STUDENT LOAN CORP
Form 10-Q
May 10, 2010

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

or

¨ 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: 1-11616

THE STUDENT LOAN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1427135 (I.R.S. Employer Identification No.)
750 Washington Blvd. Stamford, Connecticut (Address of principal executive offices)	06901 (Zip Code)

(203) 975-6320
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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 x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

On May 3, 2010, there were 20,000,000 shares of The Student Loan Corporation's Common Stock outstanding.

Form 10-Q

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Item 1. Consolidated Financial Statements

THE STUDENT LOAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except share and per share amounts)
(Unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
NET INTEREST INCOME		
Interest income	$ 256,821	$ 204,196
Interest expense	(171,848)	(146,118)
Net interest income	84,973	58,078
Provision for loan losses	(43,890)	(21,142)
Net interest income after provision for loan losses	41,083	36,936
OTHER INCOME		
Fee and other income	585	6,958
Total other income	585	6,958
OPERATING EXPENSES		
Salaries and employee benefits	7,945	8,978
Write-off of funding commitment fee to principal stockholder	7,500	–
Other expenses	25,889	25,881
Total operating expenses	41,334	34,859
Income before income taxes	334	9,035
Provision for income taxes	(125)	1,513
NET INCOME	$ 459	$ 7,522
DIVIDENDS DECLARED AND PAID	$ 7,000	$ 28,600
BASIC AND DILUTED EARNINGS PER COMMON SHARE	$ 0.02	$ 0.38
(based on 20,000,000 average shares outstanding)		
DIVIDENDS DECLARED AND PAID PER COMMON SHARE	$ 0.35	$ 1.43

See accompanying Notes to the unaudited Consolidated Financial Statements.

THE STUDENT LOAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share amounts)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Federally insured student loans	$ 29,153,764	$ 17,948,706
Private education loans	9,909,604	7,432,471
Deferred origination and premium costs	748,606	548,083
Allowance for loan losses	(173,245)	(149,098)
Student loans, net	39,638,729	25,780,162
Loans held for sale	4,293,521	2,409,267
Cash	448,516	17,998
Residual interests in securitized loans	–	820,291
Other assets	2,569,323	1,990,523
Total Assets	$ 46,950,089	$ 31,018,241
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Short-term borrowings, payable to principal stockholder	$ 4,211,000	$ 5,131,000
Short-term secured borrowings, payable to the Department of Education	4,034,044	2,066,686
Long-term borrowings, payable to principal stockholder	4,391,000	4,391,000
Long-term secured borrowings	32,464,971	16,999,976
Deferred income taxes	170,976	410,546
Other liabilities	377,655	348,612
Total liabilities	45,649,646	29,347,820
Stockholders' Equity		
Common stock, $0.01 par value; authorized 50,000,000 shares; 20,000,000 shares issued and outstanding	200	200
Additional paid-in capital	142,540	141,869
Retained earnings	1,157,703	1,528,352
Total stockholders' equity	1,300,443	1,670,421
Total Liabilities and Stockholders' Equity	$ 46,950,089	$ 31,018,241

The table below presents the carrying amounts of certain assets and liabilities of the Company's consolidated variable interest entities (VIEs) which are included in the Consolidated Balance Sheet above. The assets in the table below include only those assets that can be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of the Company.

CONSOLIDATED VIEs	March 31, 2010 (Unaudited)
ASSETS	
Federally insured student loans	$ 27,391,883
Private education loans	5,922,500
	594,946

Deferred origination and premium costs		
Allowance for loan losses		(103,413)
Other assets(1)		2,130,319
LIABILITIES		
Long-term secured borrowings	$	32,464,971
Other liabilities		173,516

(1) Amount primarily represents restricted cash and cash equivalents of $1.2 billion and accrued interest receivable of $0.8 billion

See accompanying Notes to the unaudited Consolidated Financial Statements.

