 2014, the Bank sold loans to the Purchasers in the amount of $28,871 in principal and $542 in accrued interest income.

During the nine months ended September 30, 2015, the Bank sold loans to the Purchasers in the amount of $21,109 in principal and $438 in accrued interest income. During the nine months ended September 30, 2014, the Bank sold loans to the Purchasers in the amount of $794,870 in principal and $26,339 in accrued interest income.

There was no gain as a result of the loans sold to the Purchasers in the three months ended September 30, 2015 and September 30, 2014. Total write-downs to fair value for loans sold with a fair value lower than par totaled $1,871 and $4,571 in the three months ended September 30, 2015 and 2014, respectively. There was no gain as a result of the loans sold in the nine months ended September 30, 2015. The gain resulting from loans sold was $35,848 in the nine months ended September 30, 2014. Total write-downs to fair value for loans sold with a fair value lower than par totaled $5,573 and $51,001 in the nine months ended September 30, 2015 and September 30, 2014, respectively. Navient is the servicer for all of these loans.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 12. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition. Under the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

As of the first quarter 2015, the Bank was required by federal banking authorities to report regulatory capital and ratios based on the U.S. Basel III rule. U.S. Basel III implemented changes to capital, risk-weighted assets, and "well capitalized" definitions and added a reporting requirement of Common Equity Tier 1 Capital (to risk-weighted assets). Regulatory capital reported as of December 31, 2014 was calculated according to regulatory guidelines in effect at that date.

"Well capitalized" regulatory requirements are the quantitative measures established by regulation to ensure capital adequacy. The Bank is required to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital to risk-weighted assets, Common Equity Tier I Capital to risk-weighted assets, and Tier I Capital to average assets, as defined by the regulation. The following amounts and ratios are based upon the Bank's assets.

| | | | Well Capitalized Regulatory Requirements | | |
|---|---|---|---|---|---|
| | Amount | Ratio | Amount | | Ratio |
| As of September 30, 2015: | | | | | |
| Tier I Capital (to Average Assets) | $1,639,235 | 12.2 % | $674,490 | > | 5.0 % |
| Tier I Capital (to Risk-Weighted Assets) | $1,639,235 | 13.3 % | $989,333 | > | 8.0 % |
| Total Capital (to Risk-Weighted Assets) | $1,743,438 | 14.1 % | $1,236,667 | > | 10.0 % |
| Common Equity Tier I Capital (to Risk-Weighted Assets) | $1,639,235 | 13.3 % | $803,833 | > | 6.5 % |
| As of December 31, 2014: | | | | | |
| Tier I Capital (to Average Assets) | $1,413,988 | 11.5 % | $614,709 | > | 5.0 % |
| Tier I Capital (to Risk-Weighted Assets) | $1,413,988 | 15.0 % | $565,148 | > | 6.0 % |
| Total Capital (to Risk-Weighted Assets) | $1,497,830 | 15.9 % | $941,913 | > | 10.0 % |

### Bank Dividends

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividends, the Bank's capital and surplus would not be impaired. The Bank paid no dividends for the three and nine months ended September 30, 2015 and September 30, 2014.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

## 13. Commitments, Contingencies and Guarantees

### Commitments

When we approve a Private Education Loan at the beginning of an academic year, that approval may cover the borrowing for the entire academic year. As such, we do not always disburse the full amount of the loan at the time of origination but instead have a commitment to fund a portion of the loan at a later date (usually at the start of the second semester or subsequent trimesters). At September 30, 2015, we had $1.7 billion of outstanding contractual loan commitments which we expect to fund during the remainder of the 2015/2016 academic year.

### Regulatory Matters

At the time of this filing, the Bank remains subject to the consent order (the “2014 FDIC Order”) relating to the settlement of previously disclosed regulatory matters with the FDIC. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the Department of Justice (“DOJ”) regarding disclosures and assessments of certain late fees, as well as compliance with the Servicemembers’ Civil Relief Act (“SCRA”). The order issued by the DOJ (the “DOJ Order”) was approved by the U.S. District Court for the District of Delaware on September 29, 2014. Under the 2014 FDIC Order, the Bank agreed to pay $3.3 million in fines and oversee the refund of up to $30 million in late fees assessed on loans owned or originated by the Bank since its inception in November 2005.

As required by the 2014 FDIC Order and the DOJ Order, the Bank has now implemented new SCRA policies, procedures and training, has updated billing statement disclosures, and is taking additional steps to ensure its third-party service providers are also fully compliant in these areas. In 2014, we engaged a third-party firm to conduct independent audits of certain key consumer protection processes and procedures, including our compliance management system. To date, we have received no high-risk findings. In 2015, the third-party firm is continuing to conduct additional independent audits over the remainder of those processes and procedures.

Required restitution activities under the 2014 FDIC and DOJ Orders are well under way. Applicable late fees were credited to eligible customers with open accounts in October 2014 and the mailing of restitution checks to all other eligible customers is ongoing. Checks for payment of SCRA benefits and related compensation, as determined by the DOJ, began mailing in June 2015. Under the terms of the Separation and Distribution Agreement, Navient remains responsible for funding all liabilities under the regulatory orders, other than fines directly levied against the Bank in connection with these matters. Under the DOJ Order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

### Contingencies

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

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

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
13. Commitments, Contingencies and Guarantees (Continued)

In view of the inherent difficulty of predicting the outcome of litigation, regulatory and investigative actions, we cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties, if any, related to each pending matter may be.
We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.
Based on current knowledge, management does not believe there are loss contingencies, if any, arising from pending investigations, litigation or regulatory matters that could have a material adverse effect on our consolidated financial position, liquidity, results of operations or cash flows.

14. Subsequent Event

On October 21, 2015, we announced plans to sell approximately $750 million of Private Education Loans through a term ABS transaction to qualified institutional buyers. The transaction will remove the principal balance of the loans backing the securitization trust from our balance sheet on the settlement date. We will continue to service the loans after they are transferred to the securitization trust. We expect to sell these loans at an approximate 8 percent premium and we expect to record a pre-tax gain of approximately $59 million on the sale, net of estimated closing adjustments and transaction costs. The transaction is expected to settle on or about October 27, 2015, and will be reflected in our fourth quarter 2015 results.

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

The following information is current as of October 21, 2015 (unless otherwise noted) and should be read in connection with SLM Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014 (filed with the SEC on February 26, 2015) (the “2014 Form 10-K”), and subsequent reports filed with the Securities and Exchange Commission (the “SEC”). Definitions for capitalized terms in this report not defined herein can be found in the 2014 Form 10-K.

References in this Form 10-Q to “we,” “us,” “our,” “Sallie Mae” and the “Company” refer to SLM Corporation and its subsidiaries, except as otherwise indicated or unless the context otherwise requires.

On April 30, 2014, we completed our plan to legally separate into two distinct publicly-traded entities - an education loan management, servicing and asset recovery business, Navient Corporation (“Navient”), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the “Spin-Off”) was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business. For a more detailed discussion of the Spin-Off, please see our 2014 Form 10-K.

This report contains forward-looking statements and information based on management’s current expectations as of the date of this report. Statements that are not historical facts, including statements about the Company’s beliefs, opinions or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Item 1A “Risk Factors” and elsewhere in the Company’s 2014 Form 10-K and subsequent filings with the SEC; increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which the Company is a party; credit risk associated with the Company’s exposure to third parties, including counterparties to the Company’s derivative transactions; and changes in the terms of education loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). The Company could also be affected by, among other things: changes in our funding costs and availability; reductions to our credit ratings, failures or breaches of our operating systems or infrastructure, including those of third-party vendors; damage to our reputation; failures or breaches to successfully implement cost-cutting and restructuring initiatives and adverse effects of such initiatives on the Company's business; risks associated with restructuring initiatives; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; increased competition from banks and other consumer lenders; the creditworthiness of our customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of our earning assets versus our funding arrangements; rates of prepayments on the loans we make; changes in general economic conditions and the Company's ability to successfully effectuate any acquisitions; and other strategic initiatives. The preparation of the Company’s consolidated financial statements also requires management to make certain estimates and assumptions, including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this Quarterly Report on Form 10-Q are qualified by these cautionary statements and are made only as of the date of this report. The Company does not undertake any obligation to update or revise these forward-looking statements to conform such statements to actual results or changes in our expectations.

The Company reports financial results on a GAAP basis and also provides certain core earnings performance measures. The difference between the Company’s “Core Earnings” and GAAP results for the periods presented were the unrealized, mark-to-market gains/losses on derivative contracts (excluding current period accruals on the derivative instruments), net of tax. These are recognized in GAAP, but not in “Core Earnings” results. The Company provides

“Core Earnings” measures because this is what management uses when making management decisions regarding the Company’s performance and the allocation of corporate resources. The Company’s “Core Earnings” are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. For additional information, see “Key Financial Measures” and “GAAP Consolidated Earnings Summary - 'Core Earnings' ” in this Form 10-Q for the quarter ended September 30, 2015 for a further discussion and a complete reconciliation between GAAP net income and “Core Earnings.”

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

Selected Financial Information and Ratios

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In millions, except per share data and percentages) | 2015 | 2014 | 2015 | 2014 |
| Net income attributable to SLM Corporation common stock | $41 | $78 | $170 | $166 |
| Diluted earnings per common share attributable to SLM Corporation | $0.09 | $0.18 | $0.39 | $0.38 |
| Weighted average shares used to compute diluted earnings per share | 433 | 432 | 433 | 432 |
| Return on assets | 1.3 % | 2.9 % | 1.9 % | 2.1 % |
| Operating efficiency ratio(1) | 59.1 % | 32.5 % | 46.8 % | 38.7 % |
| | | | | |
| Other Operating Statistics | | | | |
| Ending Private Education Loans, net | $10,766 | $7,779 | $10,766 | $7,779 |
| Ending FFELP Loans, net | 1,143 | 1,316 | 1,143 | 1,316 |
| Ending total education loans, net | $11,909 | $9,095 | $11,909 | $9,095 |
| | | | | |
| Average education loans | $11,030 | $8,748 | $10,760 | $8,769 |

(1) Our efficiency ratio is calculated as operating expense, excluding restructuring and other reorganization expenses, divided by net interest income (after provisions for loan losses) and other income.

