SLM CORP
Form 10-Q
April 23, 2018

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

Form 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-13251

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

| | |
|---|---|
| Delaware | 52-2013874 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 300 Continental Drive, Newark, Delaware | 19713 |
| (Address of principal executive offices) | (Zip Code) |

(302) 451-0200
(Registrant's telephone number, including area code)
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant 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 March 31, 2018 |
|---|---|
| Common Stock, $0.20 par value | 435,196,223 shares |

SLM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
INDEX

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

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $1,435,649 | $1,534,339 |
| Available-for-sale investments at fair value (cost of $236,761 and $247,607, respectively) | 229,114 | 244,088 |
| Loans held for investment (net of allowance for losses of $272,123 and $251,475, respectively) | 20,166,604 | 18,567,641 |
| Restricted cash | 120,084 | 101,836 |
| Other interest-earning assets | 31,637 | 21,586 |
| Accrued interest receivable | 1,063,449 | 967,482 |
| Premises and equipment, net | 97,211 | 89,748 |
| Tax indemnification receivable | 169,242 | 168,011 |
| Other assets | 93,332 | 84,853 |
| Total assets | $23,406,322 | $21,779,584 |
| | | |
| Liabilities | | |
| Deposits | $16,498,646 | $15,505,383 |
| Long-term borrowings | 3,744,345 | 3,275,270 |
| Income taxes payable, net | 145,167 | 102,285 |
| Upromise member accounts | 233,015 | 243,080 |
| Other liabilities | 175,316 | 179,310 |
| Total liabilities | 20,796,489 | 19,305,328 |
| | | |
| Commitments and contingencies | | |
| | | |
| Equity | | |
| Preferred stock, par value $0.20 per share, 20 million shares authorized: | | |
| 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: 449.0 million and 443.5 million shares issued, respectively | 89,805 | 88,693 |
| Additional paid-in capital | 1,252,609 | 1,222,277 |
| Accumulated other comprehensive income (net of tax expense of $5,005 and $1,696, respectively) | 15,601 | 2,748 |
| Retained earnings | 990,447 | 868,182 |
| Total SLM Corporation stockholders' equity before treasury stock | 2,748,462 | 2,581,900 |
| Less: Common stock held in treasury at cost: 13.8 million and 11.1 million shares, respectively | (138,629) | (107,644) |
| Total equity | 2,609,833 | 2,474,256 |
| Total liabilities and equity | $23,406,322 | $21,779,584 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income: | | |
| Loans | $430,048 | $324,757 |
| Investments | 1,947 | 2,143 |
| Cash and cash equivalents | 5,236 | 2,588 |
| Total interest income | 437,231 | 329,488 |
| Interest expense: | | |
| Deposits | 77,456 | 44,853 |
| Interest expense on short-term borrowings | 2,393 | 1,236 |
| Interest expense on long-term borrowings | 24,768 | 15,323 |
| Total interest expense | 104,617 | 61,412 |
| Net interest income | 332,614 | 268,076 |
| Less: provisions for credit losses | 53,931 | 25,296 |
| Net interest income after provisions for credit losses | 278,683 | 242,780 |
| Non-interest income: | | |
| Gains (losses) on derivatives and hedging activities, net | 3,892 | (5,378) |
| Other income | 9,642 | 11,346 |
| Total non-interest income | 13,534 | 5,968 |
| Non-interest expenses: | | |
| Compensation and benefits | 68,317 | 55,464 |
| FDIC assessment fees | 8,796 | 7,229 |
| Other operating expenses | 47,761 | 39,984 |
| Total operating expenses | 124,874 | 102,677 |
| Acquired intangible asset amortization expense | 92 | 117 |
| Total non-interest expenses | 124,966 | 102,794 |
| Income before income tax expense | 167,251 | 145,954 |
| Income tax expense | 40,997 | 51,011 |
| Net income | 126,254 | 94,943 |
| Preferred stock dividends | 3,397 | 5,575 |
| Net income attributable to SLM Corporation common stock | $122,857 | $89,368 |
| Basic earnings per common share attributable to SLM Corporation | $0.28 | $0.21 |
| Average common shares outstanding | 433,952 | 429,891 |
| Diluted earnings per common share attributable to SLM Corporation | $0.28 | $0.20 |
| Average common and common equivalent shares outstanding | 438,977 | 438,735 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $126,254 | $94,943 |
| Other comprehensive income (loss): | | |
| Unrealized losses on investments | (4,127) | (1,567) |
| Unrealized gains on cash flow hedges | 20,290 | 4,779 |
| Total unrealized gains | 16,163 | 3,212 |
| Income tax expense | (3,902) | (1,232) |
| Other comprehensive income, net of tax expense | 12,261 | 1,980 |
| Total comprehensive income | $138,515 | $96,923 |

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 | Accumulated Other Comprehensive Loss | Retained Earnings | Tre Sto |
| Balance at December 31, 2016 | 7,300,000 | 436,632,479 | (7,728,920) | 428,903,559 | $565,000 | $87,327 | $1,175,564 | $(8,671) | $595,322 | $(6 |
| Net income | — | — | — | — | — | — | — | — | 94,943 | — |
| Other comprehensive income, net of tax | — | — | — | — | — | — | — | 1,980 | — | — |
| Total comprehensive income | — | — | — | — | — | — | — | — | — | — |
| Cumulative effect of the adoption of the new stock compensation standard amendment | — | — | — | — | — | — | 594 | — | (429) | — |
| Cash dividends: | | | | | | | | | | |
| Preferred Stock, Series A ($0.87 per share) | — | — | — | — | — | — | — | — | (2,875) | — |
| Preferred Stock, Series B ($0.67 per share) | — | — | — | — | — | — | — | — | (2,700) | — |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | 96 | — | (96) | — |
| Issuance of common shares | — | 3,738,717 | — | 3,738,717 | — | 748 | 5,787 | — | — | — |
| | — | — | — | — | — | — | — | — | — | — |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Tax benefit related to employee stock-based compensation | | | | | | | | | | |
| Stock-based compensation expense | — | — | — | — | — | — | 9,425 | — | — | — |
| Shares repurchased related to employee stock-based compensation plans | — | — | (1,603,487) | (1,603,487 ) | — | — | — | — | — | (19 |
| Balance at March 31, 2017 | 7,300,000 | 440,371,196 | (9,332,407) | 431,038,789 | $565,000 | $88,075 | $1,191,466 | $(6,691) | $684,165 | $(8 |

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 | Accumulated Other Comprehensive Income | Retained Earnings | Tre Sto |
| Balance at December 31, 2017 | 4,000,000 | 443,463,587 | (11,087,337) | 432,376,250 | $400,000 | $88,693 | $1,222,277 | $2,748 | $868,182 | $( |
| Net income | — | — | — | — | — | — | — | — | 126,254 | — |
| Other comprehensive income, net of tax | — | — | — | — | — | — | — | 12,261 | — | — |
| Total comprehensive income | — | — | — | — | — | — | — | — | — | — |
| Reclassification resulting from the adoption of ASU No. 2018-02 | — | — | — | — | — | — | — | 592 | (592) | — |
| Cash dividends: | | | | | | | | | | |
| Preferred Stock, Series B ($0.83 per share) | — | — | — | — | — | — | — | — | (3,397) | — |
| Issuance of common shares | — | 5,559,991 | | 5,559,991 | — | 1,112 | 15,587 | — | — | — |
| Stock-based compensation expense | — | — | — | — | — | — | 14,745 | — | — | — |
| Shares repurchased related to employee stock-based compensation plans | — | — | (2,740,018) | (2,740,018) | — | — | — | — | — | (30 |
| Balance at March 31, 2018 | 4,000,000 | 449,023,578 | (13,827,355) | 435,196,223 | $400,000 | $89,805 | $1,252,609 | $15,601 | $990,447 | $( |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities | | |
| Net income | $ 126,254 | $ 94,943 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Provisions for credit losses | 53,931 | 25,296 |
| Income tax expense | 40,997 | 51,011 |
| Amortization of brokered deposit placement fee | 2,789 | 2,130 |
| Amortization of ABCP Facility upfront fee | 301 | 352 |
| Amortization of deferred loan origination costs and loan premium/(discounts), net | 2,607 | 1,777 |
| Net amortization of discount on investments | 475 | 452 |
| Income on tax indemnification receivable | (1,231) | (1,501) |
| Depreciation of premises and equipment | 3,117 | 2,585 |
| Amortization of acquired intangibles | 92 | 117 |
| Stock-based compensation expense | 14,745 | 9,425 |
| Unrealized (gains) losses on derivatives and hedging activities, net | (3,879) | 5,364 |
| Other adjustments to net income, net | 1,763 | 1,258 |
| Changes in operating assets and liabilities: | | |
| Increase in accrued interest receivable | (201,776) | (153,055) |
| Increase in other interest-earning assets | (10,051) | (1,228) |
| Increase in other assets | (35,716) | (13,435) |
| Decrease in income taxes payable, net | (1,159) | (1,689) |
| Increase in accrued interest payable | 11,034 | 6,146 |

| | | |
|---|---|---|
| Increase in payable due to entity that is a subsidiary of Navient | 422 | 227 |
| Decrease in other liabilities | (18,873) | (39,424) |
| Total adjustments | (140,412) | (104,192) |
| Total net cash used in operating activities | (14,158) | (9,249) |
| Investing activities | | |
| Loans acquired and originated | (2,300,135) | (1,892,697) |
| Net proceeds from sales of loans held for investment | 820 | 1,972 |
| Proceeds from claim payments | 12,084 | 11,932 |
| Net decrease in loans held for investment | 735,894 | 506,637 |
| Purchases of available-for-sale securities | — | (18,481) |
| Proceeds from sales and maturities of available-for-sale securities | 10,371 | 8,170 |
| Total net cash used in investing activities | (1,540,966) | (1,382,467) |
| Financing activities | | |
| Brokered deposit placement fee | (7,055) | (2,084) |
| Net increase (decrease) in certificates of deposit | 694,982 | (151,003) |
| Net increase in other deposits | 323,614 | 83,018 |
| Borrowings collateralized by loans in securitization trusts - issued | 667,848 | 767,994 |
| Borrowings collateralized by loans in securitization trusts - repaid | (200,247) | (99,884) |
| Issuance costs for unsecured debt offering | — | (23) |
| Borrowings under ABCP Facility | 300,000 | — |
| Repayment of borrowings under ABCP Facility | (300,000) | — |
| Fees paid on ABCP Facility | (1,063) | (1,515) |
| Preferred stock dividends paid | (3,397) | (5,575) |
| Net cash provided by financing activities | 1,474,682 | 590,928 |
| Net decrease in cash, cash equivalents and restricted cash | (80,442) | (800,788) |
| Cash, cash equivalents and restricted cash at beginning | 1,636,175 | 1,972,510 |

of period

8

| | | |
|---|---|---|
| Cash, cash equivalents and restricted cash at end of period | $1,555,733 | $1,171,722 |
| Cash disbursements made for: | | |
| Interest | $94,737 | $54,648 |
| Income taxes paid | $1,894 | $1,426 |
| Income taxes refunded | $(990) | $(32) |
| Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets | | |
| Cash and cash equivalents | $1,435,649 | $1,077,576 |
| Restricted cash | 120,084 | 94,146 |
| Total cash, cash equivalents and restricted cash | $1,555,733 | $1,171,722 |

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 ("Sallie Mae," "SLM," the "Company," "we," or "us") 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 months ended March 31, 2018 are not necessarily indicative of the results for the year ending December 31, 2018 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, 2017 (the "2017 Form 10-K").
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.
We consolidate any variable interest entity ("VIE") where we have determined we are the primary beneficiary. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE.
Recently Issued and Adopted Accounting Pronouncements
In November 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." Whereas restricted cash balances have traditionally been excluded from the statement of cash flows, this ASU requires restricted cash and restricted cash equivalents to be included within the beginning and ending totals of cash, cash equivalents and restricted cash presented on the statement of cash flows for all periods presented. Restricted cash and restricted cash equivalent inflows and outflows with external parties are required to be classified within the operating, investing, and/or financing activity sections of the statement of cash flows, whereas transfers between cash and cash equivalents and restricted cash and restricted cash equivalents should no longer be presented on the statement of cash flows. ASU No. 2016-18 also requires (a) the nature of the restrictions to be disclosed to help provide information about the sources and uses of these balances during a reporting period and (b) a reconciliation of the cash, cash equivalents and restricted cash totals on the statement of cash flows to the related balance sheet line items when cash, cash equivalents, and restricted cash are presented in more than one line item on the balance sheet. The reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements and must be provided for each period that a balance sheet is presented. We adopted the new accounting pronouncement on January 1, 2018, and the adoption did not have a material impact to our statement of cash flows.
In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting

from the tax law and tax rate changes under the Tax Cuts and Jobs Act of 2017 (the "Tax Act") enacted on December 22, 2017. Under the Tax Act, deferred taxes were adjusted to reflect the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate, which left the tax effects on items within accumulated other comprehensive income stranded at an

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
1. Significant Accounting Policies (Continued)

inappropriate tax rate. This guidance is effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years, with early adoption permitted. We adopted this standard effective January 1, 2018 and recorded a $0.6 million reclass from accumulated other comprehensive income to retained earnings in the first quarter of 2018.