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THE STUDENT LOAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of period	$ 142,069	$ 141,923
Capital contributions and other changes	671	10
Balance, end of period	$ 142,740	$ 141,933
RETAINED EARNINGS		
Balance, beginning of period	$ 1,528,352	$ 1,452,280
Net income	459	7,522
Cumulative effect of adoption of accounting standard, net of taxes of $218.4 million	(364,108)	–
Common dividends declared, $0.35 and $1.43 per common share for the three months ended March 31, 2010 and 2009, respectively	(7,000)	(28,600)
Balance, end of period	$ 1,157,703	$ 1,431,202
TOTAL STOCKHOLDERS' EQUITY	$ 1,300,443	$ 1,573,135

See accompanying Notes to the unaudited Consolidated Financial Statements.

THE STUDENT LOAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net income	$ 459	$ 7,522
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization of equipment and computer software	2,707	2,571
Amortization of deferred loan origination and purchase costs	33,173	22,087
Provision for loan losses	43,890	21,142
Deferred tax provision	(20,457)	(15,455)
Other changes in loans held for sale including loan origination and purchase costs	(1,885,585)	(1,088,000)
Change in accrued interest receivable	(77,056)	(31,255)
Proceeds from loans sold	–	6
Accreted interest on residual interests	–	(17,792)
Loss on residual interest valuation	–	65,659
Loss on servicing asset valuation	–	7,335
Cash received on residual interests in trading securitized assets	–	53,859
Change in other assets	35,113	119,286
Change in other liabilities	26,836	(74,622)
Other non-cash charges	13,278	(9,039)
Net cash used in operating activities	$ (1,827,642)	$ (936,696)
Cash flows from investing activities:		
Change in loans	$ 186,432	$ (665,366)
Change in loan origination and purchase costs	14,221	(11,390)
Change in restricted cash and cash equivalents	(228,682)	(13,916)
Capital expenditures on equipment and computer software	(1,474)	(1,820)
Net cash used in investing activities	$ (29,503)	$ (692,492)
Cash flows from financing activities:		
Net change in borrowings payable to principal stockholder with original maturities of three months or less	$ (920,000)	$ 4,103,000
Proceeds from other short-term borrowings	2,055,176	1,137,126
Repayments of other short-term borrowings	(144,818)	(2,790,242)
Proceeds from long-term borrowings	2,002,334	546,126
Repayments of long-term borrowings	(698,029)	(1,338,043)
Dividends paid to stockholders	(7,000)	(28,600)
Net cash provided by financing activities	$ 2,287,663	$ 1,629,367
Net increase in cash	$ 430,518	$ 179

Cash - beginning of period		17,998		595
Cash - end of period	$	448,516	$	774
Supplemental disclosure:				
Cash paid for:				
Interest	$	150,299	$	212,903
Income taxes, net	$	242	$	8,251

See accompanying Notes to the unaudited Consolidated Financial Statements.

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THE STUDENT LOAN CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2010

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

The accompanying unaudited Consolidated Financial Statements of The Student Loan Corporation (the Company), a Delaware corporation, include the accounts of the Company and its wholly owned subsidiaries, SLC Student Loan Receivables I, Inc, SLC Conduit I LLC and its consolidated securitization trusts that are Variable Interest Entities (VIE's) and for which the Company is the primary beneficiary. SLC Student Loan Receivables I, Inc. is a special-purpose entity formed in 2001 for the purpose of acquiring student loans originated or acquired by the Company and transferring such loans to, and depositing such loans in, securitization trusts. SLC Conduit I LLC is a limited liability company formed in 2009 for the purpose of acquiring Federal Family Education Loan (FFEL) Program loans originated or acquired by the Company and issuing funding notes to the U.S. Department of Education (the Department) sponsored student loan-backed commercial paper conduit, Straight-A Funding, LLC (the Conduit). All intercompany balances and transactions have been eliminated.

The Company, which has a trust agreement to originate loans through Citibank, N.A. (CBNA), is an originator, manager and servicer of student loans, including loans made in accordance with federally sponsored guaranteed student loan programs as well as private education loans. CBNA owns 80% of the Company's outstanding common stock and is an indirect wholly owned subsidiary of Citigroup Inc. (Citigroup).