Recent Development

On October 21, 2015, we announced plans to sell approximately $750 million of Private Education Loans through a term ABS transaction to qualified institutional buyers. The transaction will remove the principal balance of the loans backing the securitization trust from our balance sheet on the settlement date. We will continue to service the loans after they are transferred to the securitization trust. We expect to sell these loans at an approximate 8 percent premium and we expect to record a pre-tax gain of approximately $59 million on the sale, net of estimated closing adjustments and transaction costs. The transaction is expected to settle on or about October 27, 2015, and will be reflected in our fourth quarter 2015 results.

Overview

The following discussion and analysis presents a review of our business and operations as of and for the three and nine months ended September 30, 2015.

Key Financial Measures

Our operating results are primarily driven by net interest income from our Private Education Loan portfolio (which includes financing costs), provisions for loan losses, gains and losses on loan sales, and operating expenses. The growth of our business and the strength of our financial condition are primarily driven by our ability to achieve our annual Private Education Loan origination goals while sustaining credit quality and maintaining diversified, cost-efficient funding sources to support our originations. A brief summary of our key financial measures (net interest income; gains on sale of loans, net; allowance for loan losses; charge-offs and delinquencies; operating expenses; and "Core Earnings") can be found in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Form 10-K.

2015 Management Objectives

For 2015, we have again set out five major goals to create shareholder value. They are: (1) prudently grow our Private Education Loan assets and revenues; (2) maintain our strong capital position; (3) complete the necessary steps to permit the Bank to independently originate Private Education Loans; (4) continue to expand the Bank's capabilities and enhance risk oversight and internal controls; and (5) manage operating expenses while improving efficiency and customer experience. Here is how we are progressing against these objectives:

Prudently Grow Private Education Loan Assets and Revenues

We will continue to pursue managed growth in our Private Education Loan portfolio in 2015 by leveraging our Sallie Mae and Upromise brands and our relationship with more than two thousand colleges and universities. We recently expanded our campus-focused sales force to provide deeper support for universities in all regions of the United States and, as a result, we expect to be able to demonstrate increased 2015 originations through this effort. We are determined to maintain the average FICO scores and cosigner rates on our originations at levels similar to those at which we ended 2014. We will also increase our efforts to help our customers manage their borrowings and succeed in making their payments, which we expect will result in lower charge-offs and provisions for loan losses. Originations were 6 percent higher in the first nine months of 2015 compared with the year-ago period. The FICO scores and cosigner rates for originations in the nine months ended September 30, 2015 were 749 and 90 percent, unchanged from 749 and 90 percent in the nine months ended September 30, 2014, respectively.

Maintain Our Strong Capital Position

The Bank is required by its prudential regulators, the Utah Department of Financial Institutions ("UDFI") and the FDIC, to comply with mandated capital ratios. We intend to maintain levels of capital at the Bank that significantly exceed those necessary to be considered "well capitalized" by the FDIC. For additional information, see "Liquidity and Capital Resources — Regulatory Capital" in this Form 10-Q for the quarter ended September 30, 2015, for a further discussion of regulatory capital requirements. The Company is a source of strength for the Bank and will provide additional capital as, and if, necessary to the Bank. As of September 30, 2015, the Bank had a Tier 1 leverage ratio of 12.2 percent, a common equity Tier 1 risk-based capital ratio of 13.3 percent, a Tier 1 risk-based capital ratio of 13.3 percent, and a total risk-based capital ratio of 14.1 percent, all exceeding the current regulatory guidelines for well capitalized institutions by a significant amount. We do not intend to initiate any share repurchase program to return capital to shareholders. We only expect to repurchase common stock acquired in connection with taxes withheld associated with award exercises and vesting under our employee stock-based compensation plans. Our Board of Directors will periodically reconsider these matters.

We have been active in the capital markets in 2015. We have sold Private Education Loans through securitization transactions and have used the ABS market to complement our deposit funding by raising term funding using our loan portfolio. On July 30, 2015, we executed our $714 million SMB Private Education Loan Trust 2015-B term ABS transaction, which was accounted for as an on-balance sheet secured financing. At September 30, 2015, $692 million of our Private Education Loans were encumbered as a result of this transaction.

Complete Necessary Steps to Permit the Bank to Independently Originate Private Education Loans

In June 2015, we implemented the final phase of the Bank's new loan origination platform and are currently processing all of our new loan originations through this platform. At the time of this filing, the Bank continues to rely on Navient for limited loan origination capabilities provided under a transition services agreement entered into with Navient in connection with the Spin-Off. The Bank, nonetheless, continues to have access under the transition services agreement to Navient originations applications through at least 2016.

41

Continue to Expand the Bank’s Capabilities and Enhance Risk Oversight and Internal Controls

During 2015, we have undertaken significant work to establish that all functions, policies and procedures transferred to the Bank in the Spin-Off are sufficient to meet applicable bank and consumer protection regulatory standards. We are designated as a “large bank,” and continue to work toward a risk and control capability that is suitable for a large institution and compliant with attendant regulatory expectations. For 2015, the following key initiatives remain to be completed or are underway:

- In 2015, we will further enhance our internal controls over financial reporting through adoption of the COSO 2013 framework.
- Over the course of 2015, progress has been realized on key programs, including the build-out of our Enterprise Risk Management (“ERM”) program and establishing the foundation for our 2016 Dodd-Frank Act Stress Testing (“DFAST”) submission. Additionally, during 2015, we have embedded a new enterprise-wide governance framework and launched a manager’s risk and control self-assessment methodology. For the balance of 2015, emphasis will be placed on the model risk management discipline in support of our 2016 DFAST report.
- Continue to strengthen our Internal Audit function, which will provide the Bank with confidence in its overall control environment and ensure the sustainability of the strong risk culture. During the first nine months of 2015, the Internal Audit function implemented several new automated systems, added five additional professional staff, and significantly increased relevant certifications of its staff to enhance overall quality. In 2015, the Bank also engaged an independent accounting firm to conduct an external quality assessment of the Internal Audit function, in accordance with industry standards, which recently concluded with a favorable opinion.
- Continue to make changes and enhancements to our compliance management system and program and related consumer protection processes and procedures. Our redesigned SCRA processes and procedures have now received the approval of the DOJ. In 2014, we engaged a third-party firm to conduct independent audits of certain key consumer protection processes and procedures, including our compliance management system. To-date, we have received no high-risk findings. In 2015, the third-party firm will continue to conduct additional independent audits over the remainder of those processes and procedures.

Manage Operating Expenses While Improving Efficiency and Customer Experience

We will continue to measure our effectiveness in managing operating expenses by monitoring our efficiency ratio. Our efficiency ratio is calculated as operating expense, excluding restructuring and reorganization expenses, divided by net interest income (after provisions for loans losses) and other income. This ratio was 46.8 percent for the first nine months of 2015, compared to 38.7 percent for the first nine months of 2014. Gains on sales of loans, net, decreased $44 million as there were fewer sales in the first nine months of 2015. Operating expenses were $265 million for the nine months ended September 30, 2015, compared with $200 million in the year-ago period. These two factors account for the higher efficiency ratio through the first nine months of 2015.

We expect the annual efficiency ratio to decline steadily over the next several years as the number of loans we service grows to a level commensurate with our loan origination platform and we control the growth of our expense base. We intend for the Bank to retain servicing of all Private Education Loans we originate, regardless of whether we hold them in our portfolio or sell all or portions of these Private Education Loans through loan sales and ABS transactions.

In 2015, we will focus on further enhancing a culture that values customer satisfaction and the efficient delivery of our products and services. We understand the challenges of simplifying and carefully considering our customers’ requests, personal circumstances and requirements. As of April 2015, all customer service for our Private Education Loan portfolio has been moved to the United States. The decision to on-shore all Private Education Loan customer service represents a significant piece of our investment to enhance the overall customer experience this year. In the second quarter of 2015, we also unveiled upgrades and improvements to our mobile and loan management capabilities to deliver to our customers the access they expect from their financial service providers. We expect these investments to result in increased customer satisfaction, higher loan originations and a more efficient operation.

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

GAAP Statements of Income (Unaudited)

| | Three Months Ended September 30, | | Increase (Decrease) | | Nine Months Ended September 30, | | Increase (Decrease) | |
|---|---|---|---|---|---|---|---|---|
| (In millions, except per share data) | 2015 | 2014 | $ | % | 2015 | 2014 | $ | % |
| Interest income: | | | | | | | | |
| Loans | $205 | $164 | $41 | 25 % | $598 | $487 | $111 | 23 % |
| Investments | 3 | 3 | — | — | 8 | 6 | 2 | 33 |
| Cash and cash equivalents | 1 | 1 | — | — | 3 | 3 | — | — |
| Total interest income | 209 | 168 | 41 | 24 | 609 | 496 | 113 | 23 |
| Total interest expense | 34 | 24 | 10 | 42 | 94 | 68 | 26 | 38 |
| Net interest income | 175 | 144 | 31 | 22 | 515 | 428 | 87 | 20 |
| Less: provisions for loan losses | 27 | 15 | 12 | 80 | 60 | 55 | 5 | 9 |
| Net interest income after provisions for loan losses | 148 | 129 | 19 | 15 | 455 | 373 | 82 | 22 |
| Noninterest income: | | | | | | | | |
| Gains on sales of loans, net | — | 85 | (85) | (100) | 77 | 121 | (44) | (36) |
| (Losses) gains on derivatives and hedging activities, net | (1) | 5 | (6) | (120) | 4 | (5) | 9 | (180) |
| Other income | 11 | 6 | 5 | 83 | 30 | 29 | 1 | 3 |
| Total noninterest income | 10 | 96 | (86) | (90) | 111 | 145 | (34) | (23) |
| Expenses: | | | | | | | | |
| Operating expenses | 93 | 72 | 21 | 29 | 264 | 196 | 68 | 35 |
| Acquired intangible asset amortization expense | — | 1 | (1) | (100) | 1 | 4 | (3) | (75) |
| Restructuring and other reorganization expenses | 1 | 14 | (13) | (93) | 6 | 28 | (22) | (79) |
| Total expenses | 94 | 87 | 7 | 8 | 271 | 228 | 43 | 19 |
| Income before income tax expense | 64 | 138 | (74) | (54) | 295 | 290 | 5 | 2 |
| Income tax expense | 18 | 55 | (37) | (67) | 110 | 116 | (6) | (5) |
| Net income | 46 | 83 | (37) | (45) | 185 | 174 | 11 | 6 |
| Preferred stock dividends | 5 | 5 | — | — | 15 | 8 | 7 | 88 |
| Net income attributable to SLM Corporation common stock | $41 | $78 | $(37) | (47)% | $170 | $166 | $4 | 2 % |
| Basic earnings per common share attributable to SLM Corporation | $0.10 | $0.18 | $(0.08) | (44)% | $0.40 | $0.39 | $0.01 | 3 % |
| Diluted earnings per common share attributable to SLM Corporation | $0.09 | $0.18 | $(0.09) | (50)% | $0.39 | $0.38 | $0.01 | 3 % |