2. Loans Held for Investment

Loans held for investment consist of Private Education Loans, FFELP Loans and Personal Loans. We use "Private Education Loans" to mean education loans to students or their families that are not made, insured or guaranteed by any state or federal government. Private Education Loans do not include loans insured or guaranteed under the previously existing Federal Family Education Loan Program ("FFELP"). We use "Personal Loans" to mean those unsecured loans to individuals that may be used for non-educational purposes. We began to opportunistically acquire Personal Loans in the fourth quarter of 2016.

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 and customers' resources. Private Education Loans bear the full credit risk of the customer. We manage this risk through risk-performance underwriting strategies and qualified cosigners. Private Education Loans may be fixed rate or may carry a variable interest rate indexed to LIBOR. As of March 31, 2018 and December 31, 2017, 74 percent and 77 percent, respectively, of all of our Private Education Loans were indexed to LIBOR. We provide incentives for customers to include a cosigner on the loan, and the vast majority of loans in our portfolio are cosigned. We also encourage customers to make payments while in school.

FFELP Loans are insured 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.

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

Loans held for investment are summarized as follows:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Private Education Loans | $18,794,012 | $17,432,167 |
| Deferred origination costs and unamortized premium/(discount) | 58,814 | 56,378 |
| Allowance for loan losses | (252,103) | (243,715) |
| Total Private Education Loans, net | 18,600,723 | 17,244,830 |
| | | |
| FFELP Loans | 907,842 | 927,660 |
| Deferred origination costs and unamortized premium/(discount) | 2,566 | 2,631 |
| Allowance for loan losses | (1,113) | (1,132) |
| Total FFELP Loans, net | 909,295 | 929,159 |
| | | |
| Personal Loans | 675,656 | 400,280 |
| Deferred origination costs and unamortized premium/(discount) | (163) | — |
| Allowance for loan losses | (18,907) | (6,628) |
| Total Personal Loans, net | 656,586 | 393,652 |
| | | |
| Loans held for investment, net | $20,166,604 | $18,567,641 |

The estimated weighted average life of education loans in our portfolio was approximately 5.4 years and 5.5 years at March 31, 2018 and December 31, 2017, respectively.

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

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Average Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate |
| Private Education Loans | $18,659,717 | 8.84 % | $15,449,555 | 8.26 % |
| FFELP Loans | 919,717 | 4.25 | 1,003,128 | 3.69 |
| Personal Loans | 528,644 | 10.64 | 35,830 | 9.16 |
| Total portfolio | $20,108,078 | | $16,488,513 | |

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

3. Allowance for Loan Losses

Our provision for credit 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<br>Three Months Ended March 31, 2018 | | | |
|---|---|---|---|---|
| | FFELP Loans | Private Education Loans | Personal Loans | Total |
| Allowance for Loan Losses | | | | |
| Beginning balance | $1,132 | $243,715 | $6,628 | $251,475 |
| Total provision | 231 | 41,870 | 13,448 | 55,549 |
| Net charge-offs: | | | | |
| Charge-offs | (250) | (37,353) | (1,200) | (38,803) |
| Recoveries | — | 5,087 | 31 | 5,118 |
| Net charge-offs | (250) | (32,266) | (1,169) | (33,685) |
| Loan sales[1] | — | (1,216) | — | (1,216) |
| Ending Balance | $1,113 | $252,103 | $18,907 | $272,123 |
| Allowance: | | | | |
| Ending balance: individually evaluated for impairment | $— | $101,824 | $— | $101,824 |
| Ending balance: collectively evaluated for impairment | $1,113 | $150,279 | $18,907 | $170,299 |
| Loans: | | | | |
| Ending balance: individually evaluated for impairment | $— | $1,043,103 | $— | $1,043,103 |
| Ending balance: collectively evaluated for impairment | $907,842 | $17,750,909 | $675,656 | $19,334,407 |
| Net charge-offs as a percentage of average loans in repayment (annualized)[2] | 0.14% | 1.01% | 0.88% | |
| Allowance as a percentage of the ending total loan balance | 0.12% | 1.34% | 2.80% | |
| Allowance as a percentage of the ending loans in repayment[2] | 0.16% | 1.95% | 2.80% | |
| Allowance coverage of net charge-offs (annualized) | 1.11 | 1.95 | 4.04 | |
| Ending total loans, gross | $907,842 | $18,794,012 | $675,656 | |
| Average loans in repayment[2] | $718,311 | $12,747,929 | $531,889 | |
| Ending loans in repayment[2] | $702,965 | $12,958,742 | $675,656 | |

(1) Represents fair value adjustments on loans sold.
(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

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

| | Allowance for Loan Losses<br>Three Months Ended March 31, 2017 | | | |
|---|---|---|---|---|
| | FFELP Loans | Private Education Loans | Personal Loans | Total |
| Allowance for Loan Losses | | | | |
| Beginning balance | $2,171 | $ 182,472 | $58 | $184,701 |
| Total provision | (316) | 26,820 | 288 | 26,792 |
| Net charge-offs: | | | | |
| Charge-offs | (218) | (26,227) | — | (26,445) |
| Recoveries | — | 3,259 | — | 3,259 |
| Net charge-offs | (218) | (22,968) | — | (23,186) |
| Loan sales[1] | — | (1,221) | — | (1,221) |
| Ending Balance | $1,637 | $ 185,103 | $346 | $187,086 |
| Allowance: | | | | |
| Ending balance: individually evaluated for impairment | $— | $ 87,150 | $— | $87,150 |
| Ending balance: collectively evaluated for impairment | $1,637 | $ 97,953 | $346 | $99,936 |
| Loans: | | | | |
| Ending balance: individually evaluated for impairment | $— | $ 701,860 | $— | $701,860 |
| Ending balance: collectively evaluated for impairment | $989,393 | $ 14,952,994 | $55,502 | $15,997,889 |
| Net charge-offs as a percentage of average loans in repayment (annualized)[2] | 0.11 % | 0.89 % | — % | |
| Allowance as a percentage of the ending total loan balance | 0.17 % | 1.18 % | 0.62 % | |
| Allowance as a percentage of the ending loans in repayment[2] | 0.22 % | 1.76 % | 0.62 % | |
| Allowance coverage of net charge-offs (annualized) | 1.88 | 2.01 | — | |
| Ending total loans, gross | $989,393 | $ 15,654,854 | $55,502 | |
| Average loans in repayment[2] | $771,435 | $ 10,265,530 | $35,830 | |
| Ending loans in repayment[2] | $757,052 | $ 10,526,782 | $55,502 | |

(1) Represents fair value adjustments on loans sold.
(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

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. 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. Once a loan qualifies for TDR status, it remains a TDR for allowance purposes for the remainder of its life. As of March 31, 2018 and December 31, 2017, approximately 62 percent and 66 percent, respectively, of TDRs were classified as such due to their forbearance status. For additional information, see Note 6, "Allowance for Loan Losses" in our 2017 Form 10-K.

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 continue to accrue interest on those loans through the date of claim.

At March 31, 2018 and December 31, 2017, all 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 |
|---|---|---|---|
| March 31, 2018 | | | |
| TDR Loans | $1,061,046 | $1,043,103 | $101,824 |
| December 31, 2017 | | | |
| TDR Loans | $1,007,141 | $990,351 | $94,682 |

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

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| TDR Loans | $1,032,232 | $ 17,847 | $669,606 | $ 12,257 |

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

The following table provides information regarding the loan status and aging of TDR loans.

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Balance | % | Balance | % |
| TDR loans in in-school/grace/deferment[1] | $58,939 | | $51,745 | |
| TDR loans in forbearance[2] | 65,036 | | 69,652 | |
| TDR loans in repayment[3] and percentage of each status: | | | | |
| Loans current | 823,813 | 89.7 % | 774,222 | 89.1 % |
| Loans delinquent 31-60 days[4] | 47,127 | 5.1 | 48,377 | 5.6 |
| Loans delinquent 61-90 days[4] | 31,463 | 3.4 | 28,778 | 3.3 |
| Loans delinquent greater than 90 days[4] | 16,725 | 1.8 | 17,577 | 2.0 |
| Total TDR loans in repayment | 919,128 | 100.0% | 868,954 | 100.0% |
| Total TDR loans, gross | $1,043,103 | | $990,351 | |

(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) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

(4) 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 table provides the amount of modified loans (which include 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 more than 60 days past due for this disclosure.

| | Three Months Ended March 31, 2018 | | | Three Months Ended March 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Modified Loans[(1)] | Charge-offs | Payment-Default | Modified Loans[(1)] | Charge-offs | Payment-Default |
| TDR Loans | $84,174 | $ 15,460 | $ 29,757 | $112,206 | $ 10,523 | $ 25,526 |

(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)

Private Education Loan Key Credit Quality Indicators

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.

For Private Education Loans, the key credit quality indicators are FICO scores, the existence of a cosigner, the loan status and loan seasoning. The FICO scores are assessed at original approval 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 | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | | December 31, 2017 | | |
| Credit Quality Indicators: | Balance[1] | % of Balance | | Balance[1] | % of Balance | |
| Cosigners: | | | | | | |
| With cosigner | $16,889,477 | 90 | % | $15,658,539 | 90 | % |
| Without cosigner | 1,904,535 | 10 | | 1,773,628 | 10 | |
| Total | $18,794,012 | 100 | % | $17,432,167 | 100 | % |
| FICO at Original Approval[2]: | | | | | | |
| Less than 670 | $1,257,596 | 6 | % | $1,153,591 | 6 | % |
| 670-699 | 2,810,526 | 15 | | 2,596,959 | 15 | |
| 700-749 | 6,168,342 | 33 | | 5,714,554 | 33 | |
| Greater than or equal to 750 | 8,557,548 | 46 | | 7,967,063 | 46 | |
| Total | $18,794,012 | 100 | % | $17,432,167 | 100 | % |
| Seasoning[3]: | | | | | | |
| 1-12 payments | $4,754,416 | 25 | % | $4,256,592 | 24 | % |
| 13-24 payments | 3,256,637 | 17 | | 3,229,465 | 19 | |
| 25-36 payments | 2,492,490 | 13 | | 2,429,238 | 14 | |
| 37-48 payments | 1,583,375 | 9 | | 1,502,327 | 9 | |
| More than 48 payments | 1,337,110 | 7 | | 1,256,813 | 7 | |
| Not yet in repayment | 5,369,984 | 29 | | 4,757,732 | 27 | |
| Total | $18,794,012 | 100 | % | $17,432,167 | 100 | % |

(1) Balance represents gross Private Education Loans.

(2) Represents the higher credit score of the cosigner or the borrower.

(3) 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.

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

The following table provides information regarding the loan status of our Private Education Loans. Loans in repayment include loans making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

| | Private Education Loans | | | |
|---|---|---|---|---|
| | March 31, 2018 | | December 31, 2017 | |
| | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $5,369,984 | | $4,757,732 | |
| Loans in forbearance[2] | 465,286 | | 468,402 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 12,635,627 | 97.5 % | 11,911,128 | 97.6 % |
| Loans delinquent 31-60 days[3] | 179,989 | 1.4 | 179,002 | 1.5 |
| Loans delinquent 61-90 days[3] | 95,974 | 0.7 | 78,292 | 0.6 |
| Loans delinquent greater than 90 days[3] | 47,152 | 0.4 | 37,611 | 0.3 |
| Total Private Education Loans in repayment | 12,958,742 | 100.0% | 12,206,033 | 100.0% |
| Total Private Education Loans, gross | 18,794,012 | | 17,432,167 | |
| Private Education Loans deferred origination costs and unamortized premium/(discount) | 58,814 | | 56,378 | |
| Total Private Education Loans | 18,852,826 | | 17,488,545 | |
| Private Education Loans allowance for losses | (252,103) | | (243,715) | |
| Private Education Loans, net | $18,600,723 | | $17,244,830 | |
| Percentage of Private Education Loans in repayment | | 69.0 % | | 70.0 % |
| Delinquencies as a percentage of Private Education Loans in repayment | | 2.5 % | | 2.4 % |
| Loans in forbearance as a percentage of Private Education Loans in repayment and forbearance | | 3.5 % | | 3.7 % |

(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)

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

| | Personal Loans Credit Quality Indicators | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | | December 31, 2017 | | |
| Credit Quality Indicators: | Balance[1] | % of Balance | | Balance[1] | % of Balance | |
| FICO at Original Approval: | | | | | | |
| Less than 670 | $52,417 | 8 | % | $32,156 | 8 | % |
| 670-699 | 193,246 | 29 | | 114,731 | 29 | |
| 700-749 | 307,539 | 45 | | 182,025 | 45 | |
| Greater than or equal to 750 | 122,454 | 18 | | 71,368 | 18 | |
| Total | $675,656 | 100 | % | $400,280 | 100 | % |
| Seasoning[2]: | | | | | | |
| 0-12 payments | $649,996 | 96 | % | $400,280 | 100 | % |
| 13-24 payments | 25,660 | 4 | | — | — | |
| 25-36 payments | — | — | | — | — | |
| 37-48 payments | — | — | | — | — | |
| More than 48 payments | — | — | | — | — | |
| Total | $675,656 | 100 | % | $400,280 | 100 | % |

[1] Balance represents gross Personal Loans.
[2] Number of months in active repayment for which a scheduled payment was due.