In the opinion of management, all adjustments, consisting of normal, recurring accruals, necessary to state fairly the Company's financial position and results of operations in conformity with U.S. generally accepted accounting principles (GAAP) have been reflected. The results for the three months ended March 31, 2010 may not be indicative of the results for the full year ending December 31, 2010. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but is not required for interim reporting purposes, has been condensed or omitted. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Company's 2009 Annual Report on Form 10-K.

Basis of Presentation

The Company's accounting policies are in conformity with GAAP. The Company's operations are a single segment for financial reporting purposes, as the Company's operations only consist of originating, managing and servicing student loans.

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's presentation. Such reclassification had no effect on the Consolidated Balance Sheet and Consolidated Statements of Income as previously reported.

See Note 2 for an understanding of changes to certain previously reported amounts resulting from the correction of immaterial errors.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires the Company to make estimates based on assumptions about current and future economic and market conditions (including, but not limited to, credit risk, market liquidity and interest rates) which affect reported amounts and related disclosures in the Company's financial statements. Although current estimates reflect existing conditions and expected trends, as appropriate, it is reasonably possible that actual conditions in the future could differ from those estimates. Such differences could have a material adverse effect on the Company's results of operations and financial position. Among other effects, such changes could result in credit losses and expenses in excess of established reserves in the Allowance for loan losses.

Revenue Recognition

Revenues, which include net interest income, fees and gains on loans sold, if any, are recognized as they are earned. Interest income includes special allowance payments (SAP) from and excess interest payments to the federal government as prescribed under the Higher Education Act of 1965, as amended (the Higher Education Act), and is net of amortization of premiums and origination costs. The Company accounts for premiums and origination costs in accordance with Accounting Standards Codification (ASC) 310-20. Deferred premiums and origination costs on the Company's loan portfolio are amortized using the interest method and recognized as yield adjustments to net interest income.

Loans

The Company has a portfolio of student loans originated under the FFEL Program authorized by the Department under the Higher Education Act which are insured by guaranty agencies (guarantors). The Company recognizes student loan interest income as it is earned. SAP from and excess interest payments to the federal government, if any, are recognized as yield adjustments to interest income.

The Company also has a portfolio of private education loans primarily consisting of CitiAssist® loans. Some of those loans are insured against loss by private insurers or covered under other risk-sharing agreements with creditworthy schools. Other loans, including many higher risk loans, are neither insured nor covered under risk-sharing agreements. The Company is exposed to 100% of loss on such loans. Effective January 1, 2008, the Company elected to stop insuring new CitiAssist loan originations.

Allowance for Loan Losses

The Company has an allowance for loan losses that provides a reserve for estimated losses on: (1) the portion of the FFEL Program loan portfolio that is subject to the risk-sharing provisions of the Higher Education Act and (2) the private education loan portfolio, after considering the credit risk insurance coverage obtained from third parties on certain loans, the impact of any risk-sharing agreements with certain schools and counterparty risk ratings. Estimated losses are calculated using historical delinquency and credit loss experience adjusted for aging of the portfolio, market conditions and other factors impacting the portfolio that are not captured by historical trends. These factors include, among other things, internal policy changes, regulatory changes and general economic conditions affecting borrowers, private insurers, risk sharers, and higher education institution clients. Losses that are probable and estimable are expensed currently which increases the provision for loan losses. Actual losses are charged against the reserve as they occur, and subsequent recoveries are credited back to the reserve.

The Company ceases to accrue interest income on a student loan when one of the following events occurs: (1) a FFEL Program loan loses its guarantee, (2) an insured private education loan reaches 150 days of delinquency or (3) an uninsured private education loan reaches 90 days of delinquency. Accrual of interest is resumed if the loan guarantee is reinstated or when principal and interest become current again. Interest received on non-accruing loans is recorded directly into interest income. The Company immediately writes off the loan balance corresponding to the unguaranteed portion of FFEL Program loans at the end of the month in which the loan is at least 270 days delinquent and the uninsured portion of private education loans at the end of the month in which the loan is at least 120 days delinquent. The Company also writes off the loan balances for loans in which the guarantee claim is not received for FFEL Program and private education loans after 450 days and 240 days of delinquency, respectively. When loans or portions of loans are written off, the Company reduces interest income by the amounts of accrued, uncollected interest and unamortized deferred premiums and origination costs.