GAAP Consolidated Earnings Summary

Three Months Ended September 30, 2015 Compared with Three Months Ended September 30, 2014

For the three months ended September 30, 2015, net income was $46 million, or $.09 diluted earnings per common share, compared with net income of $83 million, or $.18 diluted earnings per common share, for the three months ended September 30, 2014. Net income was affected by an $85 million decrease in gains on sales of loans, a $7 million increase in total expenses and a $12 million increase in provisions for loan losses, which were offset by a $31 million increase in net interest income and a $37 million decrease in income tax expense.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income increased by $31 million in the quarter compared with the year-ago quarter primarily due to a $2.5 billion increase in average Private Education Loans outstanding and an 11 basis point increase in net interest margin. Net interest margin increased primarily as a result of an increase in the ratio of higher yielding Private Education Loans relative to our other interest earning assets, which more than offset a 13 basis point increase in our cost of funds. Cost of funds increased primarily as a result the higher funding costs associated with the use of our ABCP funding facility and the issuance of $631 million in term ABS financing to third parties in July 2015 (which term ABS financing has a significantly longer average life and higher cost than deposit funding), as well as increased costs associated with interest rate swaps hedging our fixed-rate loan portfolio that were ineffective until August 2014 and not included in our cost of funds.
- Provisions for loan losses increased $12 million compared with the year-ago quarter. This increase was primarily the result of an $841 million increase in loans in repayment and a $36 million increase in loans classified as TDRs for which we hold a life of loan allowance.
- Gains on sales of loans, net, decreased $85 million as there were no loan sales in the third quarter of 2015. In the year-ago quarter, we recorded an $85 million gain from the sale of $1.2 billion of loans through loan sales and a securitization transaction with third parties.
- Gains (losses) on derivatives and hedging activities, net, resulted in a net loss of $1 million in the third quarter 2015 compared with a net gain of $5 million in the year-ago quarter. The primary factors affecting the change were interest rates and whether the derivatives qualified for hedge accounting treatment. In third quarter 2015, fewer derivatives that were used to economically hedge risk qualified for hedge accounting treatment than in the year-ago quarter.
- Other income increased $5 million in third quarter 2015 compared with the year-ago quarter because in third quarter 2014 we recorded a $3 million decrease in the tax indemnity receivable from Navient. Excluding that item, other income increased $2 million, primarily as a result of servicing revenue we earned related to loans sold in the latter half of 2014 and the first half of 2015 for which we retained servicing rights.
- Third-quarter 2015 operating expenses (including acquired intangible asset amortization expense) were $93 million compared with $73 million in the year-ago quarter. The increase is primarily due to the higher costs of establishing a stand alone company, servicing of higher loan volumes and peak origination season processing costs. We also continue to make investments in our servicing platform to improve customer service, such as expanding weekend service hours and improving response times.
- Third-quarter 2015 restructuring and other reorganization expenses were $1 million compared with $14 million in the year-ago quarter. The decrease is the result of the wind-down of our separation efforts related to the Spin-Off.
- The effective income tax rate decreased to 28.2 percent in third-quarter 2015 from 39.8 percent in the year-ago quarter. The decrease was attributed to a release of reserves for uncertain tax positions and lower state tax rates as a result of the favorable outcome of several state tax matters.

Nine Months Ended September 30, 2015 Compared with Nine Months Ended September 30, 2014

For the nine months ended September 30, 2015, net income was $185 million, or $.39 diluted earnings per common share, compared with net income of $174 million, or $.38 diluted earnings per common share, for the nine months ended September 30, 2014. Net income was affected by a $44 million decrease in gains on sales of loans, a $43 million increase in total expenses and a $5 million increase in provisions for loan losses, which were offset by an $87 million increase in net interest income and a $6 million decrease in income tax expense.

The primary contributors to each of the identified drivers of changes in net income for the first nine months of 2015 compared with the year-ago period are as follows:

- Net interest income increased by $87 million in the first nine months of 2015 compared with the year-ago period primarily due to a $2.2 billion increase in average Private Education Loans outstanding and a 13 basis point increase in net interest margin. Net interest margin increased primarily as a result of an increase in the ratio of higher yielding Private Education Loans relative to our other interest earning assets, which more than offset a 17 basis point increase in our cost of funds. Cost of funds increased primarily as a result of the use of our ABCP funding facility and the issuance of $631 million in term ABS financing to third parties in July 2015 (which term ABS financing has a significantly longer average life and higher cost than deposit funding), as well as additional costs associated with interest rate swaps hedging our fixed-rate loan portfolio that were not in place in the first seven months of 2014.
- Provisions for loan losses increased $5 million compared with the year-ago period. This increase was primarily the result of a $905 million increase in loans in repayment and a $159 million increase in loans classified as TDRs for which we hold a life of loan allowance, which was partially offset by a $301 million reduction in credit impaired loan sales and a $14 million benefit recorded in 2014 as a result of the change in our charge-off policy.
- Gains on sales of loans, net, decreased $44 million, as there were fewer loan sales in the first nine months of 2015.
- Gains (losses) on derivatives and hedging activities, net, resulted in a net gain of $4 million in the first nine months of 2015 compared with a net loss of $5 million in the year-ago period. The primary factors affecting the change were interest rates and whether the derivatives qualified for hedge accounting treatment. In the first nine months of 2015, more derivatives used to economically hedge risk qualified for hedge accounting treatment than in the year-ago period.
- Operating expenses (including acquired intangible asset amortization expense) were $265 million compared with $200 million in the year-ago period. The increase is primarily due to the higher costs of establishing a stand alone company, servicing of higher loan volumes and peak origination season processing costs. We also continue to make investments in our servicing platform to improve customer service, such as expanding weekend service hours and improving response times.
- Restructuring and other reorganization expenses were $6 million compared with $28 million in the year-ago period. The decrease is primarily the result of the wind-down of our separation efforts related to the Spin-Off.
- The effective income tax rate decreased to 37.3 percent in the nine months ended September 30, 2015 from 39.9 percent in the year-ago period. The decrease was attributed to a release of reserves for uncertain tax positions and lower state tax rates as a result of the favorable outcome of several state tax matters.

"Core Earnings"

We prepare financial statements in accordance with GAAP. However, we also produce and report our after-tax earnings on a separate basis that we refer to as "Core Earnings." While pre-Spin-Off SLM also reported a metric by that name, what we now report and what we describe below is significantly different and should not be compared to any Core Earnings reported by pre-Spin-Off SLM.

"Core Earnings" recognizes the difference in accounting treatment for derivatives based upon whether the derivative qualifies for hedge accounting treatment and eliminates the earnings impact associated with hedge ineffectiveness and derivatives we use as an economic hedge but which do not qualify for hedge accounting treatment. We enter into derivatives instruments to economically hedge interest rate and cash flow risk associated with our portfolio. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. Those derivative instruments that qualify for hedge accounting treatment have their related cash flows recorded in interest income or interest expense along with the hedged item. Hedge ineffectiveness related to these derivatives is recorded in "(Losses) gains on derivatives and hedging activities, net." Some of our derivatives do not qualify for hedge accounting treatment and the stand-alone derivative must be marked to fair value in the income statement with no consideration for the corresponding change in fair value of the hedged item. These gains and losses, recorded in "(Losses) gains on derivatives and hedging activities, net",

45

are primarily caused by interest rate volatility and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment. Cash flows on derivative instruments that do not qualify for hedge accounting treatment are not recorded in interest income and interest expense; they are recorded in non-interest income: “(Losses) gains on derivatives and hedging activities, net.”

The adjustments required to reconcile from our “Core Earnings” results to our GAAP results of operations, net of tax, relate to differing treatments for our use of derivatives instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness, net of tax. The amount recorded in “(Losses) gains on derivatives and hedging activities, net” includes the accrual of the current payment on the interest rate swaps that do not qualify for hedge accounting treatment as well as the change in fair values related to future expected cash flows for those derivatives and accounting hedges. For purposes of “Core Earnings,” we are including in GAAP earnings the current period accrual amounts (interest reclassification) on the swaps and exclude the remaining ineffectiveness. “Core Earnings” is meant to represent what earnings would have been had these derivatives qualified for hedge accounting and there was no ineffectiveness.

“Core Earnings” are not a substitute for reported results under GAAP. We provide “Core Earnings” basis of presentation because (i) earnings per share computed on a “Core Earnings” basis is one of several measures we utilize in establishing management incentive compensation and (ii) we believe it better reflects the financial results for derivatives that are economic hedges of interest rate risk but which do not qualify for hedge accounting treatment.

GAAP provides a uniform, comprehensive basis of accounting. Our “Core Earnings” basis of presentation differs from GAAP in the way it treats ineffective hedges as described above.