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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 Private Education Loan portfolio for all periods presented.

| | Private Education Loans Accrued Interest Receivable | | |
|---|---|---|---|
| | Total Interest Receivable | Greater Than 90 Days Past Due | Allowance for Uncollectible Interest |
| March 31, 2018 | $1,045,577 | $1,783 | $ 4,694 |
| December 31, 2017 | $951,138 | $1,372 | $ 4,664 |

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

4. Deposits

The following table summarizes total deposits at March 31, 2018 and December 31, 2017.

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Deposits - interest bearing | $16,497,006 | $15,504,330 |
| Deposits - non-interest bearing | 1,640 | 1,053 |
| Total deposits | $16,498,646 | $15,505,383 |

Our total deposits of $16.5 billion were comprised of $8.6 billion in brokered deposits and $7.9 billion in retail and other deposits at March 31, 2018, compared to total deposits of $15.5 billion, which were comprised of $8.2 billion in brokered deposits and $7.3 billion in retail and other deposits, at December 31, 2017.
Interest bearing deposits as of March 31, 2018 and December 31, 2017 consisted of retail and brokered non-maturity savings deposits, retail and brokered non-maturity money market deposits ("MMDAs") and retail and brokered certificates of deposit ("CDs"). Interest bearing deposits include deposits from Educational 529 and Health Savings plans that diversify our funding sources and additional deposits we consider to be core. These and other large omnibus accounts, aggregating the deposits of many individual depositors, represented $5.8 billion of our deposit total as of March 31, 2018, compared with $5.5 billion at December 31, 2017.
Some of our deposit products are serviced by third-party providers. Placement fees associated with the brokered CDs are amortized into interest expense using the effective interest rate method. We recognized placement fee expense of $2.8 million and $2.1 million in the three months ended March 31, 2018 and 2017, respectively. Fees paid to third-party brokers related to brokered CDs were $7.1 million and $2.1 million for the three months ended March 31, 2018 and 2017, respectively.
Interest bearing deposits at March 31, 2018 and December 31, 2017 are summarized as follows:

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amount | Qtr.-End Weighted Average Stated Rate[1] | Amount | Year-End Weighted Average Stated Rate[1] |
| Money market | $8,107,996 | 2.01 % | $7,731,966 | 1.80 % |
| Savings | 681,024 | 1.40 | 738,243 | 1.10 |
| Certificates of deposit | 7,707,986 | 2.13 | 7,034,121 | 1.93 |
| Deposits - interest bearing | $16,497,006 | | $15,504,330 | |

[1] Includes the effect of interest rate swaps in effective hedge relationships.

As of March 31, 2018 and December 31, 2017, there were $404.5 million and $395.5 million, respectively, of deposits exceeding Federal Deposit Insurance Corporation ("FDIC") insurance limits. Accrued interest on deposits was $36.8 million and $27.8 million at March 31, 2018 and December 31, 2017, respectively.

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

5. Borrowings

Outstanding borrowings consist of unsecured debt and secured borrowings issued through our term asset-backed securitization ("ABS") program and our asset-backed commercial paper ("ABCP") funding facility (the "ABCP Facility"). The following table summarizes our borrowings at March 31, 2018 and December 31, 2017.

| | March 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Short-Term | Long-Term | Total | Short-Term | Long-Term | Total |
| Unsecured borrowings: | | | | | | |
| Unsecured debt | $— | $196,741 | $196,741 | $— | $196,539 | $196,539 |
| Total unsecured borrowings | — | 196,741 | 196,741 | — | 196,539 | 196,539 |
| Secured borrowings: | | | | | | |
| Private Education Loan term securitizations | — | 3,547,604 | 3,547,604 | — | 3,078,731 | 3,078,731 |
| ABCP Facility | — | — | — | — | — | — |
| Total secured borrowings | — | 3,547,604 | 3,547,604 | — | 3,078,731 | 3,078,731 |
| Total | $— | $3,744,345 | $3,744,345 | $— | $3,275,270 | $3,275,270 |

Short-term Borrowings

Asset-Backed Commercial Paper Funding Facility

On February 21, 2018, we amended and extended the maturity of our $750 million ABCP Facility. We hold 100 percent of the residual interest in the ABCP Facility trust. Under the amended ABCP Facility, we incur financing costs of between 0.35 percent and 0.45 percent on unused borrowing capacity and approximately 3-month LIBOR plus 0.85 percent on outstandings. The amended ABCP Facility extends the revolving period, during which we may borrow, repay and reborrow funds, until February 20, 2019. The scheduled amortization period, during which amounts outstanding under the ABCP Facility must be repaid, ends on February 20, 2020 (or earlier, if certain material adverse events occur). At both March 31, 2018 and December 31, 2017, there were no borrowings outstanding under the ABCP Facility. We expect to amend and extend the ABCP Facility on an annual basis.

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

Long-term Borrowings

Unsecured Debt
On April 5, 2017, we issued an unsecured debt offering of $200 million of 5.125 percent Senior Notes due April 5, 2022 at par. At March 31, 2018, the outstanding balance was $197 million.

Secured Financings
On March 21, 2018, we executed our $670 million SMB Private Education Loan Trust 2018-A term ABS transaction, which was accounted for as a secured financing. We sold $670 million of notes to third parties and retained a 100 percent interest in the residual certificates issued in the securitization, raising approximately $668 million of gross proceeds. The Class A and Class B notes had a weighted average life of 4.43 years and priced at a weighted average LIBOR equivalent cost of 1-month LIBOR plus 0.78 percent. At March 31, 2018, $701 million of our Private Education Loans were encumbered because of this transaction.

Secured Financings at Issuance

| Issue | Date Issued | Total Issued | Weighted Average Cost of Funds[1] | Weighted Average Life (in years) |
|---|---|---|---|---|
| Private Education: | | | | |
| 2016-A | May 2016 | $501,000 | 1-month LIBOR plus 1.38% | 4.01 |
| 2016-B | July 2016 | 607,000 | 1-month LIBOR plus 1.36% | 4.01 |
| 2016-C | October 2016 | 674,000 | 1-month LIBOR plus 1.15% | 4.27 |
| Total notes issued in 2016 | | $1,782,000 | | |
| Total loan and accrued interest amount securitized at inception in 2016 | | $2,107,042 | | |
| 2017-A | February 2017 | $772,000 | 1-month LIBOR plus 0.93% | 4.27 |
| 2017-B | November 2017 | 676,000 | 1-month LIBOR plus 0.80% | 4.07 |
| Total notes issued in 2017 | | $1,448,000 | | |
| Total loan and accrued interest amount securitized at inception in 2017 | | $1,606,804 | | |
| 2018-A | March 2018 | $670,000 | 1-month LIBOR plus 0.78% | 4.43 |

| | |
|---|---|
| Total notes issued in 2018 | $670,000 |
| Total loan and accrued interest amount securitized at inception in 2018 | $744,917 |

(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)

Consolidated Funding Vehicles

We consolidate our financing entities that are 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 March 31, 2018 and December 31, 2017, respectively:

| | March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| | Short-Term | Long-Term | Total | Loans | Restricted Cash | Other Assets[1] | Total |
| Secured borrowings: | | | | | | | |
| Private Education Loan term securitizations | $— | $3,547,604 | $3,547,604 | $4,243,820 | $106,351 | $280,646 | $4,630,817 |
| ABCP Facility | — | — | — | — | 8,658 | 9,884 | 18,542 |
| Total | $— | $3,547,604 | $3,547,604 | $4,243,820 | $115,009 | $290,530 | $4,649,359 |

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| | Short-Term | Long-Term | Total | Loans | Restricted Cash | Other Assets[1] | Total |
| Secured borrowings: | | | | | | | |
| Private Education Loan term securitizations | $— | $3,078,731 | $3,078,731 | $3,691,024 | $95,966 | $240,208 | $4,027,198 |
| ABCP Facility | — | — | — | — | 1,017 | 161 | 1,178 |
| Total | $— | $3,078,731 | $3,078,731 | $3,691,024 | $96,983 | $240,369 | $4,028,376 |

(1) Other assets primarily represent accrued interest receivable.

Other Borrowing Sources

We maintain discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $125 million at March 31, 2018. 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 months ended March 31, 2018 or in the year ended December 31, 2017.

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 (the "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 to the FRB asset-backed and mortgage-backed securities, as well as FFELP Loans and Private Education Loans, as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At March 31, 2018 and December 31, 2017, the value of our pledged collateral at the FRB totaled $2.5 billion and $2.6 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 months ended March 31, 2018 or in the year ended December 31, 2017.

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

6. Derivative Financial Instruments

We maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce 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 or liabilities so any adverse impacts related to movements in interest rates are managed within low to moderate limits. As a result of interest rate fluctuations, hedged balance sheet positions will appreciate or depreciate in market value or create variability in cash flows. Income or loss on the derivative instruments linked to the hedged item will generally offset the effect of this unrealized appreciation or depreciation or volatility in cash flows for the period the item is being hedged. We view this strategy as a prudent management of interest rate risk. Please refer to Note 11, “Derivative Financial Instruments” in our 2017 Form 10-K for a full discussion of our risk management strategy.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (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. Two of the central counterparties we use are the Chicago Mercantile Exchange (“CME”) and the London Clearing House (“LCH”). The CME and the LCH made amendments to their respective rules that resulted in the prospective accounting treatment of certain daily variation margin payments being considered as the legal settlement of the outstanding exposure of the derivative instead of the posting of collateral. The CME rule changes, which became effective in January 2017, and the LCH rule changes, which became effective in January 2018, result in all variation margin payments on derivatives cleared through the CME and LCH being accounted for as legal settlement. As of March 31, 2018, $5.7 billion notional of our derivative contracts were cleared on the CME and $0.7 billion were cleared on the LCH. The derivative contracts cleared through the CME and LCH represent 89.8 percent and 10.2 percent, respectively, of our total notional derivative contracts of $6.4 billion at March 31, 2018.

For derivatives cleared through the CME and LCH, the net gain (loss) position includes the variation margin amounts as settlement of the derivative and not collateral against the fair value of the derivative. Interest income (expense) related to variation margin on derivatives that are not designated as hedging instruments or are designated as fair value relationships is recognized as a gain (loss) rather than as interest income (expense). Changes in fair value for derivatives not designated as hedging instruments will be presented as realized gains (losses).

Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held and plus any collateral posted. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At March 31, 2018 and December 31, 2017, we had a net positive exposure (derivative gain positions to us, less collateral held by us and plus collateral posted with counterparties) related to derivatives of $31.3 million and $19.6 million, respectively.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
6. 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 March 31, 2018 and December 31, 2017, and their impact on earnings and other comprehensive income for the three months ended March 31, 2018 and 2017. Please refer to Note 11, “Derivative Financial Instruments” in our 2017 Form 10-K for a full discussion of cash flow hedges, fair value hedges, and trading activities.