The following table shows the amount in “(Losses) gains on derivatives and hedging activities, net” that relates to the interest reclassification on the derivative contracts.

| (Dollars in thousands) | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| Hedge ineffectiveness (losses) gains | $(2,116) | $935 | $(1,471) | $1,186 |
| Unrealized gains (losses) on instruments not in a hedging relationship | 716 | 5,636 | 2,972 | (2,870) |
| Interest reclassification | 853 | (1,170) | 2,846 | (3,137) |
| (Losses) gains on derivatives and hedging activities, net | $(547) | $5,401 | $4,347 | $(4,821) |

The following table reflects adjustments associated with our derivative activities.

| (Dollars in thousands, except per share amounts) | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| "Core Earnings" adjustments to GAAP: | | | | |
| GAAP net income attributable to SLM Corporation | $45,724 | $82,926 | $184,439 | $174,502 |
| Preferred stock dividends | 4,913 | 4,850 | 14,606 | 8,078 |
| GAAP net income attributable to SLM Corporation common stock | $40,811 | $78,076 | $169,833 | $166,424 |
| Adjustments: | | | | |
| Net impact of derivative accounting[1] | 1,400 | (6,571) | (1,501) | 1,684 |
| Net tax effect[2] | (397) | 2,528 | 560 | (636) |
| Total "Core Earnings" adjustments to GAAP | 1,003 | (4,043) | (941) | 1,048 |
| "Core Earnings" attributable to SLM Corporation common stock | $41,814 | $74,033 | $168,892 | $167,472 |
| GAAP diluted earnings per common share | $0.09 | $0.18 | $0.39 | $0.38 |
| Derivative adjustments, net of tax | 0.01 | (0.01) | 0.00 | 0.01 |
| "Core Earnings" diluted earnings per common share | $0.10 | $0.17 | $0.39 | $0.39 |

(1) Derivative Accounting: "Core Earnings" exclude periodic unrealized gains and losses caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP, as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. Under GAAP, for our derivatives held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0.

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

Average Balance Sheets - GAAP

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

| | Three Months Ended September 30, | | | | | | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2015 | | | 2014 | | |
| (Dollars in thousands) | Balance | Rate | | Balance | Rate | | Balance | Rate | | Balance | Rate | |
| Average Assets | | | | | | | | | | | | |
| Private Education Loans | $9,869,025 | 7.87 | % | $7,407,774 | 8.20 | % | $9,563,290 | 7.96 | % | $7,394,985 | 8.19 | % |
| FFELP Loans | 1,161,288 | 3.27 | | 1,339,748 | 3.23 | | 1,196,491 | 3.22 | | 1,373,945 | 3.25 | |
| Other investments | 388,539 | 2.70 | | 418,524 | 2.77 | | 397,610 | 2.60 | | 305,891 | 2.66 | |
| Cash and other short-term investments | 1,567,539 | 0.25 | | 1,723,668 | 0.27 | | 1,396,408 | 0.25 | | 1,607,913 | 0.26 | |
| Total interest-earning assets | 12,986,391 | 6.38 | % | 10,889,714 | 6.13 | % | 12,553,799 | 6.48 | % | 10,682,734 | 6.20 | % |
| Non-interest-earning assets | 723,860 | | | 630,974 | | | 648,148 | | | 527,377 | | |
| Total assets | $13,710,251 | | | $11,520,688 | | | $13,201,947 | | | $11,210,111 | | |
| Average Liabilities and Equity | | | | | | | | | | | | |
| Brokered deposits | $6,554,349 | 1.20 | % | $5,092,606 | 1.20 | % | $6,598,090 | 1.20 | % | $5,392,194 | 1.08 | % |
| Retail and other deposits | 3,848,364 | 0.95 | | 3,816,636 | 0.92 | | 3,828,770 | 0.95 | | 3,521,175 | 0.92 | |
| Other interest-bearing liabilities[1] | 672,024 | 2.63 | | 22,675 | 0.01 | | 228,903 | 4.57 | | 30,072 | 0.21 | |
| Total interest-bearing liabilities | 11,074,737 | 1.20 | % | 8,931,917 | 1.07 | % | 10,655,763 | 1.18 | % | 8,943,441 | 1.01 | % |
| Non-interest-bearing liabilities | 660,067 | | | 811,369 | | | 628,542 | | | 730,987 | | |
| Equity | 1,975,447 | | | 1,777,402 | | | 1,917,642 | | | 1,535,683 | | |
| Total liabilities and equity | $13,710,251 | | | $11,520,688 | | | $13,201,947 | | | $11,210,111 | | |
| Net interest margin | | 5.36 | % | | 5.25 | % | | 5.48 | % | | 5.35 | % |

(1) For the three and nine months ended September 30, 2015, includes the average balance of our secured borrowings and amortization expense of transaction costs related to our asset-backed commercial paper education loan funding facility.

The decline in the yield on the Private Education Loan portfolio for the three and nine month periods of 2015 compared with the prior year periods is primarily because of lower yields on new loan originations.

Rate/Volume Analysis - GAAP

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

| (Dollars in thousands) | Increase (Decrease) | Change Due To[1] Rate | Volume |
|---|---|---|---|
| Three Months Ended September 30, 2015 vs. 2014 | | | |
| Interest income | $40,698 | $7,207 | $33,473 |
| Interest expense | 9,282 | 3,228 | 6,242 |
| Net interest income | $31,416 | $3,059 | $28,261 |
| | | | |
| Nine Months Ended September 30, 2015 vs. 2014 | | | |
| Interest income | $113,086 | $23,163 | $89,927 |
| Interest expense | 26,236 | 11,977 | 14,143 |
| Net interest income | $86,850 | $10,210 | $76,500 |

(1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

Summary of Our Education Loan Portfolio

Ending Education Loan Balances, net

| (Dollars in thousands) | September 30, 2015 Private Education Loans | FFELP Loans | Total Portfolio | December 31, 2014 Private Education Loans | FFELP Loans | Total Portfolio |
|---|---|---|---|---|---|---|
| Total education loan portfolio: | | | | | | |
| In-school[1] | $2,898,443 | $687 | $2,899,130 | $2,548,721 | $1,185 | $2,549,906 |
| Grace, repayment and other[2] | 7,941,818 | 1,142,908 | 9,084,726 | 5,762,655 | 1,263,622 | 7,026,277 |
| Total, gross | 10,840,261 | 1,143,595 | 11,983,856 | 8,311,376 | 1,264,807 | 9,576,183 |
| Deferred origination costs and unamortized premium | 26,283 | 3,212 | 29,495 | 13,845 | 3,600 | 17,445 |
| Allowance for loan losses | (100,033) | (4,170) | (104,203) | (78,574) | (5,268) | (83,842) |
| Total education loan portfolio | $10,766,511 | $1,142,637 | $11,909,148 | $8,246,647 | $1,263,139 | $9,509,786 |
| % of total | 90% | 10% | 100% | 87% | 13% | 100% |

(1) Loans for customers still attending school and who are not yet required to make payments on the loan.
(2) Includes loans in deferment or forbearance.

Average Education Loan Balances (net of unamortized premium/discount)

| (Dollars in thousands) | Three Months Ended September 30, 2015 | | Three Months Ended September 30, 2014 | | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|---|---|---|---|
| Private Education Loans | $9,869,025 | 89 % | $7,407,774 | 85 % | $9,563,290 | 89 % | $7,394,985 | 84 % |
| FFELP Loans | 1,161,288 | 11 | 1,339,748 | 15 | 1,196,491 | 11 | 1,373,945 | 16 |
| Total portfolio | $11,030,313 | 100 % | $8,747,522 | 100 % | $10,759,781 | 100 % | $8,768,930 | 100 % |

Education Loan Activity

| | Three Months Ended September 30, 2015 | | | Three Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Private Education Loans | FFELP Loans | Total Portfolio | Private Education Loans | FFELP Loans | Total Portfolio |
| Beginning balance | $9,245,259 | $1,177,649 | $10,422,908 | $7,436,225 | $1,357,746 | $8,793,971 |
| Acquisitions and originations | 1,716,574 | — | 1,716,574 | 1,614,350 | — | 1,614,350 |
| Capitalized interest and deferred origination cost premium amortization | 42,866 | 9,194 | 52,060 | 33,034 | 10,699 | 43,733 |
| Sales | (4,613) | — | (4,613) | (1,153,156) | — | (1,153,156) |
| Loan consolidation to third parties | (20,376) | (12,459) | (32,835) | (3,549) | (10,475) | (14,024) |
| Repayments and other | (213,199) | (31,747) | (244,946) | (147,482) | (42,019) | (189,501) |
| Ending balance | $10,766,511 | $1,142,637 | $11,909,148 | $7,779,422 | $1,315,951 | $9,095,373 |

| | Nine Months Ended September 30, 2015 | | | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Private Education Loans | FFELP Loans | Total Portfolio | Private Education Loans | FFELP Loans | Total Portfolio |
| Beginning balance | $8,246,647 | $1,263,139 | $9,509,786 | $6,506,642 | $1,424,735 | $7,931,377 |
| Acquisitions and originations | 3,786,946 | — | 3,786,946 | 3,528,277 | 7,470 | 3,535,747 |
| Capitalized interest and deferred origination cost premium amortization | 118,653 | 30,316 | 148,969 | 86,230 | 36,161 | 122,391 |
| Sales | (713,220) | — | (713,220) | (1,866,202) | (7,654) | (1,873,856) |
| Loan consolidation to third parties | (41,858) | (34,263) | (76,121) | (13,069) | (28,563) | (41,632) |
| Repayments and other | (630,657) | (116,555) | (747,212) | (462,456) | (116,198) | (578,654) |
| Ending balance | $10,766,511 | $1,142,637 | $11,909,148 | $7,779,422 | $1,315,951 | $9,095,373 |

Private Education Loan Originations
The following table summarizes our Private Education Loan originations.

| (Dollars in thousands) | Three Months Ended September 30, 2015 | % | | 2014 | % | | Nine Months Ended September 30, 2015 | % | | 2014 | % | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Smart Option - interest only[1] | $425,903 | 25 | % | $400,923 | 25 | % | $933,029 | 25 | % | $860,421 | 24 | % |
| Smart Option - fixed pay[1] | 545,089 | 32 | | 501,551 | 31 | | 1,164,326 | 31 | | 1,087,931 | 31 | |
| Smart Option - deferred[1] | 737,574 | 43 | | 714,596 | 44 | | 1,656,859 | 44 | | 1,569,566 | 45 | |
| Smart Option - principal and interest | 410 | — | | 350 | — | | 1,344 | — | | 1,287 | — | |
| Total Private Education Loan originations | $1,708,976 | 100 | % | $1,617,420 | 100 | % | $3,755,558 | 100 | % | $3,519,205 | 100 | % |

[1] Interest only, fixed pay and deferred describe the payment option while in school or in grace period.