Impact of Derivatives on the Consolidated Balance Sheet

| | | Cash Flow Hedges | | Fair Value Hedges | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| Fair Values[1] | Hedged Risk Exposure | March 31, 2018 | December 31, 2017 | March 31, 2018 | December 31, 2017 | March 31, 2018 | December 31, 2017 | March 31, 2018 | December 31, 2017 |
| Derivative Assets:[2] | | | | | | | | | |
| Interest rate swaps | Interest rate | $— | $— | $794 | $ 630 | $— | $ 182 | $794 | $812 |
| Derivative Liabilities:[2] | | | | | | | | | |
| Interest rate swaps | Interest rate | (1,053) | (2,584) | — | — | (36) | — | (1,089) | (2,584) |
| Total net derivatives | | $(1,053) | $(2,584) | $794 | $ 630 | $(36) | $ 182 | $(295) | $(1,772) |

(1) Fair values reported include variation margin as legal settlement of the derivative contract 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 | |
|---|---|---|---|---|
| | March 31, 2018 | December 31, 2017 | March 31, 2018 | December 31, 2017 |
| Gross position[1] | $794 | $ 812 | $(1,089) | $(2,584) |
| Impact of master netting agreement | (794) | (812) | 794 | 812 |
| Derivative values with impact of master netting agreements (as carried on balance sheet) | — | — | (295) | (1,772) |
| Cash collateral pledged[2] | — | — | 31,637 | 21,586 |
| Net position | $— | $ — | $31,342 | $19,814 |

(1) Gross position amounts include accrued interest and variation margin as legal settlement of the derivative contract.
(2) Cash collateral pledged excludes amounts that represent legal settlement of the derivative contracts.

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

| Cash Flow | | Fair Value | Derivatives Not Designated as Hedges | Total |
|---|---|---|---|---|
| March 31, | December 31, | | | |
| | | Because DTC can act only on behalf of Participants, who in turn act on behalf of Indirect Participants and banks, the ability of a beneficial owner to pledge its interest in the book-entry certificates to persons or entities that do not participate in the DTC system, or otherwise take actions arising from its interest in the book-entry certificates, may be limited due to the lack of a physical certificate evidencing its interest.<br><br>DTC has advised the certificate trustee that it will take any action permitted to be taken by a certificateholder under the certificate indenture only at the direction | | |

of one or more Participants to whose account with DTC interests in the book-entry certificates are credited.

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Clearstream Banking, Luxembourg, S.A., referred to as Clearstream, holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in any of various currencies, including United States dollars.

Clearstream provides to its Clearstream customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with

domestic markets in several countries. Clearstream is registered as a bank in Luxembourg, subject to regulations by the Commission de Surveillance de Secteur Financier, which supervises Luxembourg banks. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream customers, either directly or indirectly.

The Euroclear System was created in 1968 in Brussels to

hold securities for Euroclear Participants and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in Euroclear in any of various currencies, including United States dollars. The Euroclear System includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC. The Euroclear System is operated by Euroclear Bank SA/NV.

Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with Euroclear are governed by the Terms and Conditions, referred to as the **Terms and Conditions**, governing use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian Law. These Terms and Conditions govern transfers of securities and cash within the Euroclear System, withdrawal of securities and cash from the Euroclear System, and

receipt of payments for securities in the Euroclear System. All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions for certificates held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream customers or Euroclear Participants in compliance with the relevant system s rules and procedures. These distributions will be subject to tax reporting in compliance with relevant United States tax laws and regulations. See Material U.S. Federal Income Tax Consequences. Clearstream

customers will take any other action permitted to be taken by a certificateholder under the certificate indenture on behalf of a Clearstream customer and the Euroclear will take any other action permitted to be taken by a certificateholder under the certificate indenture on behalf of a Euroclear Participant only under its relevant rules and procedures and limited by its depositary s ability to effect these actions on its behalf through DTC.

Cede & Co., as nominee for DTC, will hold the certificates. Clearstream will hold omnibus positions in the certificates on behalf of the Clearstream customers and Euroclear will hold omnibus positions in the certificates on behalf of the Euroclear Participants, in each case through customers securities accounts in their names on the books of their respective depositaries,

which in turn will hold positions in customers securities accounts in the depositaries names on the books of DTC. Transfers between the Participants will comply with DTC rules. Transfers between Clearstream customers and Euroclear Participants will comply with their applicable rules and operating procedures.

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Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear Participants, on the other, will be effected in DTC under DTC rules on behalf of the relevant European international clearing system by its depositary; however, these cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system according to its rules and procedures and within its established deadlines. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to

its depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear Participants may not deliver instructions directly to their depositaries.

Because of time zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a Participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and the credit or any transactions in the securities settled during the processing will be reported to the relevant Clearstream customers or Euroclear Participants on that business day. Cash received in

Clearstream or Euroclear as a result of sales of securities by or through a Clearstream customer or a Euroclear Participant to a Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of securities among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued at any time.

If any of DTC, Clearstream or Euroclear should discontinue its services, the certificate trustee would seek an alternative depository, if

available, or cause the issuance of definitive certificates to the owners of certificates or their nominees in the manner described below.

Definitive certificates initially issued in book-entry form will be issued to beneficial owners or their nominees, rather than to DTC or its nominee only if:

- the DTC advises the certificate trustee in writing that DTC is no longer willing or able to properly discharge its responsibilities as depository for the certificates and the certificate trustee is unable to locate a qualified successor; or
- after the occurrence of an event of default under the certificate indenture, holders of certificates representing not less than 50% of the outstanding principal amount of certificates

advise DTC in writing that the continuation of a book-entry system through DTC is no longer in the best interests of certificateholders.

If either of the events described in the immediately preceding paragraph occurs, DTC is required to notify all Participants of the availability through DTC of definitive certificates for the beneficial owners. With the surrender by DTC of the certificate or certificates representing the book-entry certificates, together with instructions for registration, the certificate trustee will issue (or cause to be issued) to the beneficial owners identified in the instructions the definitive certificates to which they are entitled, and thereafter the certificate trustee will recognize the holders of the Definitive Certificates as certificateholders under the certificate indenture.

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**WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS FOR THE CERTIFICATES**

The rate of principal payments, the amount of each interest payment and the final maturity date for each tranche of bonds, and, thus, a related portion of the certificates, will be dependent on the rate and timing of receipt of phase-in-recovery charge collections supporting the payment of such bonds. Higher than estimated receipts of phase-in-recovery charge collections will not, however, result in payment of principal on such bonds, and, thus, a related portion of the certificates, earlier than as reflected in the expected amortization schedule for such bonds. This is because receipts in excess of the amounts necessary to

amortize the bonds in accordance with the applicable expected amortization schedules, to pay interest and premium, if any, on the bonds and to pay other approved financing costs, such as to fund or replenish the capital subaccount, will be allocated to the excess funds subaccounts under the related bond indentures. However, delayed receipts of phase-in-recovery charge collections may result in principal payments on the bonds, and, thus, a related portion of the certificates, occurring more slowly than as reflected in the expected amortization schedule or later than the related scheduled maturity dates.

The actual payments on each payment date for each tranche of bonds, and, thus, a related portion of the certificates, and the weighted average life thereof will be

affected primarily by the rate and the timing of receipt of phase-in-recovery charge collections supporting the payment of such bonds. Amounts available in the excess funds subaccount and the capital subaccount for the bonds of a bond issuer will also affect the weighted average life of the bonds of that bond issuer, and, thus, a related portion of the certificates. The aggregate amount of phase-in-recovery charge collections and the rate of principal amortization on the bonds will depend, in part, on actual energy usage by customers of CEI, OE or TE, as applicable, and their respective rates of delinquencies and charge-offs. This is because the phase-in-recovery charges will be calculated based on estimates of usage and collections revenue. The phase-in-recovery charges for the customers of

each Ohio Company will be adjusted from time to time based in part on the actual rate of phase-in-recovery charge collections. However, there can be no assurance that the servicers will be able to forecast accurately actual electricity usage and the rate of delinquencies, and charge-offs or implement adjustments to the phase-in-recovery charges that will cause phase-in-recovery charge collections to be received at any particular rate. See Risk Factors Servicing Risks Inaccurate consumption forecasting might result in phase-in-recovery charges that result in inadequate collections to make scheduled payments on the bonds and, thus, scheduled distributions on the certificates.

A payment on a date that is later than the expected final payment date might result in a longer weighted average life of the bonds, and,

thus, a related portion of the certificates. In addition, if scheduled payments on the bonds are received later than the applicable scheduled payment dates, this might result in a longer weighted average life of the bonds, and, thus, a related portion of the certificates.

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## MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

### General

The following is a summary of the material U.S. federal income tax consequences to certificateholders, and is based on the opinion of Akin Gump Strauss Hauer & Feld LLP. Akin Gump Strauss Hauer & Feld LLP has advised the trust that the description of the material U.S. federal income tax consequences in this summary is accurate in all material respects. The opinion of Akin Gump Strauss Hauer & Feld LLP is based on some assumptions and is limited by some qualifications stated in this discussion or in that opinion. This discussion is based on current provisions of the Internal Revenue Code of 1986 as amended, or the

**Internal Revenue Code**, currently applicable Treasury regulations, and judicial and administrative rulings and decisions. Legislative, judicial or administrative changes could alter or modify the statements and conclusions in this discussion. Any legislative, judicial or administrative changes or new interpretations may be retroactive and could affect tax consequences to certificateholders.

This discussion applies to certificateholders who acquire the certificates at original issue for cash equal to the issue price of those certificates and hold the certificates as capital assets. This discussion does not address all of the tax consequences relevant to a particular certificateholder in light of that certificateholder s circumstances, and some certificateholders may be subject to special tax rules and limitations not discussed

below (for example, life insurance companies, tax-exempt organizations, financial institutions, dealers in securities, S corporations, taxpayers subject to the alternative minimum tax provisions of the code, broker-dealers, persons who hold the certificates as part of a hedge, straddle, synthetic security, or other integrated investment, risk reduction or constructive sale transaction and persons that have a functional currency other than the U.S. dollar). This discussion also does not address the tax consequences to nonresident aliens, foreign corporations, foreign partnerships or foreign trusts that are subject to U.S. federal income tax on a net basis on income with respect to a certificate because that income is effectively connected with the conduct of a U.S. trade or business. Those holders generally are

taxed in a manner similar to U.S. certificateholders; however, special rules not applicable to U.S. certificateholders may apply. In addition, except as described below, this discussion does not address any tax consequences under state, local or foreign tax laws.

YOU SHOULD CONSULT YOUR TAX ADVISER TO DETERMINE THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN INCOME AND ANY OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES.

As used in this summary, the term **U.S. certificateholder** means a beneficial owner of a certificate that is any of the following, for U.S. federal income tax purposes:

- a citizen or resident of

the United States;

a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the U.S. or any political subdivision of the U.S.;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if (i) its administration is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) it has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

The term **non-U.S. certificateholder** means a beneficial owner of a certificate that is not a U.S. certificateholder.

If an entity classified as a partnership for U.S. federal income tax purposes holds certificates, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding certificates, you should consult your tax advisers.

The sellers have not and will not seek any rulings from the Internal Revenue Service, or IRS, with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning

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the tax consequences of the purchase, ownership or disposition of the certificates or that any such position would not be sustained.

**Treatment of the Certificates**

Akin Gump Strauss Hauer & Feld LLP will opine that (i) the underlying bonds of each bond issuer will be treated as obligations of CEI, OE or TE, as the case may be, within the meaning of Revenue Procedure 2005-62, 2005-2 C.B. 507, (ii) the bond issuers will not be subject to U.S. federal income tax as entities separate from the sellers and (iii) the trust will not be a business entity classified as a corporation or a publicly traded partnership treated as a corporation, but will be treated as a grantor trust.

Based on the assumptions and subject to

the qualifications stated herein, it is the opinion of Akin Gump Strauss Hauer & Feld LLP that the material U.S. federal income tax consequences to certificateholders are as follows:

**Taxation of U.S. Certificateholders**

***In General***

A U.S. certificateholder must allocate the purchase price for a certificate between the different underlying bonds represented by the certificate in proportion to the respective fair market values of the different underlying bonds on the purchase date. The amount allocated to any particular underlying bond will represent the initial adjusted basis of the U.S. certificateholder s interest in that underlying bond. Thereafter, a U.S. certificateholder should calculate separately the items of

income, gain, loss, deduction and credit with respect to the U.S. certificateholder s interest in the different underlying bonds.

This discussion assumes that each certificate is issued in registered form. Moreover, this discussion assumes that any original issue discount on any underlying bond (that is, any excess of the stated redemption price at maturity of an underlying bond over its issue price) is less than a statutory minimum amount (equal to 0.25 percent of its stated redemption price at maturity multiplied by the underlying bond s weighted average maturity), all as provided in the United States Treasury s original issue discount regulations.

***Payments of Interest***

Stated interest on the underlying bonds will be taxable as

ordinary interest income when received or accrued by U.S. certificateholders under their method of accounting. Generally, interest payable on the underlying bonds will constitute investment income for purposes of limitations under the Internal Revenue Code on the deductibility of investment interest expense.