Allowance for Loan Losses

Education Loan Allowance for Loan Losses Activity

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| (Dollars in thousands) | Private Education Loans | FFELP Loans | Total Portfolio | Private Education Loans | FFELP Loans | Total Portfolio |
| Beginning balance | $87,310 | $4,556 | $91,866 | $54,315 | $6,212 | $60,527 |
| Less: | | | | | | |
| Charge-offs | (14,121) | (529) | (14,650) | (4,378) | (761) | (5,139) |
| Loan sales | (1,871) | — | (1,871) | (4,571) | — | (4,571) |
| Plus: | | | | | | |
| Recoveries | 1,361 | — | 1,361 | — | — | — |
| Provision for loan losses | 27,354 | 143 | 27,497 | 14,607 | 291 | 14,898 |
| Ending balance | $100,033 | $4,170 | $104,203 | $59,973 | $5,742 | $65,715 |
| | | | | | | |
| Troubled debt restructurings[1] | $231,286 | $— | $231,286 | $13,115 | $— | $13,115 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| (Dollars in thousands) | Private Education Loans | FFELP Loans | Total Portfolio | Private Education Loans | FFELP Loans | Total Portfolio |
| Beginning balance | $78,574 | $5,268 | $83,842 | $61,763 | $6,318 | $68,081 |
| Less: | | | | | | |
| Charge-offs | (36,127) | (2,142) | (38,269) | (4,378) | (2,058) | (6,436) |
| Loan sales | (5,572) | — | (5,572) | (51,001) | — | (51,001) |
| Plus: | | | | | | |
| Recoveries | 4,529 | — | 4,529 | — | — | — |
| Provision for loan losses | 58,629 | 1,044 | 59,673 | 53,589 | 1,482 | 55,071 |
| Ending balance | $100,033 | $4,170 | $104,203 | $59,973 | $5,742 | $65,715 |
| | | | | | | |
| Troubled debt restructurings[1] | $231,286 | $— | $231,286 | $13,115 | $— | $13,115 |

(1) Represents the unpaid principal balance of loans classified as troubled debt restructurings.

Private Education Loan Allowance for Loan Losses

In establishing the allowance for Private Education Loan losses as of September 30, 2015, we considered several factors with respect to our Private Education Loan portfolio: in particular, credit quality, delinquency, forbearance and charge-off trends in connection with the portfolio.

Private Education Loan provision for loan losses in the quarter ending September 30, 2015 increased $12 million compared with the year-ago period, primarily due to an $841 million increase in loans in repayment, and a $36 million increase in loans classified as TDRs for which we hold a life of loan allowance. When loans are sold at a gain, we reverse the allowance for loan losses related to these loans by recording a negative provision. When we sell credit impaired loans at a loss, we write down the loan to fair value with the additional write-down recorded as charge-off.

In the nine months ended September 30, 2015, we had a $5 million increase in the Private Education Loan provision for loan losses compared to the year-ago period. This increase was primarily the result of a $905 million increase in loans in repayment and a $159 million increase in loans classified as TDRs for which we hold a life of loan allowance, which was partially offset by a $301 million reduction in credit impaired loan sales and a $14 million benefit recorded in 2014 as a result of the change in our charge-off policy. When we sell credit impaired loans at a loss, we write down the loan to fair value with the additional write-down recorded as charge-off. For the first four months of 2014, we did not have troubled debt restructurings, loans in forbearance or a significant amount of loans that were more than 90 days past due because we typically sold loans to an affiliate prior to any restructuring and when they became 90 days delinquent. As a result of this past practice, there were no charge-off or recoveries of defaulted loans prior to April 30, 2014.

Total loans delinquent (as a percentage of loans in repayment) have increased to 1.9 percent from 1.3 percent in the year-ago period. Loans in forbearance (as a percentage of loans in repayment and forbearance) have increased to 3.1 percent from 1.6 percent in the year-ago period. The increase in the delinquency rate and loans in forbearance was because for the first four months of 2014, the Bank typically sold loans to an entity that is now a subsidiary of Navient in the same month they went 90 days delinquent or when a forbearance was offered to a borrower. Post-Spin-Off, the Bank now retains these loans.

For a more detailed discussion of our policy for determining the collectibility of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates - Allowance for Loan Losses” in our 2014 Form 10-K.

Our default aversion strategies are focused on the final stages of delinquency. Pre-Spin-Off, these final stages were from 150 days to 212 days delinquent. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, the final stages of delinquency and our default aversion strategies now focus more on loans 30 to 120 days delinquent. This change has the effect of accelerating the recognition of losses due to the shorter charge-off period. In addition, we changed our loss confirmation period from two years to one year to reflect the shorter charge-off policy and our revised servicing practices. To date, we have not experienced an increase in losses as a result of the shortened charge-off period. A loss confirmation period represents the expected period between a loss event and when management considers the debt to be uncollectible, taking into consideration account management practices that affect the timing of a loss, such as the usage of forbearance.

In connection with the Spin-Off, the agreement under which the Bank previously made loan sales was amended so the Bank now only has the right to require Navient to purchase loans (at fair value) where (a) the borrower has a lending relationship with both the Bank and Navient (“Split Loans”) and (b) the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At September 30, 2015, we held approximately $96 million of Split Loans.

For the reasons described above, many of our historical credit indicators and period-over-period trends are not indicative of future performance. The following results have not been adjusted to reflect what the delinquencies, charge-offs and recoveries would have been had we not sold these loans. Because we now retain more delinquent loans, we believe it could take up to two years after the date of the Spin-Off transaction before our credit performance indicators provide meaningful period-over-period comparisons.

53

The table below presents our Private Education Loan delinquency trends. Loans in repayment include loans making interest only and fixed payments, as well as loans that have entered full principal and interest repayment status.

| | Private Education Loans September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| (Dollars in thousands) | Balance | % | | Balance | % | |
| Loans in-school/grace/deferment[1] | $3,971,392 | | | $3,178,495 | | |
| Loans in forbearance[2] | 211,641 | | | 75,782 | | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 6,529,855 | 98.1 | % | 4,515,313 | 98.7 | % |
| Loans delinquent 31-60 days[3] | 79,794 | 1.2 | | 44,082 | 1.0 | |
| Loans delinquent 61-90 days[3] | 34,743 | 0.5 | | 12,415 | 0.3 | |
| Loans delinquent greater than 90 days[3] | 12,836 | 0.2 | | 3,333 | — | |
| Total loans in repayment | 6,657,228 | 100.0 | % | 4,575,143 | 100.0 | % |
| Total loans, gross | 10,840,261 | | | 7,829,420 | | |
| Deferred origination costs | 26,283 | | | 9,975 | | |
| Total loans | 10,866,544 | | | 7,839,395 | | |
| Allowance for loan losses | (100,033 ) | | | (59,973 ) | | |
| Total Private Education Loans, net | $10,766,511 | | | $7,779,422 | | |
| Percentage of loans in repayment | | 61.4 | % | | 58.4 | % |
| Delinquencies as a percentage of loans in repayment | | 1.9 | % | | 1.3 | % |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 3.1 | % | | 1.6 | % |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the loans (e.g., residency periods for medical students or a grace period for bar exam preparation).

(2) Loans for customers 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.

At September 30, 2015 and December 31, 2014, 26 percent and 28 percent, respectively, of our portfolio of Private Education Loans have entered full principal and interest repayment status after any applicable grace periods.

Allowance for Private Education Loan Losses
The following table summarizes changes in the allowance for Private Education Loan losses.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2015 | 2014 |
| Allowance at beginning of period | $87,310 | $54,315 | $78,574 | $61,763 |
| Provision for Private Education Loan losses | 27,354 | 14,607 | 58,629 | 53,589 |
| Charge-offs[1] | (14,121) | (4,378) | (36,127) | (4,378) |
| Recoveries | 1,361 | — | 4,529 | — |
| Net charge-offs | (12,760) | (4,378) | (31,598) | (4,378) |
| Loan sales[2] | (1,871) | (4,571) | (5,572) | (51,001) |
| Allowance at end of period | $100,033 | $59,973 | $100,033 | $59,973 |
| Allowance as a percentage of ending total loans | 0.92 % | 0.77 % | 0.92 % | 0.77 % |
| Allowance as a percentage of ending loans in repayment | 1.50 % | 1.31 % | 1.50 % | 1.31 % |
| Allowance coverage of net charge-offs (annualized) | 1.96 | 3.42 | 2.37 | 10.27 |
| Net charge-offs as a percentage of average loans in repayment (annualized) | 0.83 % | 0.39 % | 0.72 % | 0.13 % |
| Delinquencies as a percentage of loans in repayment | 1.91 % | 1.31 % | 1.91 % | 1.31 % |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 3.09 % | 1.63 % | 3.09 % | 1.63 % |
| Percentage of loans with a cosigner | 89.9 % | 89.8 % | 89.9 % | 89.8 % |
| Average FICO at origination | 749 | 750 | 749 | 749 |
| Ending total loans[3] | $10,840,261 | $7,829,420 | $10,840,261 | $7,829,420 |
| Average loans in repayment | $6,118,678 | $4,453,775 | $5,848,345 | $4,408,852 |
| Ending loans in repayment | $6,657,228 | $4,575,143 | $6,657,228 | $4,575,143 |

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient, prior to being charged off. Therefore, many of our historical credit indicators and period-over-period trends are not indicative of future performance. Because we now retain more delinquent loans, we believe it could take up to two years from the date of the Spin-Off before our credit performance indicators provide meaningful period-over-period comparisons.
(2) Represents fair value write-downs on loans sold.
(3) Ending total loans represents gross Private Education Loans.