***Original Issue Discount***

As noted above, this discussion assumes that any original issue discount on the underlying bonds is less than the statutory minimum amount. In that case, unless a special election is made to treat all interest on the underlying bonds as original issue discount, any such de minimis original issue discount generally will be taken into income by a U.S. certificateholder as gain from the retirement of an

underlying bond (as described below under Sale or Other Taxable Disposition of Certificates ) ratably as principal payments are made on the underlying bond.

***Sale or Other Taxable Disposition of the Certificates***

If there is a sale, exchange, redemption, retirement or other taxable disposition of a certificate, a U.S. certificateholder generally will recognize gain or loss equal to the difference, if any, between (a) the amount of cash and the fair market value of any other property treated as received for the interest represented by the certificate in each underlying bond (other than amounts attributable to, and taxable as, accrued stated interest on the underlying bond) and (b) the U.S. certificateholder s adjusted tax basis in the underlying bond. The amount

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of cash and property treated as received for each underlying bond will be the amount of cash and property received for the certificate allocated between the different underlying bonds based on their proportionate fair market values at the time the certificate is sold or otherwise disposed of. The U.S. certificateholder s adjusted tax basis in each underlying bond generally will equal the amount of the purchase price allocated to the underlying bond upon purchase of the certificate, increased by any original issue discount included in income with respect to the underlying bond prior to its disposition and reduced by any payments reflecting principal or original issue discount previously received with respect to the underlying bond and any

amortized premium with respect to the underlying bond. Gain or loss generally will be capital gain or loss if a certificate was held as a capital asset.

***Medicare Tax on Unearned Income***

A 3.8% tax is imposed on the net investment income of certain U.S. citizens and resident aliens, and on the undistributed net investment income of certain estates and trusts, in both cases to the extent that net investment income exceeds a certain threshold. Among other items, net investment income generally includes interest and certain net gains from the disposition of property, less certain deductions.

Prospective holders should consult their own tax advisors with respect to such tax.

**Non-U.S. Certificateholders**

In general, a non-U.S. certificateholder will not be subject to U.S. withholding tax on interest (including original issue discount) on an underlying bond unless:

- the non-U.S. certificateholder is a controlled foreign corporation that is related, directly or indirectly, to the issuer of the underlying bond through stock ownership;
- the non-U.S. certificateholder is a bank which receives interest on the underlying bond as described in Code Section 881(3)(A); or
- the non-U.S. certificateholder actually or constructively owns 10% or more of the total combined voting power of all classes of stock of the issuer of the underlying bond entitled to vote.

In order for interest payments to qualify for the exemption from U.S. taxation described above (i) non-U.S.

certificateholders must certify to the withholding agent on IRS Form W-8BEN (or appropriate substitute form), under penalties of perjury, that such non-U.S. certificateholder is not a U.S. person or (ii) if non-U.S. certificateholders hold the certificates through a financial institution or other agent acting on their behalf, such non-U.S. certificateholder must provide appropriate documentation to the agent and the agent then must provide certification to the withholding agent, either directly or through other intermediaries.

A non-U.S. certificateholder may also be exempt from U.S. withholding tax on interest if the non-U.S. certificateholder is entitled to the benefits of a U.S. treaty providing an exemption from such withholding and the non-U.S. certificateholder or its agent provides the withholding agent a

properly executed W-8BEN (or an appropriate substitute form) evidencing eligibility for the exemption.

Generally, any gain or income realized by a non-U.S. certificateholder from the sale, exchange, redemption, retirement or other disposition of a certificate (other than gain attributable to accrued interest or original issue discount, which is addressed above) will not incur U.S. federal income tax liability, provided, in the case of a non-U.S. certificateholder who is an individual, that such non-U.S. certificateholder is not present in the United States for 183 or more days during the taxable year in which a disposition of a certificate occurs. Exceptions may be applicable, and non-U.S. certificateholders should consult a tax adviser regarding the tax consequences of a disposition of a certificate.

**Information Reporting and Backup Withholding**

Some certificateholders may be subject to backup withholding, currently at the rate of 28%, on amounts payable to the certificateholder on the certificate, including principal payments. Generally, backup withholding

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will apply if the certificateholder fails to provide identifying information (such as the payee s taxpayer identification number) in the manner required, or if the payee has failed to report properly the receipt of reportable interest or dividend payments and the IRS has notified the payor that backup withholding is required. Some certificateholders (including, among others, corporations and some tax-exempt organizations) generally are not subject to backup withholding.

Backup withholding and information reporting generally will not apply to a certificate issued in registered form that is beneficially owned by a non-U.S. certificateholder if the certification described above in Non-U.S. Certificateholders, is provided to

the withholding agent as long as the payor does not have actual knowledge that the non-U.S. certificateholder should be subject to such backup withholding and information reporting rules. Non-U.S. certificateholders should consult their tax advisers regarding the application of information reporting and backup withholding to their particular situations, the availability of an exemption therefrom and the procedure for obtaining such an exemption, if available. The withholding agent may be required to report annually to the IRS and to each non-U.S. certificateholder the amount of interest paid to, and the tax withheld, if any, for each non-U.S. certificateholder, even if a certification is provided and U.S. federal income tax and backup withholding tax does not apply.

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**OHIO STATE TAXATION**

In the opinion of Calfee, Halter & Griswold LLP, it is more likely than not that the following material Ohio tax consequences apply to holders of the certificates who receive or accrue interest or who sell, exchange, or otherwise dispose of certificates (referred to herein as **Ohio certificate income**):

1. Ohio certificate income is subject to the Ohio Individual Income Tax. Ohio certificate income is sitused to the state of domicile of the recipient. Accordingly, a non-Ohio resident not otherwise subject to the Ohio Individual Income Tax would not incur liability under such taxes due to having

realized Ohio certificate income.

2. Ohio certificate income realized by most individuals and businesses is not subject to income taxes levied by municipal corporations in Ohio.

3. Ohio School District Income Taxes for individuals may be assessed under two alternate methods. Ohio certificate income is subject to such tax under one alternate method of computing taxable income, but not under the other method.

4. Ohio certificate income is subject to the Ohio Corporation Franchise Tax, to the extent computed on the net income basis. Other than certain

financial institutions and their holding companies and other affiliates, few corporations remain subject to the Ohio Corporation Franchise Tax.

5. Ohio certificate income is not subject to the Ohio Commercial Activity Tax if the certificates are capital assets of a holder, regardless of the length of time the certificates are held by the holder.

6. Ohio no longer levies an *ad valorem* tax on intangible personal property held by individuals or most business entities, other than a limited class of financial institutions.

This discussion does not address the taxation of the trust or the tax consequences of the purchase, ownership or

disposition of the certificates under any state or local tax law other than that of the State of Ohio. You should consult your tax adviser regarding state and local tax consequences.

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**CERTAIN ERISA AND OTHER CONSIDERATIONS**

The following is a summary of certain considerations associated with the purchase and holding of our certificates by (i) an employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, or **ERISA**) that is subject to Part 4 of Subtitle B of Title I of ERISA, (ii) a plan, individual retirement account or other arrangement that is subject to Section 4975 of the U.S. Internal Revenue Code or provisions under Similar Law (which we define as certain governmental plans, church plans and non-U.S. plans, which while not subject to Title I of ERISA or Section 4975 of the U.S. Internal Revenue Code, may

nevertheless be subject to other state, local, non-U.S. or other laws or regulations that would have the same effect as U.S. Department of Labor Regulations Section 2510.3-101, as modified by Section 3(42) of ERISA, or the **Plan Asset Regulations**, so as to cause our underlying assets to be treated as assets of an investing entity by virtue of its investment (or any beneficial interest) in us and thereby subject us to laws or regulations that are similar to the fiduciary responsibility or prohibited transaction provisions contained in Title I of ERISA or Section 4975 of the U.S. Internal Revenue Code), and (iii) entities whose underlying assets are considered to include plan assets of any such plan, account or arrangement (each of (i), (ii) and (iii), a **Benefit Plan Investor**).

This summary is general in

nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing or holding our certificates on behalf of, or with the assets of, any employee benefit plan, consult with their counsel to determine whether such employee benefit plan is subject to Part 4 of Subtitle B of Title I of ERISA, Section 4975 of the U.S. Internal Revenue Code or any Similar Laws.

Section 3(42) of ERISA and the Plan Asset Regulations generally provide that when a Benefit Plan Investor subject to Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the U.S. Internal Revenue Code, or a **Covered Plan**, acquires

an equity interest in an entity that is neither a publicly offered security (as defined in the Plan Asset Regulations) nor a security issued by an investment company registered under the U.S. Investment Company Act, the Covered Plan s assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by the Covered Plan is not significant or that the entity is an operating company, in each case as defined in Section 3(42) of ERISA and the Plan Asset Regulations.

For purposes of ERISA, equity participation in an entity by Covered Plans will not be significant if they hold, in the aggregate, less than 25% (or such higher percentage as may be specified by regulations of the Department

of Labor) of the value of each class of equity interests of such entity, excluding equity interests held by any person (other than an Covered Plan) who has discretionary authority or control with respect to the assets of the entity or who provides investment advice for a fee (direct or indirect) with respect to such assets, and any affiliates of such person.

The Plan Asset Regulations generally define an operating company to mean an entity that is primarily engaged, directly or through majority owned subsidiaries, in the production of a product or service other than the investment of capital.

The certificates are likely to be treated as equity interests in the trust under the Plan Asset Regulations which provides that beneficial interests in a trust are equity interests.

It is anticipated (i) that the certificates will not constitute publicly offered securities for purposes of the Plan Asset Regulations, (ii) that the trust will not be an investment company registered under the U.S. Investment Company Act and (iii) the trust will not qualify as an operating company within the meaning of the Plan Asset Regulations. In addition, neither CEI, OE, TE, the certificate trustee, the underwriters nor any of their affiliates is required and does not intend to monitor whether investment in the certificates by Benefit Plan Investors will equal or exceed the 25% (or higher) threshold for purposes of ERISA. Therefore, if the certificates are purchased

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with plan assets, the assets of the trust may be deemed plan assets of the investing Benefit Plan Investors which, in turn, would subject the trust and its assets to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code if Benefit Plan Investor participation is significant. Even though only minimal administrative activity is expected at the trust level, it is likely that the trust will interact with CEI, OE, TE, the certificate trustee, the underwriters and their affiliates. If CEI, OE, TE, the certificate trustee, the underwriters or any of their affiliates is a party in interest as defined in ERISA or a disqualified person as defined in the Code to a Benefit Plan Investor that

purchases certificates, violations of the prohibited transaction rules could occur at the trust level, unless a statutory or administrative exemption applies or an exception applies under the Plan Asset Regulations.

Whether or not the assets of the trust are deemed to include plan assets, the acquisition and/or holding of certificates by a Benefit Plan Investor with respect to which the trust, CEI, OE, TE, the certificate trustee, the underwriters or any of their affiliates are considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited

transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or **PTCEs**, that may apply to the acquisition and holding of the certificates. These class exemptions include, without limitation, PTCE 75-1, which exempts certain transactions between a plan and certain broker dealers, reporting dealers and banks, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers,

although there can be no assurance that all of the conditions of any such exemptions will be satisfied. In addition, the statutory service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, which exempts certain transactions between plans and parties in interests that are not fiduciaries with respect to the transaction could apply.

We cannot provide any assurance that any of these class exemptions or statutory exemptions will apply with respect to any particular investment in the certificates by, or on behalf of, a plan or, even if it were deemed to apply, that any exemption would apply to all transactions that may occur in connection with the investment. Even if one of these class exemptions or statutory exemptions were deemed to apply, certificates may

not be purchased with assets of any plan if the trust, CEI, OE, TE, the certificate trustee, any underwriter or any of their affiliates:

- has investment discretion over the assets of the plan used to purchase the certificate;
- has authority or responsibility to give, or regularly gives, investment advice regarding the assets of the plan used to purchase the certificate for a fee and under an agreement or understanding that the advice will serve as a primary basis for investment decisions for the assets of the plan, and will be based on the particular investment needs of the plan; or
- unless PTCE 90-1 or 91-38 applied to the purchase and holding of the certificate, is

an employer maintaining or contributing to the plan.

Because of the foregoing, the certificates may not be purchased or held by any person investing plan assets of any Benefit Plan Investor, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Without limiting the foregoing, each purchaser of certificates is deemed to represent, warrant and agree, that either (x) no part of the assets to be used to purchase or hold the certificates constitutes or will constitute the assets of any employee benefit plan (as defined in Section 3(3) of ERISA) subject to the fiduciary requirements of Title I of ERISA, a plan that is subject to the prohibited transaction

provisions of Section 4975 of the Code, an entity whose underlying assets include plan assets by reason of a plan investment in such entity (including but not limited to an insurance company general account), or any entity that otherwise constitutes a benefit plan investor within the meaning of the Plan Asset Regulations; or (y) that such purchaser s purchase and holding of

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the certificates will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Laws.

In addition, fiduciaries and other plan investors should also consider the fiduciary standards under ERISA or other Similar Law in the context of the plan s particular circumstances before authorizing an investment of plan assets in the certificates. Among other factors, fiduciaries and other plan investors should consider whether the investment:

- satisfies the diversifications requirement of ERISA or other Similar Law;
- complies with the plan s governing

instruments; and

is prudent in light of the Risk Factors and other factors discussed in this prospectus.

***The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the certificates on behalf of, or with the assets of, any Benefit Plan Investor, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the certificates.***

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**USE OF PROCEEDS**

The trust will use the net proceeds received from the sale of the certificates to purchase the bonds from the bond issuers. The bond issuers will use the net proceeds from the sale of the bonds to purchase the phase-in-recovery properties from the sellers and to pay the costs of issuing the bonds and the certificates and other upfront financing costs. The sellers will use the net proceeds from the sale of the phase-in-recovery properties primarily to repay outstanding debt of the sellers. Net proceeds may also be used by any seller for other general corporate purposes to the extent set forth in the financing order.

**PLAN OF DISTRIBUTION**

The trust may sell the certificates to or through the underwriters

named in the accompanying prospectus supplement by a negotiated firm commitment underwriting and public reoffering by the underwriters or another underwriting arrangement that may be specified in such prospectus supplement or the trust may offer or place the certificates either directly or through agents. The bond issuers and the trust intend that certificates will be offered through these various methods from time to time and that offerings may be made concurrently through more than one of these methods or that an offering of the certificates may be made through a combination of these methods.

The distribution of certificates may be effected in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related

to prevailing market prices or in negotiated transactions or otherwise at varying prices to be determined at the time of sale.

In connection with the sale of the certificates, underwriters or agents may receive compensation in the form of discounts, concessions or commissions. Underwriters may sell certificates to dealers at prices less a concession. Underwriters may allow, and the dealers may reallow, a concession to other dealers. Underwriters, dealers and agents that participate in the distribution of the certificates may be deemed to be underwriters and any discounts or commissions received by them from the trust and any profit on the resale of the certificates by them may be deemed to be underwriting discounts and commissions under the Securities Act. We will identify any of these underwriters or

agents, and describe any compensation we give them, in the accompanying prospectus supplement.

**RATINGS**

We expect that the certificates will receive credit ratings from NRSROs.

A security rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time by the assigning NRSRO. Each rating should be evaluated independently of any other rating. No person is obligated to maintain its rating on the certificates, and accordingly, we cannot assure you that a rating assigned to any tranche of the certificates upon initial issuance will not be revised or withdrawn by an NRSRO at any time thereafter. If a rating of any tranche of the certificates is revised or withdrawn, the liquidity of that tranche may be adversely affected. In

general, ratings address credit risk and do not represent any assessment of the likelihood of any particular level of principal payments on the certificates other than payment in full of each tranche of the certificates by the applicable final maturity date, as well as the timely payment of interest.

Under Rule 17g-5 of the Exchange Act, NRSROs providing the sponsors with the requisite certification will have access to all information posted on a website by the sponsors for the purpose of determining the initial rating and monitoring the rating after the closing date in respect of the certificates. As a result, an NRSRO other than a hired NRSRO may issue Unsolicited Ratings which may be lower, and could be significantly lower, than the ratings assigned by a hired NRSRO. The Unsolicited Ratings may be issued prior to,

or after, the closing date in respect of the certificates. Issuance of any Unsolicited Rating will not affect the issuance of the certificates. Issuance of an Unsolicited Rating lower than the ratings assigned by a hired NRSRO on the certificates might adversely affect the value of the certificates and, for regulated entities, could affect the status of the certificates as

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a legal investment or the capital treatment of the certificates. Investors in the certificates should consult with their legal counsel regarding the effect of the issuance of a rating by a non-hired NRSRO that is lower than the rating of a hired NRSRO.

A portion of the fees paid by the sponsors to an NRSRO that is hired to assign a rating on the certificates is contingent upon the issuance of the certificates. In addition to the fees paid by the Ohio Companies to a hired NRSRO at closing, the sponsors may pay a fee to the NRSRO for ongoing surveillance for so long as the certificates are outstanding. However, no NRSRO is under any obligation to continue to monitor or provide a rating on the certificates. There can be no assurance that the credit ratings will be

maintained.

**WHERE YOU CAN FIND MORE INFORMATION**

This prospectus is part of a registration statement we, the bond issuers and the sponsors have filed with the SEC relating to the certificates. This prospectus and the accompanying prospectus supplement describe the material terms of some of the documents that have been filed as exhibits to the registration statement. However, this prospectus and the accompanying prospectus supplement do not contain all of the information contained in the registration statement and the exhibits. Any statements contained in this prospectus or the accompanying prospectus supplement concerning the provisions of any document filed as an exhibit to the registration statement or otherwise filed with the SEC are not necessarily complete. Each

statement concerning those provisions is qualified in its entirety by reference to the respective exhibit. Information filed with the SEC can be inspected at the SEC s Internet site located at http://www.sec.gov. You may also read and copy the registration statement, the exhibits and any other documents we file with the SEC at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. You may obtain further information regarding the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain a copy of the filings or any information that has been incorporated by reference with the SEC at no cost, by writing to or telephoning us at the following address:

c/o FirstEnergy Corp.

76 South Main Street

Akron, Ohio 44308

(800) 736-3402

Our SEC Securities Act file number is .

We, the bond issuers or CE, OE and TE, solely in their capacity as sponsors, will also file with the SEC all of the periodic reports we, the bond issuers or the sponsors are required to file under the Exchange Act and the rules, regulations or orders of the SEC thereunder. None of us, the bond issuers or the sponsors intend to file any such reports relating to the certificates and bonds following completion of the reporting period required by Rule 15d-1 of Regulation 15D under the Exchange Act, unless required by law. Unless specifically stated in any such report, the reports and any information included in any

such report will neither be examined nor reported on by an independent public accountant. For a more detailed description of the information to be included in these periodic reports, please read Description of the Bonds Sellers Website Disclosure.

The SEC allows us to incorporate by reference into this prospectus information that we, the bond issuers or the sponsors file with the SEC. This means we can disclose important information to you by referring you to the documents containing the information. The information we incorporate by reference is considered to be part of this prospectus, unless we update or supersede that information by the information contained in a prospectus supplement or information that we, the bond issuers or the sponsors file subsequently that is incorporated by

reference into this prospectus. We are incorporating into this prospectus any future filings which we, the bond issuers or the sponsors, solely in their capacity as sponsors, make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering of the certificates, excluding any information that is furnished to, and not filed with, the SEC. These reports will be filed under our name as issuing entity. Any statement contained in this

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prospectus, in the accompanying prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus or the accompanying prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus and the accompanying prospectus supplement to the extent that a statement contained in this prospectus, the accompanying prospectus supplement or in any separately filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute part of this prospectus or the accompanying prospectus supplement.

**REPORTS TO HOLDERS**

During any period when the trust issues the certificates in book-entry form, CEI, OE and TE, acting as the servicers of the property securing the bonds, or a successor servicer to either, will provide periodic reports concerning the certificates. You may obtain copies of the periodic reports by requesting them from your broker or dealer. If you are the registered holder of the certificates, you will receive the reports from the certificate trustee. See Description of the Bonds Reports to Bondholders and Description of the Certificates Reports to Certificateholders.

**LEGAL MATTERS**

Certain legal matters relating to the issuing entity, bond issuers, the bonds and the certificates, including certain U.S. federal income tax matters, will be passed on by

Akin Gump Strauss Hauer & Feld LLP, New York, New York, counsel to the issuing entity, the sellers and the bond issuers. Certain legal matters relating to the bonds and Ohio law will be passed upon by Calfee, Halter & Griswold LLP, Cleveland, Ohio, special local counsel to the sellers and the bond issuers. Certain legal matters relating to the issuing entity, the bond issuers and the certificates will be passed upon by Richards, Layton & Finger, P.A., Wilmington, Delaware, Delaware counsel to the issuing entity and the bond issuers. Morgan, Lewis & Bockius LLP, New York, New York, is counsel to the underwriters. Morgan, Lewis & Bockius LLP has in the past represented, and continues to represent, the Ohio Companies and certain of their affiliates on other matters.

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**GLOSSARY OF DEFINED TERMS**

Set forth below is a list of the defined terms used in this prospectus which, except as otherwise noted in a prospectus supplement, are also used in the accompanying prospectus supplement:

*Bankruptcy Code* means Title 11 of the United States Code, as amended.

*Basic Documents* means for a bond issuer, collectively, its bond indenture, the certificate indenture, the declaration of trust, its sale agreement, its servicing agreement, its administration agreement, its bond purchase agreement, the fee and indemnity agreement, the cross-indemnity agreement and the underwriting agreement.

*Bond indentures* means the indentures to be entered into

between the bond issuers and the bond trustee, providing for the issuance of bonds, as the same may be amended and supplemented from time to time.

*Bond issuers* means, collectively, CEI Funding, OE Funding and TE Funding.

*Business day* means any day other than a Saturday, a Sunday or a day on which banking institutions in New York, New York, Columbus, Ohio or Wilmington, Delaware are authorized or obligated by law, regulation or executive order to remain closed.

*CEI* means The Cleveland Electric Illuminating Company.

*CEI Funding* means CEI Funding LLC.

*Clearstream* means Clearstream Banking, Luxembourg, S.A.

*Collection account* means

the segregated trust account relating to the bonds designated the collection account and held by the bond trustee under the indentures.

*DTC* means the Depository Trust Company, New York, New York, and its nominee holder, Cede & Co.

*ERISA* means the Employee Retirement Income Security Act of 1974, as amended.

*Euroclear* means the Euroclear System.

*Exchange Act* means the Securities Exchange Act of 1934, as amended.

*Financing costs* has the meaning specified in Section 4928.23(E) of the Securitization Act and the financing order.

*Financing order* means, unless the context indicates otherwise, the financing order issued by the PUCO to the

Ohio Companies on October 10, 2012, Case No. 12-1465-EL-ATS, as amended by the entry on rehearing issued by the PUCO on December 19, 2012 upon application for rehearing, and as further amended by the entry *nunc pro tunc* issued by the PUCO on January 9, 2013.

*FirstEnergy* means FirstEnergy Corp.

*Fitch* means Fitch Ratings, or its successor.

*GWh* means gigawatt hour.

*Independent Director* means an individual who (1) has prior experience as an independent director, independent manager or independent member, (2) is employed by a nationally-recognized company that provides

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professional independent directors and other corporate services in the ordinary course of its business, (3) is duly appointed as an independent director and (4) is not and has not been for at least five years from the date of his, her or its appointment, and will not while serving as independent director, be any of the following:

(i) a member, partner, equityholder, manager, director, officer or employee of a bond issuer or any of its equityholders or affiliates (other than as an independent director, independent manager or special member of a bond issuer or an affiliate of a bond issuer that is not in the direct chain of ownership of the bond issuer and that is required by a creditor to be a single purpose bankruptcy remote entity); provided, that the indirect or beneficial

ownership of stock of a member or its affiliates through a mutual fund or similar diversified investment vehicle with respect to which the owner does not have discretion or control over the investments held by such diversified investment vehicle shall not preclude such owner from being an independent director;

(ii) a creditor, supplier or service provider (including provider of professional services) to a bond issuer, a member or any of their respective equityholders or affiliates (other than a nationally-recognized company that routinely provides professional independent directors and other corporate services to a bond issuer, a member or any of its affiliates in the ordinary course of its business);

(iii) a family member of any such member, partner, equityholder, manager,

director, officer, employee, creditor, supplier or service provider; or

(iv) a person that controls (whether directly, indirectly or otherwise) any of (i), (ii) or (iii) above.

A natural person who otherwise satisfies the foregoing definition and satisfies subparagraph (i) by reason of being the independent manager or independent director of a special purpose entity affiliated with a bond issuer shall be qualified to serve as an independent director of a bond issuer, provided that the fees that such individual earns from serving as an independent manager or independent director of affiliates of a bond issuer in any given year constitute in the aggregate less than five percent (5%) of such individual s annual income for that year. For purposes of this paragraph,

a special purpose entity is an entity, whose organizational documents contain restrictions on its activities and impose requirements intended to preserve such entity s separateness that are substantially similar to the special purpose provisions in the limited liability company agreements of the bond issuers.