As part of concluding on the adequacy of the allowance for loan losses, we review key allowance and loan metrics. The most significant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages. The allowance as a percentage of ending total loans and ending loans in repayment increased at September 30, 2015 compared with September 30, 2014 because of an increase in the relative size of the loan portfolio, an increase in our TDRs (for which we hold a life of loan allowance) and an increase in the percentage of loans in full principal and interest repayment.

Use of Forbearance as a Private Education Loan Collection Tool

Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan.

Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a customer's unique situation, including historical information and judgments.

We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans. Forbearance may be granted to customers who are exiting their grace period to provide additional time to obtain employment and income to support their obligations, or to current customers who are faced with a hardship and request forbearance time to provide temporary payment relief. In these circumstances, a customer's loan is placed into a forbearance status in limited monthly increments and is reflected in the forbearance status at month-end during this time. At the end of their granted forbearance period, the customer will enter repayment status as current and is expected to begin making scheduled monthly payments on a go-forward basis.

Forbearance may also be granted to customers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the customer is returned to a current repayment status and is expected to begin making scheduled monthly payments on a go-forward basis. In more limited instances, delinquent customers will also be granted additional forbearance time.

Prior to the Spin-Off, the Bank sold Private Education Loans that were delinquent more than 90 days or were granted a hardship forbearance to an entity that is now a subsidiary of Navient. As such, the Bank did not hold many loans in forbearance. Because of this past business practice, we do not yet have meaningful comparative historic forbearance data with respect to our Private Education Loan portfolio. Subsequent to the Spin-Off, however, we began using forbearance as part of our loss mitigation efforts. Nonetheless, the historic default experience on loans put into forbearance that Navient (pre-Spin-Off SLM) experienced prior to the Spin-Off is still considered in the determination of our allowance for loan losses.

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). Active repayment status includes loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status. Our experience shows the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At September 30, 2015, loans in forbearance status as a percentage of loans in repayment and forbearance were 3.1 percent for loans that have been in active repayment status for fewer than 25 months. Approximately 77 percent of our Private Education Loans in forbearance status have been in active repayment status fewer than 25 months.

| (Dollars in millions) September 30, 2015 | Monthly Scheduled Payments Due | | | | | Not Yet in Repayment | Total |
|---|---|---|---|---|---|---|---|
| | 0 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | | |
| Loans in-school/grace/deferment | $— | $— | $— | $— | $— | $3,971 | $3,971 |
| Loans in forbearance | 129 | 35 | 24 | 15 | 9 | — | 212 |
| Loans in repayment - current | 3,374 | 1,669 | 832 | 388 | 265 | — | 6,528 |
| Loans in repayment - delinquent 31-60 days | 44 | 16 | 10 | 6 | 5 | — | 81 |
| Loans in repayment - delinquent 61-90 days | 20 | 7 | 4 | 2 | 2 | — | 35 |
| Loans in repayment - delinquent greater than 90 days | 7 | 2 | 2 | 1 | 1 | — | 13 |
| Total | $3,574 | $1,729 | $872 | $412 | $282 | $3,971 | 10,840 |
| Deferred origination costs | | | | | | | 27 |
| Allowance for loan losses | | | | | | | (100) |
| Total Private Education Loans, net | | | | | | | $10,767 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 3.61 % | 2.02 % | 2.75 % | 3.64 % | 3.19 % | — % | 3.09 % |

56

| (Dollars in millions) | Monthly Scheduled Payments Due | | | | | | |
|---|---|---|---|---|---|---|---|
| September 30, 2014 | 0 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | Not Yet in Repayment | Total |
| Loans in-school/grace/deferment | $— | $— | $— | $— | $— | $3,178 | $3,178 |
| Loans in forbearance | 47 | 15 | 8 | 5 | 1 | — | 76 |
| Loans in repayment - current | 2,597 | 1,060 | 503 | 298 | 57 | — | 4,515 |
| Loans in repayment - delinquent 31-60 days | 29 | 7 | 4 | 4 | — | — | 44 |
| Loans in repayment - delinquent 61-90 days | 9 | 2 | 1 | 1 | — | — | 13 |
| Loans in repayment - delinquent greater than 90 days | 2 | 1 | — | — | — | — | 3 |
| Total | $2,684 | $1,085 | $516 | $308 | $58 | $3,178 | 7,829 |
| Unamortized discount | | | | | | | 10 |
| Allowance for loan losses | | | | | | | (60) |
| Total Private Education Loans, net | | | | | | | $7,779 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 1.75% | 1.38% | 1.55% | 1.62% | 1.72% | —% | 1.63% |

Private Education Loan Repayment Options

The following table provides information regarding the repayment balance by loan type at September 30, 2015.

| (Dollars in thousands) | Signature and Other | Smart Option | Career Training | Total |
|---|---|---|---|---|
| $ in repayment | $142,401 | $6,498,913 | $15,914 | $6,657,228 |
| $ in total | $300,283 | $10,523,660 | $16,318 | $10,840,261 |

Accrued Interest Receivable

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

| | Accrued Interest Receivable | | |
|---|---|---|---|
| (Dollars in thousands) | Total Interest Receivable | Greater Than 90 Days Past Due | Allowance for Uncollectible Interest |
| September 30, 2015 | $606,218 | $489 | $2,979 |
| December 31, 2014 | $445,710 | $443 | $3,517 |
| September 30, 2014 | $430,299 | $142 | $3,250 |

## Liquidity and Capital Resources

### Funding and Liquidity Risk Management

Our four primary liquidity needs include our ongoing ability to fund our businesses throughout market cycles (including during periods of financial stress), our ongoing ability to fund originations of Private Education Loans, servicing our bank deposits, and payment of required dividends on our preferred stock. To achieve these objectives, we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources, such as deposits at the Bank, issuance of secured debt primarily through asset-backed securitizations and other financing facilities and through whole loan sales. It is our policy to manage operations so liquidity needs are fully satisfied through normal operations to avoid unplanned asset sales under emergency conditions. Our liquidity management is governed by policies approved by our Board of Directors. Oversight of these policies is performed in the Asset and Liability Committee, a management-level committee.

These policies take into account the volatility of cash flow forecasts, expected maturities, anticipated loan demand and a variety of other factors to establish minimum liquidity guidelines.

Key risks associated with our liquidity relate to our ability to access the capital markets and the markets for bank deposits at reasonable rates. This ability may be affected by our performance and the macroeconomic environment and the impact they have on the availability of funding sources in the marketplace.

### Sources of Liquidity and Available Capacity

Ending Balances

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Sources of primary liquidity: | | |
| Unrestricted cash and liquid investments: | | |
| Holding Company and other non-bank subsidiaries | $18,700 | $7,677 |
| Sallie Mae Bank[(1)] | 1,263,097 | 2,352,103 |
| Available-for-sale investments | 190,944 | 168,934 |
| Total unrestricted cash and liquid investments | $1,472,741 | $2,528,714 |

(1) This amount will be used primarily to originate Private Education Loans at the Bank.

Average Balances

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2015 | 2014 |
| Sources of primary liquidity: | | | | |
| Unrestricted cash and liquid investments: | | | | |
| Holding Company and other non-bank subsidiaries | $20,088 | $12,216 | $16,336 | $8,410 |
| Sallie Mae Bank[(1)] | 1,537,203 | 1,805,101 | 1,347,228 | 1,656,915 |
| Available-for-sale investments | 172,566 | 151,646 | 170,870 | 127,999 |
| Total unrestricted cash and liquid investments | $1,729,857 | $1,968,963 | $1,534,434 | $1,793,324 |

(1) This amount will be used primarily to originate Private Education Loans at the Bank.

Deposits

The following table summarizes total deposits.

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Deposits - interest bearing | $10,610,592 | $10,539,953 |
| Deposits - non interest bearing | 287 | 602 |
| Total deposits | $10,610,879 | $10,540,555 |

Interest Bearing

Interest bearing deposits as of September 30, 2015 and December 31, 2014 consisted of retail non-maturity savings and money market deposits, brokered and retail certificates of deposit, and brokered money market deposits. These deposit products are serviced by third party providers. Placement fees associated with the brokered certificates of deposit are amortized into interest expense using the effective interest rate method.

Interest bearing deposits at September 30, 2015 and December 31, 2014 are summarized as follows:

| | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| (Dollars in thousands) | Amount | Qtr.-End Weighted Average Stated Rate[1] | Amount | Year-End Weighted Average Stated Rate[1] |
| Money market | $4,436,095 | 1.18 % | $4,527,448 | 1.15 % |
| Savings | 665,941 | 0.82 | 703,687 | 0.81 |
| Certificates of deposit | 5,508,556 | 0.99 | 5,308,818 | 1.00 |
| Deposits - interest bearing | $10,610,592 | | $10,539,953 | |

(1) Includes the effect of interest rate swaps in effective hedge relationships.

As of September 30, 2015 and December 31, 2014, there were $195 million and $254 million, respectively, of deposits exceeding FDIC insurance limits. Accrued interest on deposits was $23 million and $16 million at September 30, 2015 and December 31, 2014, respectively.

Non Interest Bearing

Non interest bearing deposits were $0.3 million and $0.6 million as of September 30, 2015 and December 31, 2014, respectively. For both periods, these were comprised of money market accounts related to our Employee Stock Purchase Plan account.

Commitments

When we approve a Private Education Loan at the beginning of an academic year, that approval may cover the borrowing for the entire academic year. As such, we do not always disburse the full amount of the loan at the time of origination but instead have a commitment to fund a portion of the loan at a later date (usually at the start of the second semester or subsequent trimesters). At September 30, 2015, we had $1.7 billion of outstanding contractual loan commitments which we expect to fund during the remainder of the 2015/2016 academic year.