*Internal Revenue Code* means the Internal Revenue Code of 1986, as amended.

*Issuing entity* means FirstEnergy Ohio PIRB Special Purpose Trust 2013.

*kW* means kilowatt.

*kWh* means kilowatt-hour.

*Moody s* means Moody s Investors Service, Inc., or its successor.

*Nonbypassable* means that phase-in-recovery charges cannot be avoided by any customer or other person

obligated to pay such charges. Subject to the adjustment mechanism described in this prospectus, phase-in-recovery charges will apply to all customers of an electric distribution utility for as long as they remain customers of such electric distribution utility. If a customer of the electric distribution utility purchases electric generation service from a competitive retail electric service provider, the utility will collect the phase-in-recovery charges directly from that customer. If a customer of the utility subsequently receives retail electric distribution service from another electric distribution utility operating in the same service area, including by succession, assignment, transfer or merger, the phase-in-recovery charges will continue to apply to that customer.

*NRSRO* means a nationally recognized statistical rating organization.

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*OE* means Ohio Edison Company.

*OE Funding* means OE Funding LLC.

*Ohio Companies* means, collectively, CEI, OE and TE.

*Payment date* means the date or dates on which interest and principal are to be payable on the certificates.

*PUCO* means the Public Utilities Commission of Ohio and any successor thereto.

*Phase-in costs* means the costs of an electric distribution utility recoverable through the issuance of bonds.

*Phase-in-recovery charges* means a seller s phase-in-recovery charge designated pursuant to the financing order, as the same may be adjusted from time to time as provided in the financing order.

*Phase-in-recovery property* means the phase-in-recovery property that is created simultaneous with the sale of such property by a seller to the applicable bond issuer and continues to exist pursuant to and in accordance with paragraph VI.A(6) of the financing order and sections 4928.232, 4928.234 and 4928.2312 of the Securitization Act and is sold by a seller to the applicable bond issuer under a sale agreement.

*Rating agencies* means Moody s, Standard & Poor s and Fitch.

*Regulation AB* means the rules of the SEC promulgated under Subpart 229.1100 Asset-Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123, as such may be amended from time to time.

*Required capital level* means the amount required to be funded in the capital subaccount of

each bond issuer, which will equal 0.50% of the principal amount of bonds issued by each bond issuer.

*Retail customer* means a retail end user of electricity and related services provided by a retail electric service provider via the transmission and distribution system of a utility such as CEI, OE and TE.

*Retail electric customer* means a retail customer within CEI s, OE s and TE s service territory, as the case may be.

*SEC* means the U.S. Securities and Exchange Commission (and any successor thereto).

*Standard & Poor s* means Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies Inc., or its successor.

*Securitization Act* means the Ohio House Bill 364, as passed by the Ohio legislature in December

2012 and effective on March 22, 2012, which enacted Ohio Revised Code §§ 4928.23 through 4928.2318.

*TE* means The Toledo Edison Company.

*TE Funding* means TE Funding LLC.

*Treasury Regulations* means proposed or issued regulations promulgated from time to time under the Internal Revenue Code.

*Trust Indenture Act* means the Trust Indenture Act of 1939, as amended.

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*Trust property* means, with respect to any tranche of certificates, the tranche of bonds of each of the bond issuers corresponding to such tranche of certificates held as the property of the certificate issuer and all monies at any time paid thereon and all monies due and to become due thereunder, all rights of the certificate trustee or the certificate issuer, as holder of such tranche of bonds, in and to the collateral of such bond issuer and any proceeds thereof, all funds and investment property from time to time deposited in the certificate account for such tranche of certificates, the certificate account for such tranche of certificates, all proceeds from the sale by the certificate trustee pursuant to Article V of the certificate indenture of bonds of each bond issuer of such tranche,

and all proceeds of each of the foregoing.

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# FirstEnergy Ohio PIRB Special Purpose Trust 2013

***Issuing Entity***

**CEI Funding LLC**

**OE Funding LLC**

**TE Funding LLC**

***Issuers of the Bonds***

**The Cleveland Electric Illuminating Company**

**Ohio Edison Company**

**The Toledo Edison Company**

***Sponsors, Sellers and Initial Servicers***

# Pass-Through Trust Certificates

**PROSPECTUS SUPPLEMENT**

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the certificates offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The

information contained in this prospectus is current only as of its date.

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 14. Other Expenses of Issuance and Distribution***

The following is an itemized list of the estimated expenses to be incurred in connection with the offering of the securities being offered hereunder other than underwriting discounts and commissions.

| | | |
|---|---|---|
| SEC registration fee | $ 68,882 | |
| Legal fees and expenses | $ | * |
| Blue sky fees and expenses | $ | * |
| Accounting fees and expenses | $ | * |
| Rating agencies fees and expenses | $ | * |
| Printing fees and expenses | $ | * |
| Trustees fees and expenses | $ | * |
| Miscellaneous | $ | * |
| Total | $ | * |

* To be filed by amendment.

**Item 15. Indemnification of Directors and Officers**

**Bond Issuers**

Section 18-108 of the Delaware Limited Liability Company Act provides that subject to such standards and restrictions, if any, as are set forth in its limited liability company agreement, a limited liability company may and has the power to indemnify and hold harmless any member or other person from and against any and all claims and demands whatsoever.

Section 18 of the Limited Liability Company Agreement of each of the bond issuers provides as follows:

The Company is hereby authorized to, and shall, indemnify such persons and entities, including Directors and officers, as determined by the Board of Directors from time to time. In

addition, each person who at any time shall be, or shall have been, a Member or Director, or any person who, while a Member, Director or agent of the Company, is or was serving at the request of the Company as a director, member, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another entity, shall be entitled to indemnification by the Company as and to the fullest extent permitted by the provisions of Delaware law or any successor statutory provisions, as from time to time amended.

Section 10.1(b) of the Amended and Restated Limited Liability Company Agreement (the Agreement ) of each of the bond issuers is expected to provide that each bond issuer shall indemnify its member, special member, and

any officer, director, employee or agent of such bond issuer and any employee, representative, agent or affiliate of the member or special member, to the fullest extent permitted by law, against any loss, damage or claim incurred by such person by reason of any act or omission performed or omitted by such person in good faith on behalf of the bond issuer and in a manner reasonably believed to be within the scope of the authority conferred on such person by the Agreement, except that no person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such person by reason of his or her gross negligence or willful misconduct with respect to such acts or omissions. To the fullest extent permitted by applicable law, expenses (including legal fees) incurred by an indemnified person

defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the bond issuer prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the bond issuer of an undertaking by or on behalf of the indemnified person to repay such amount if it shall be determined that such person is not entitled to be indemnified as described in the Agreement.

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**The Ohio Companies**

Section 1701.13(E) of the Ohio General Corporation Law provides that an Ohio corporation may indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director, officer, employee or agent of that corporation, or is or was serving at the request of the corporation as a director, trustee, officer, employee, member, manager, or agent of another entity against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if

the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal matter, if the person had no reasonable cause to believe his conduct was unlawful. In addition, no indemnification shall be made in respect of a claim against such person by or in the right of the corporation, if the person is adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation except to the extent provided in the court order. Indemnification may be made if ordered by a court or authorized in each specific case by the directors of the indemnifying corporation acting at a meeting at which, for the purpose, any director who is a party to or threatened with any such action, suit or proceeding may

not be counted in determining the existence of a quorum and may not vote. If, because of the foregoing limitations, the directors are unable to act in this regard, such determination may be made by written opinion of independent legal counsel other than an attorney, or a firm having associated with it an attorney, who has been retained by or who has performed services for the corporation or any person to be indemnified during the five years preceding the date of determination. Alternatively, such determination may be made by the corporation s shareholders.

Section 1701.13(E) of the Ohio General Corporation Law provides that the indemnification thereby permitted shall not be exclusive of any other rights that directors, officers or employees may have, including rights under insurance purchased by

the corporation. Further, a right to indemnification or to advancement of expenses arising under a provision of the articles or the regulations of a corporation may not be eliminated or impaired by an amendment to that provision after the occurrence of the act or omission that becomes the subject of the civil, criminal, administrative, or investigative action, suit, or proceeding for which the indemnification or advancement of expenses is sought, unless the provision in effect at the time of that act or omission explicitly authorizes that elimination or impairment after the act or omission has occurred.

Section 38 of CEI s Amended and Restated Code of Regulations provides as follows:

The Corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any threatened,

pending, or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, trustee, officer, employee, member, manager, or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise, against expenses, including attorney s fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him or her in connection with such action, suit, or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any

criminal action or proceeding, if he or she had no reasonable cause to believe his or her conduct was unlawful, to the full extent and according to the procedures and requirements set forth in the Ohio General Corporation Law as now in effect or as amended from time to time. The Corporation shall pay, to the full extent then permitted by law, expenses, including attorney s fees, incurred by a member of the Board of Directors in defending any such action, suit or proceeding as they are incurred, in advance of the final disposition thereof, and may pay, in the same manner and to the full extent then permitted by law, such expenses incurred by any other person.

The indemnification and payment of expenses provided hereby shall not be exclusive of, and shall be in addition to, any other rights granted to those seeking indemnification

under any law, the Articles of Incorporation, any agreement, vote of shareholders or disinterested members of the Board of Directors, or otherwise, both as to action in official capacities and as to action in another capacity while he or she is a member

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of the Board of Directors, or an officer, employee or agent of the Corporation, and shall continue as to a person who has ceased to be a member of the Board of Directors, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 39 of CEI s Amended and Restated Code of Regulations provides as follows:

The Corporation may, to the full extent then permitted by law and authorized by the Board of Directors, purchase and maintain insurance or furnish similar protection, including but not limited to trust funds, letters of credit or self-insurance, on behalf of or for any persons described in Section 38 against any

liability asserted against and incurred by any such person in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such liability. Insurance may be purchased from or maintained with a person in which the Corporation has a financial interest.

Section 38 of OE s Amended and Restated Code of Regulations provides as follows:

The Corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the

Corporation as a director, trustee, officer, employee, member, manager, or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise, against expenses, including attorney s fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him or her in connection with such action, suit, or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, if he or she had no reasonable cause to believe his or her conduct was unlawful, to the full extent and according to the procedures and requirements set forth in the Ohio General Corporation Law as now in effect or as amended from time to time.

The Corporation shall pay, to the full extent then permitted by law, expenses, including attorney s fees, incurred by a member of the Board of Directors in defending any such action, suit or proceeding as they are incurred, in advance of the final disposition thereof, and may pay, in the same manner and to the full extent then permitted by law, such expenses incurred by any other person.

The indemnification and payment of expenses provided hereby shall not be exclusive of, and shall be in addition to, any other rights granted to those seeking indemnification under any law, the Articles of Incorporation, any agreement, vote of shareholders or disinterested members of the Board of Directors, or otherwise, both as to action in official capacities and as to action in another capacity while he or she is a member of the

Board of Directors, or an officer, employee or agent of the Corporation, and shall continue as to a person who has ceased to be a member of the Board of Directors, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 39 of OE s Amended and Restated Code of Regulations provides as follows:

The Corporation may, to the full extent then permitted by law and authorized by the Board of Directors, purchase and maintain insurance or furnish similar protection, including but not limited to trust funds, letters of credit or self-insurance, on behalf of or for any persons described in Section 38 against any liability asserted against and incurred by any such person in any such

capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such liability. Insurance may be purchased from or maintained with a person in which the Corporation has a financial interest.

Section 38 of TE s Amended and Restated Code of Regulations provides as follows:

The Corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, trustee, officer, employee,

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member, manager, or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise, against expenses, including attorney s fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him or her in connection with such action, suit, or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, if he or she had no reasonable cause to believe his or her conduct was unlawful, to the full extent and according to the procedures and requirements set forth in the Ohio General Corporation Law as now in effect or as amended from

time to time. The Corporation shall pay, to the full extent then permitted by law, expenses, including attorney s fees, incurred by a member of the Board of Directors in defending any such action, suit or proceeding as they are incurred, in advance of the final disposition thereof, and may pay, in the same manner and to the full extent then permitted by law, such expenses incurred by any other person.