Borrowings

Outstanding borrowings consist of secured borrowings executed through our term ABS program and our ABCP funding facility. The issuing entities for those secured borrowings are VIEs and are consolidated for accounting purposes. The following table summarizes our secured borrowings at September 30, 2015. We did not have outstanding secured borrowings at December 31, 2014.

| | September 30, 2015 | | |
|---|---|---|---|
| | Short-Term | Long-Term | Total |
| Secured borrowings: | | | |
| Private Education Loan term securitization | $— | $593,687 | $593,687 |
| ABCP borrowings | 710,005 | — | 710,005 |
| Total | $710,005 | $593,687 | $1,303,692 |

2015 Financing Transactions

On July 30, 2015, we executed our $714 million SMB Private Education Loan Trust 2015-B term ABS transaction, which was accounted for as an on-balance sheet secured financing. We retained a 5 percent or $33 million interest in the Class A and B notes, a 100 percent or $50 million interest in the Class C notes and 100 percent of the residual certificates issued in the securitization. $631 million of notes from the securitization were sold to third parties, raising $623 million of gross proceeds. The Class A and B notes had a weighted average life of 4.8 years and priced at a weighted average LIBOR equivalent cost of 1 month LIBOR plus 1.53 percent. At September 30, 2015, $692 million of our Private Education Loans were encumbered as a result of this transaction.

On December 19, 2014, we closed on a $750 million ABCP Private Education Loan funding facility. Pursuant to FDIC safe harbor guidelines, we retained a 5 percent or $37.5 million ownership interest in the ABCP facility, resulting in $712.5 million of funds being available for us to draw under the facility. We incur financing costs under the ABCP facility of approximately 0.40 percent on unused borrowing capacity and approximately 3 month LIBOR plus 0.80 percent on outstandings under the facility. At September 30, 2015, $710 million had been drawn and remained outstanding under the facility, net of our 5 percent retention. At September 30, 2015, $902 million of our Private Education Loans were encumbered as a result of this transaction.

Counterparty Exposure

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us.

Excess cash is generally invested with the FRB on an overnight basis or in the FRB’s Term Deposit Facility, minimizing counterparty exposure on cash balances.

Our investment portfolio includes a small portfolio of mortgage-backed securities issued by government agencies and government-sponsored enterprises that are purchased to meet Community Reinvestment Act targets. Additionally, our investing activity is governed by Board-approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by ISDA CSAs or clearinghouses for OTC derivatives. CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held or plus any collateral posted.

Title VII of the Dodd-Frank Act requires all standardized derivatives, including most interest rate swaps, to be submitted for clearing to central counterparties to reduce counterparty risk. As of September 30, 2015, $4.0 billion notional of our derivative contracts were cleared on the Chicago Mercantile Exchange and the London Clearing House. All derivative contracts cleared through an exchange require collateral to be exchanged based on the fair value of the derivative. Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held or plus any collateral posted.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties.

The table below highlights exposure related to our derivative counterparties as of September 30, 2015.

| (Dollars in thousands) | SLM Corporation and Sallie Mae Bank Contracts | |
|---|---|---|
| Exposure, net of collateral | $48,920 | |
| Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3 | 50 | % |
| Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3 | — | % |

Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our financial statements. Under the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

As of the first quarter 2015, the Bank was required by federal banking authorities to report regulatory capital and ratios based on the U.S. Basel III rule. U.S. Basel III implemented changes to capital, risk-weighted assets, and "well capitalized" definitions and added a reporting requirement of Common Equity Tier I Capital (to risk-weighted assets). Regulatory capital reported as of December 31, 2014 was calculated according to regulatory guidelines in effect at that date.

"Well capitalized" regulatory requirements are the quantitative measures established by regulation to ensure capital adequacy. The Bank is required to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital to risk-weighted assets, Common Equity Tier I Capital to risk-weighted assets, and Tier I Capital to average assets, as defined by the regulation. The following amounts and ratios are based upon the Bank's assets.

| | Actuals | | | Well Capitalized Regulatory Requirements | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amount | Ratio | | Amount | | Ratio | |
| As of September 30, 2015: | | | | | | | |
| Tier I Capital (to Average Assets) | $1,639,235 | 12.2 | % | $674,490 | > | 5.0 | % |
| Tier I Capital (to Risk-Weighted Assets) | $1,639,235 | 13.3 | % | $989,333 | > | 8.0 | % |
| Total Capital (to Risk-Weighted Assets) | $1,743,438 | 14.1 | % | $1,236,667 | > | 10.0 | % |
| Common Equity Tier I Capital (to Risk-Weighted Assets) | $1,639,235 | 13.3 | % | $803,833 | > | 6.5 | % |
| As of December 31, 2014: | | | | | | | |
| Tier I Capital (to Average Assets) | $1,413,988 | 11.5 | % | $614,709 | > | 5.0 | % |
| Tier I Capital (to Risk-Weighted Assets) | $1,413,988 | 15.0 | % | $565,148 | > | 6.0 | % |
| Total Capital (to Risk-Weighted Assets) | $1,497,830 | 15.9 | % | $941,913 | > | 10.0 | % |

61

Capital Management

The Bank seeks to remain well capitalized at all times with sufficient capital to support asset growth, operating needs, unexpected credit risks and to protect the interests of depositors and the FDIC deposit insurance fund. The Bank is required by its prudential regulators, the UDFI and the FDIC, to comply with mandated capital ratios. We intend to maintain levels of capital at the Bank that significantly exceed the levels of capital necessary to be considered "well capitalized" by the FDIC. The Company is a source of strength for the Bank and will provide additional capital if necessary. We do not plan to pay dividends on our common stock. We do not intend to initiate any share repurchase program to return capital to shareholders. We only expect to repurchase common stock acquired in connection with taxes withheld associated with award exercises and vesting under our employee stock-based compensation plans. Our Board of Directors will periodically reconsider these matters.

On July 9, 2013, the FDIC Board of Directors approved an interim final rule to implement new U.S. Basel III guidelines related to regulatory capital measurement and reporting. The interim final rule became effective January 2015. It strengthens both the quantity and quality of banks' risk-based capital, placing greater emphasis on Common Equity Tier 1 capital. The Bank's Capital Policy requires management to monitor the new capital standards. The Basel III capital rule requires banks to maintain a minimum common equity Tier 1 risk-based capital ratio of 4.5 percent, a Tier 1 risk-based capital ratio of 6.0 percent, a total risk-based capital ratio of 8.0 percent, and a Tier 1 leverage ratio of 4 percent. In addition, when the rule is fully phased in by 2019, banks will also be subject to a greater than 2.5 percent common equity Tier 1 capital conservation buffer, under which they must maintain a common equity Tier 1 risk-based capital ratio greater than 7.0 percent, a Tier 1 risk-based capital ratio greater than 8.5 percent, and a total risk-based capital ratio greater than 10.5 percent. Failure to maintain the buffer will result in restrictions on the banks' ability to make dividend payments, repurchase shares and pay discretionary bonuses.

The rule also revises the capital thresholds for the prompt corrective action framework for banks. Effective January 1, 2015, in order to qualify as well capitalized, a bank must maintain a minimum Tier 1 leverage ratio of 5 percent, a minimum common equity Tier 1 risk-based capital ratio of 6.5 percent, a minimum Tier 1 risk-based capital ratio of 8 percent and a minimum total risk-based capital ratio of 10 percent.

As of September 30, 2015, the Bank had a Tier 1 leverage ratio of 12.2 percent, a common equity Tier 1 risk-based capital ratio of 13.3 percent, a Tier 1 risk-based capital ratio of 13.3 percent, and a total risk-based capital ratio of 14.1 percent, exceeding the current guidelines by a significant amount. Our ratios would also exceed the future guidelines if we calculated them today based on the new definitions of capital and risk-weighted assets.

Dividends

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the FDIC. The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. The Bank paid no dividends for the three and nine months ended September 30, 2015 and September 30, 2014.

Borrowed Funds

The Bank maintains discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $100 million at September 30, 2015. The interest rate charged to the Bank on these lines of credit is priced at Fed Funds plus a spread at the time of borrowing, and is payable daily. The Bank did not utilize these lines of credit in the three and nine months ended September 30, 2015 and September 30, 2014.

The Bank established an account at the FRB to meet eligibility requirements for access to the Primary Credit borrowing facility at the FRB's Window. The Primary Credit borrowing facility is a lending program available to depository institutions that are in generally sound financial condition. All borrowings at the Window must be fully collateralized. We can pledge asset-backed and mortgage-backed securities, as well as FFELP consolidation and Private Education Loans to the FRB as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At September 30, 2015 and December 31, 2014, the value of our pledged collateral at the FRB totaled $1.5 billion and $1.4 billion, respectively. The interest rate charged to us is the discount rate set by the FRB. We did not utilize this facility in the three and nine months ended September 30, 2015 and September 30, 2014.

62

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. A discussion of our critical accounting policies, which include allowance for loan losses, fair value measurement, transfers of financial assets and the VIE consolidation model and derivative accounting, can be found in our 2014 Form 10-K. There were no significant changes to these critical accounting policies during the third quarter of 2015.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Sensitivity Analysis

Our interest rate risk management program seeks to manage and control interest rate risk, thereby reducing our exposure to fluctuations in interest rates and achieving consistent and acceptable levels of profit in any rate environment, and sustainable growth in net interest income over the long term. We evaluate and monitor interest rate risk through two primary methods:

- Earnings at Risk ("EAR"), which measures the impact of hypothetical changes in interest rates on net interest income; and
- Economic Value of Equity ("EVE"), which measures the sensitivity or change in the economic value of equity to changes in interest rates.

A number of potential interest rate scenarios are simulated using our asset liability management system. The Bank is the primary source of interest rate risk within the Company. The majority of the Bank's assets are priced off of 1-month LIBOR. Therefore, 1-month LIBOR is considered a core rate in our interest rate risk analysis with many interest rate changes correlated to this rate for analytic purposes. In addition, each rate is modeled with a floor, which indicates how low each specific rate is likely to move in practice. Rates are adjusted up or down via a set of scenarios that includes both shocks and ramps. Shocks represent an immediate and sustained change in the market rate associated with each asset or liability, effective upon its next repricing date. Ramps represent a linear increase in the market interest rates applicable to each asset or liability over the course of 12 months, which take effect at the next repricing date.

The following tables summarize the potential effect on earnings over the next 24 months and the potential effect on fair values of balance sheet assets and liabilities at September 30, 2015 and September 30, 2014, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points. The EVE sensitivity is applied only to financial assets and liabilities, including hedging instruments that existed at the balance sheet date, and does not take into account new assets, liabilities or hedging instruments that may arise in the future.

| | September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | +300 Basis Points | +100 Basis Points | +300 Basis Points | +100 Basis Points |
| EAR - Shock | +5.6% | +1.8% | +12.0% | +3.8% |
| EAR - Ramp | +4.6% | +1.4% | +9.3% | +2.7% |
| EVE | -1.2% | -0.9% | -1.5% | -1.2% |

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our assets with liabilities of similar interest rate repricing characteristics. This funding objective is frequently obtained through the use of derivatives. Uncertainty in loan repayment cash flows and the pricing behavior of our non-maturity retail deposits pose challenges in achieving our interest rate risk objectives. In addition to these considerations, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

As part of its suite of financial products, the Bank offers fixed-rate Private Education Loans. As with other Private Education Loans, the term to maturity is lengthy, and the customer has the option to repay the loan faster than the promissory note requires. A portion of the fixed-rate loans have been hedged with derivatives, which have been used to convert a portion of variable rate funding to fixed-rate to match the anticipated cash flows of these loans. Any unhedged position arising from the fixed-rate loan portfolio is monitored and modeled to ensure that the interest rate risk does not cause the organization to exceed its policy limits for earnings at risk or for the value of equity at risk.

In the preceding tables, the interest rate sensitivity analysis reflects the heavy balance sheet mix of fully variable LIBOR-based loans, which exceeds the mix of fully variable funding. The mix of fully variable funding includes brokered CDs that have been converted to LIBOR through derivative transactions. The analysis does not anticipate that retail MMDA or retail

savings balances, while relatively sensitive to interest rate changes, will reprice to the full extent of interest rate shocks or ramps. Partially offsetting this asset sensitive position, is (i) the impact of FFELP loans, which receive floor income in low interest rate environments, and will therefore not reprice fully with interest rate shocks and (ii) the impact of a portion of our fixed-rate loans that have not been fully match-funded through derivative transactions. Based on the assumptions used in this analysis, the overall asset-sensitive position will generally cause net interest income to increase when interest rates rise over the near-term horizon. The long-term perspective offered by the EVE analysis indicates a fairly balanced position with modest sensitivity over the life of existing interest sensitive assets and liabilities.

Although we believe that these measurements provide an estimate of our interest rate sensitivity, they do not account for potential changes in credit quality and size or composition of our balance sheet. They also do not account for other business developments that could affect net income, or for management actions that could affect net income or be taken to change our risk profile. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, such simulations do not represent our current view of expected future interest rate movements.

Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of September 30, 2015. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the “Gains (losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude. (Note that all fixed-rate assets and liabilities are aggregated into one line item, which does not capture the differences in time due to maturity.)

| (Dollars in billions) Index | Frequency of Variable Resets | Assets | Funding [1] | Funding Gap |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $0.2 | $— | $0.2 |
| 3-month LIBOR | quarterly | — | 0.7 | (0.7) |
| 1-month LIBOR | monthly | 8.8 | 5.5 | 3.3 |
| 1-month LIBOR | daily | 1.0 | — | 1.0 |
| Non-Discrete reset[2] | daily/weekly | 1.3 | 2.5 | (1.2) |
| Fixed Rate[3] | | 3.2 | 5.8 | (2.6) |
| Total | | $14.5 | $14.5 | $— |

(1) Funding (by index) includes all derivatives that qualify as hedges.

(2) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes liquid retail deposits and the obligation to return cash collateral held related to derivatives exposures.

(3) Assets include receivables and other assets (including premiums and reserves). Funding includes unswapped time deposits, liquid MMDA's swapped to fixed rates and stockholders' equity.

The “Funding Gap” in the above table shows primarily mismatches in the 1-month LIBOR assets with fixed-rate and Non-Discrete funding. We consider the risk to be moderate since the funding in the Non-Discrete bucket is our liquid retail portfolio, which we have significant flexibility to reprice at any time. The funding in the fixed bucket includes $2.0 billion of equity and $0.6 billion of non-interest bearing liabilities.

We use interest rate swaps and other derivatives to achieve our risk management objectives. Our asset liability management strategy is to match assets with debt (in combination with derivatives) that have the same underlying index and reset frequency or have interest rate characteristics we believe are highly correlated. The use of funding with index types and reset frequencies that are different from our assets exposes us to interest rate risk in the form of basis and repricing risk. This could result in our cost of funds not moving in the same direction or with the same magnitude as the yield on our assets. While we believe repricing risk is low, as all of these indices are short-term, with historical rate movements that are highly correlated over a long period of time, market disruptions (which have occurred in recent years) can lead to a temporary divergence between indices and result in a negative impact to our earnings.

Weighted Average Life

The following table reflects the weighted average lives of our earning assets and liabilities at September 30, 2015.

| (Averages in Years) | Weighted Average Life |
|---|---|
| Earning assets | |
| Education loans | 6.28 |
| Cash and investments | 0.75 |
| Total earning assets | 5.65 |
| | |
| Deposits | |
| Short-term deposits | 0.05 |
| Long-term deposits | 2.54 |
| Total deposits | 0.87 |
| | |
| Borrowings | |
| Short-term borrowings | 0.22 |
| Long-term borrowings | 4.98 |
| Total borrowings | 2.41 |

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2015, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

Legal Proceedings

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. We believe that these claims, lawsuits and other actions will not, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. In the ordinary course of business, it is common for the Company, our subsidiaries and affiliates to receive information and document requests and investigative demands from state attorneys general, legislative committees and administrative agencies. These requests may be for informational or regulatory purposes and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. Our practice has been and continues to be to cooperate with these bodies and be responsive to any such requests.
Pursuant to the terms of the Spin-Off and applicable law, Navient assumed responsibility for all liabilities (whether accrued, contingent or otherwise and whether known or unknown) arising out of or resulting from the conduct of pre-Spin-Off SLM and its subsidiaries' businesses prior to the Spin-Off, other than certain specifically identified liabilities relating to the conduct of our consumer banking business. Nonetheless, given the prior usage of the Sallie Mae and SLM names by entities now owned by Navient, we and our subsidiaries may from time to time be improperly named as defendants in legal proceedings where the allegations at issue are the legal responsibility of Navient. Most of these legal proceedings involve matters that arose in the ordinary course of business of pre-Spin-Off SLM and we will not be providing information on these proceedings unless there are material issues of fact or disagreement with Navient as to the bases of the proceedings or responsibility therefor that we believe could have a material, adverse impact on our business, assets, financial condition, liquidity or outlook if not resolved in our favor.

For a description of these and other litigation or regulatory proceedings to which we are a party, and for which we have no current updates, see our 2014 Form 10-K.
Regulatory Update

At the time of this filing, the Bank remains subject to the 2014 FDIC Order. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the DOJ regarding disclosures and assessments of certain late fees, as well as compliance with the SCRA. The DOJ Order was approved by the U.S. District Court for the District of Delaware on September 29, 2014. Under the 2014 FDIC Order, the Bank agreed to pay $3.3 million in fines and oversee the refund of up to $30 million in late fees assessed on loans owned or originated by the Bank since its inception in November 2005.

As required by the 2014 FDIC Order and the DOJ Order, the Bank has now implemented new SCRA policies, procedures and training, has updated billing statement disclosures, and is taking additional steps to ensure its third-party service providers are also fully compliant in these areas. In 2014, we engaged a third-party firm to conduct independent audits of certain key consumer protection processes and procedures, including our compliance management system. To date, we have received no high-risk findings. In 2015, the third-party firm is continuing to conduct additional independent audits over the remainder of those processes and procedures.

Required restitution activities under the 2014 FDIC and DOJ Orders are well under way. Applicable late fees were credited to eligible customers with open accounts in October 2014 and the mailing of restitution checks to all other eligible customers is ongoing. Checks for payment of SCRA benefits and related compensation, as determined by the DOJ, began mailing in June 2015. Under the terms of the Separation and Distribution Agreement, Navient remains responsible for funding all liabilities under the regulatory orders, other than fines directly levied against the Bank in connection with these matters. Under the DOJ Order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

68

Item 1A. Risk Factors

Our business activities involve a variety of risks. Readers should carefully consider the risk factors disclosed in Item 1A., Risk Factors of our 2014 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

The following table provides information relating to our purchase of shares of our common stock in the three months ended September 30, 2015.

| (In thousands, except per share data) | Total Number of Shares Purchased[1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2] | Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs[2] |
|---|---|---|---|---|
| Period: | | | | |
| July 1 - July 31, 2015 | 20 | $9.79 | — | — |
| August 1 - August 31, 2015 | 109 | $8.77 | — | — |
| September 1 - September 30, 2015 | 7 | $7.88 | — | — |
| Total third-quarter 2015 | 136 | $8.88 | — | |

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

(2) At the present time, the Company does not have a publicly announced share repurchase plan or program.

The closing price of our common stock on the NASDAQ Global Select Market on September 30, 2015 was $7.40.

Item 3. Defaults Upon Senior Securities

Nothing to report.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits

The following exhibits are furnished or filed, as applicable:

| | |
|---|---|
| 12.1 | Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SLM CORPORATION
(Registrant)

By: /S/ STEVEN J. MCGARRY
Steven J. McGarry
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
Date: October 21, 2015