The indemnification and payment of expenses provided hereby shall not be exclusive of, and shall be in addition to, any other rights granted to those seeking indemnification under any law, the Articles of Incorporation, any agreement, vote of shareholders or disinterested members of the Board of Directors, or otherwise, both as to action in official capacities and as to action in another capacity while he or she is a

member of the Board of Directors, or an officer, employee or agent of the Corporation, and shall continue as to a person who has ceased to be a member of the Board of Directors, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 39 of TE s Amended and Restated Code of Regulations provides as follows:

The Corporation may, to the full extent then permitted by law and authorized by the Board of Directors, purchase and maintain insurance or furnish similar protection, including but not limited to trust funds, letters of credit or self-insurance, on behalf of or for any persons described in Section 38 against any liability asserted against and incurred by any such person

in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such liability. Insurance may be purchased from or maintained with a person in which the Corporation has a financial interest.

The bond issuers believe that the officers and the non-independent directors of the bond issuers are serving at the request of the Ohio Companies and are therefore entitled to such indemnity from the Ohio Companies.

*Directors and Officers Liability Insurance*. Each Ohio Company maintains and pays the premium on contracts insuring it (with certain exclusions) against any liability to directors and officers it may incur under the above indemnity provisions and insuring its directors and

officers (with certain exclusions) against liability and expense, including legal fees, which he or she may incur by reason of his or her relationship to such companies.

*Indemnification Agreements*. Each Ohio Company has entered into indemnification agreements with its respective directors. Each indemnification agreement provides, among other things, that the applicable Ohio Company will, subject to the agreement terms, indemnify a director if, by reason of the individual s status as a director, the person incurs losses, liabilities, judgments, fines, penalties, or amounts paid in settlement in connection with any threatened, pending, or completed proceeding, whether of a civil, criminal, administrative, or investigative nature. In addition, each indemnification agreement provides for the advancement of

expenses incurred by a director, subject to certain exceptions, in connection with proceedings covered by the indemnification agreement.

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**Item 16. Exhibits**

| Exhibit Number | Description |
|---|---|
| 1.1 | Form of Underwriting Agreement.* |
| 3.1 | Certificate of Formation of CEI Funding LLC. |
| 3.2 | Amended & Restated Limited Liability Company Agreement of CEI Funding LLC.* |
| 3.3 | Certificate of Formation of OE Funding LLC. |
| 3.4 | Amended & Restated Limited Liability Company Agreement of OE Funding LLC.* |
| 3.5 | Certificate of Formation of TE Funding LLC. |
| 3.6 | Amended & Restated Limited Liability Company Agreement of TE Funding LLC.* |
| 4.1 | Form of Bond Indenture.* |
| 4.2 | Form of Certificate Indenture.* |
| 4.3 | Form of Declaration of Trust.* |
| 4.4 | Form of Bond.* |
| 4.5 | Form of Certificate.* |
| 5.1 | Opinion of Calfee, Halter & Griswold LLP, with respect to the legality of the Bonds.* |
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| 10.1 | Form of Phase-In-Recovery Property Purchase and Sale Agreement.* |
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| 23.1 | Consent of Calfee, Halter & Griswold LLP (contained in its opinion to be filed as Exhibits 5.1 and 8.2).* |
| 23.2 | Consent of Richards, Layton & Finger, P.A. (contained in its opinions to be filed as Exhibits 5.2 and 5.3).* |
| 23.3 | Consent of Akin Gump Strauss Hauer & Feld LLP (contained in its opinions to be filed as Exhibits 8.1 and 99.3).* |
| 24.1 | Powers of Attorney (included as part of signature pages filed herewith). |
| 25.1 | Statement of Eligibility and Qualification of Bond Trustee on |

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| | Form T-1.* |
| 25.2 | Statement of Eligibility and Qualification of Bond Trustee on Form T-1.* |
| 25.3 | Statement of Eligibility and Qualification of Bond Trustee on Form T-1.* |
| 25.4 | Statement of Eligibility and Qualification of Certificate Trustee on Form T-1.* |
| 99.1 | Application for Financing Order |
| 99.2 | Financing Order |
| 99.3 | Opinion of Akin Gump Strauss Hauer & Feld LLP, with respect to certain federal constitutional law matters* |

* To be filed by amendment.

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**Item 17. Undertakings**

(A) (a) As to Rule 415:

Each undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the Securities Act );

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing,

any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission (the Commission ) pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information

in the registration statement; provided, however, that the undertakings set forth in clauses (i), (ii) and (iii) above do not apply if the information required to be included in a post-effective amendment by those clauses is contained in reports filed with or furnished to the Commission by the Registrants pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), that are incorporated by reference in this registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) of the Securities Act that is part of this registration statement; and provided further, however, that the undertakings set forth in clauses (i) and (ii) above do not apply if the information required to be included in a post-effective amendment by

those clauses is provided pursuant to Item 1100(c) of Regulation AB.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser, if

the Registrants are relying on Rule 430B:

(i) each prospectus filed by the Registrants pursuant to Rule 424(b)(3) shall be deemed to be part of this registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and

included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of an issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided,

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however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of such registrant under

the Securities Act to any purchaser in the initial distribution of the securities, each Registrant undertakes that in a primary offering of securities of such Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the Registrants will be sellers to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of an undersigned Registrants relating to the offering required to be filed pursuant to Rule 424;

(ii) any free writing prospectus relating to the offering prepared by or on behalf of an undersigned

registrant or used or referred to by the Registrants;

(iii) the portion of any other free writing prospectus relating to the offering containing material information about the Registrant or its securities provided by or on behalf of the Registrants; and

(iv) any other communication that is an offer in the offering made by the Registrant to the purchaser.

(6) As to qualification of trust indentures: The Registrants hereby undertake to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act of 1939, as amended (the Trust Indenture Act ) in accordance with the rules

and regulations prescribed by the Commission under Section 305(b)(2) of the Trust Indenture Act.

(7) As to documents subsequently filed that are incorporated by reference: The Registrants hereby undertake that, for purposes of determining any liability under the Securities Act each filing of the Registrants annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(8) As to indemnification: Insofar as indemnification

for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of each Registrant pursuant to the provisions described in Item 15 above, or otherwise, each Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by a Registrant of expenses incurred or paid by a director, officer or controlling person of a registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, that registrant will, unless in the opinion of its counsel the

matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(8) As to indemnification: The Registrants hereby undertake that, for purposes of determining any liability under the Securities Act each filing of an annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act of a

third party that is incorporated by reference in this registration statement in accordance with Item 1100(c)(1) of Regulation AB shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such

securities at that time shall be deemed to be the initial bona fide offering thereof.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-3 and has duly caused this registration statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Akron and State of Ohio, on the 2nd day of April, 2013:

**THE CLEVELAND ELECTRIC ILLUMINATING COMPANY**

/s/ Charles E. Jones, Jr.
By: Charles E. Jones, Jr.
Title: President

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. E. Jones, Jr., L. L.

Vespoli, R. S. Ferguson and L. F. Torres, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agents, with full power to act with or without the others and with full power of substitution and resubstitution, to execute for him or her and in his or her name, place and stead, in any and all capacities, any and all amendments (including pre-effective and post-effective amendments) to this registration statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform in the name and on his or her

behalf, and in any and all capacities, each and every act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying, approving and confirming all the acts of said attorneys-in-fact and agents and each of them.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ Charles E. Jones, Jr.<br>Charles E. Jones, Jr. | President and Director (Principal Executive Officer) | April 2, 2013 |
| /s/ James F. Pearson<br>James F. Pearson | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | April 2, 2013 |
| /s/ Harvey L. Wagner<br>Harvey L. Wagner | Vice President and Controller | April 2, 2013 |

| | | |
|---|---|---|
| | (Principal Accounting Officer) | |
| /s/ Anthony J. Alexander<br>Anthony J. Alexander | Director | April 2, 2013 |
| /s/ Mark T. Clark<br>Mark T. Clark | Director | April 2, 2013 |

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-3 and has duly caused this registration statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Akron and State of Ohio, on the 2nd day of April, 2013:

**OHIO EDISON COMPANY**

/s/ Charles E. Jones, Jr.
By: Charles E. Jones, Jr.
Title: President

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. E. Jones, Jr., L. L. Vespoli, R. S. Ferguson and

L. F. Torres, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agents, with full power to act with or without the others and with full power of substitution and resubstitution, to execute for him or her and in his or her name, place and stead, in any and all capacities, any and all amendments (including pre-effective and post-effective amendments) to this registration statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform in the name and on his or her behalf, and in any and all

capacities, each and every act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying, approving and confirming all the acts of said attorneys-in-fact and agents and each of them.

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| /s/ Charles E. Jones, Jr.<br>Charles E. Jones, Jr. | President and Director (Principal Executive Officer) | April 2, 2013 |
| /s/ James F. Pearson<br>James F. Pearson | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | April 2, 2013 |
| /s/ Harvey L. Wagner<br>Harvey L. Wagner | Vice President and Controller (Principal Accounting Officer) | April 2, 2013 |

| | | |
|---|---|---|
| /s/ Anthony J. Alexander<br>Anthony J. Alexander | Director | April 2, 2013 |
| /s/ Mark T. Clark<br>Mark T. Clark | Director | April 2, 2013 |

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**THE TOLEDO EDISON COMPANY**

/s/ Charles E. Jones, Jr.
By: Charles E. Jones, Jr.
Title: President

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. E. Jones, Jr., L. L.

Vespoli, R. S. Ferguson and L. F. Torres, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agents, with full power to act with or without the others and with full power of substitution and resubstitution, to execute for him or her and in his or her name, place and stead, in any and all capacities, any and all amendments (including pre-effective and post-effective amendments) to this registration statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform in the name and on his or her

behalf, and in any and all capacities, each and every act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying, approving and confirming all the acts of said attorneys-in-fact and agents and each of them.

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| /s/ James F. Pearson<br>James F. Pearson | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | April 2, 2013 |
| /s/ Harvey L. Wagner<br>Harvey L. Wagner | Vice President and Controller | April 2, 2013 |

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| | (Principal Accounting Officer) | |
| /s/ Anthony J. Alexander<br>Anthony J. Alexander | Director | April 2, 2013 |
| /s/ Mark T. Clark<br>Mark T. Clark | Director | April 2, 2013 |

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**SIGNATURES**

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**CEI FUNDING LLC**

/s/ Charles E. Jones, Jr.
By: Charles E. Jones, Jr.
Title: President

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. E. Jones, Jr., L. L. Vespoli, R. S.

Ferguson and L. F. Torres, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agents, with full power to act with or without the others and with full power of substitution and resubstitution, to execute for him or her and in his or her name, place and stead, in any and all capacities, any and all amendments (including pre-effective and post-effective amendments) to this registration statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform in the name and on his or her behalf, and in

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| /s/ Harvey L. Wagner<br>Harvey L. Wagner | Vice President and Controller (Principal | April 2, 2013 |

| | | |
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| | Accounting Officer) | |
| /s/ Anthony J. Alexander<br>Anthony J. Alexander | Director | April 2, 2013 |
| /s/ Mark T. Clark<br>Mark T. Clark | Director | April 2, 2013 |

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**OE FUNDING LLC**

/s/ Charles E. Jones, Jr.
By: Charles E. Jones, Jr.
Title: President

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. E. Jones, Jr., L. L. Vespoli, R. S.

Ferguson and L. F. Torres, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agents, with full power to act with or without the others and with full power of substitution and resubstitution, to execute for him or her and in his or her name, place and stead, in any and all capacities, any and all amendments (including pre-effective and post-effective amendments) to this registration statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform in the name and on his or her behalf, and in

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**TE FUNDING LLC**

/s/ Charles E. Jones, Jr.
By: Charles E. Jones, Jr.
Title: President

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. E. Jones, Jr., L. L. Vespoli, R. S.

Ferguson and L. F. Torres, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agents, with full power to act with or without the others and with full power of substitution and resubstitution, to execute for him or her and in his or her name, place and stead, in any and all capacities, any and all amendments (including pre-effective and post-effective amendments) to this registration statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform in the name and on his or her behalf, and in

any and all capacities, each and every act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying, approving and confirming all the acts of said attorneys-in-fact and agents and each of them.

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| | Accounting Officer) | |
| /s/ Anthony J. Alexander<br>Anthony J. Alexander | Director | April 2, 2013 |
| /s/ Mark T. Clark<br>Mark T. Clark | Director | April 2, 2013 |

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| 23.2 | Consent of Richards, Layton & Finger, P.A. (contained in its opinions to be filed as Exhibits 5.2 and 5.3).* |
| 23.3 | Consent of Akin Gump Strauss Hauer & Feld LLP (contained in its opinions to be filed as Exhibits 8.1 and 99.3).* |
| 24.1 | Powers of Attorney (included as part of signature pages filed herewith). |

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| 25.1 | Statement of Eligibility and Qualification of Bond Trustee on Form T-1.* |
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*To be filed by amendment.