The Company's FFEL Program and private education loans contain terms that allow the borrower to postpone payments while in school or to postpone or reduce payments if they meet certain income or financial hardship criteria. The Company continues to accrue interest income on such loans. This accrued interest increases the borrowers' unpaid balance.

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Transfer of Student Loans

Whole Loan Sales

The Company accounts for its whole loan sales in accordance with the provisions of ASC 860-10-40. In order for a transfer of financial assets to be considered a sale, the assets transferred by the Company must have been isolated from the seller, even in bankruptcy or other receivership, and the purchaser must have the right to pledge or exchange the assets transferred. In addition, the sale accounting rules of ASC 860-10-40-5 require the Company to relinquish effective control over the loans sold as of the sale date.

Loans Securitized

Prior to January 1, 2010, the Company used two distinct methods of accounting for its securitizations. Certain of the Company's securitizations met the qualifications of ASC 860-10-40-5 to be accounted for as a sale. The qualifications were that the assets transferred were legally isolated from the Company, even in the event of a bankruptcy; that the holders of the beneficial interests were not constrained from pledging or exchanging their interests; and that the transferor did not maintain effective control over the transferred assets. The Company used a two-step structure with a qualifying special purpose entity (QSPE) to obtain legal isolation. For the Company's securitizations which were accounted for as a sale, referred to as off-balance sheet securitizations, the transferred assets were removed from the consolidated balance sheet and a gain or loss was recognized. The Company's securitizations that failed to meet the accounting requirements for a sale in accordance with ASC 860-10-40-5, referred to as on-balance sheet securitizations, were accounted for as secured borrowings and the transferred assets were consolidated in the Company's financial statements.

As a result of changes in accounting standards effective January 1, 2010, the Company consolidated all of its former QSPE's. In addition, all of the Company's future securitization transactions are likely to be accounted for as secured borrowings and consolidated in the Company's financial statements. For additional information, see Accounting Changes below.

The Company's on-balance sheet securitization transactions are collateralized by certain of its student loans, which are recorded in Federally insured student loans and Private education loans, and by accrued interest on the student loans and restricted cash and cash equivalents, which are recorded in Other assets on the Consolidated Balance Sheets.

Historically, the Company's off-balance sheet securitizations have resulted in gains and losses recognized at the time of securitization which were reported in Gains on loans securitized. These securitization gains and losses represent the difference between the cost basis of the assets sold and the fair value of the assets received, including, as applicable, cash and retained interests. Retained interests in off-balance sheet securitization trusts were in the form of residual interests, servicing assets, and retained notes. All of the Company's retained interests were recorded at fair value in accordance with GAAP. Unrealized gains and losses on retained interests were reported in Fee and other income. Accreted interest on residual interests was reported in Interest income. The Company estimated the fair value of the residual interests and servicing assets using an income approach by determining the present value of expected future cash flows using modeling techniques that incorporated management's best estimates of key assumptions, including prepayment speeds, credit losses, borrower benefits and discount rates.

The Company receives cash from the trusts for servicing fee revenues, residual interest distributions and payments of principal and interest on retained notes.

Additional information on the Company's securitization activities may be found in Note 8.

Loans Financed through Department of Education Programs

The Company has funded certain of its FFEL Program loans through the Conduit. The funding received from the Conduit is accounted for as secured borrowings and the student loans pledged as collateral are recorded in Federally insured student loans on the Company's Consolidated Balance Sheets. See Note 5 for additional information regarding the Conduit.

The Company also obtains debt financing through the Department's Loan Participation Purchase Program (the Participation Program). The borrowings through the Participation Program are collateralized by FFEL Program Stafford and PLUS loans which are recorded in Loans held for sale on the Company's Consolidated Balance Sheet. Loans funded under the Participation Program are either sold to the Department pursuant to the Department's Loan Purchase Commitment Program (the Purchase Program) or refinanced prior to the Participation Program's expiration. Additional information pertaining to the Company's borrowings through the Participation Program can be found in Note 5.

Loans Held for Sale

Loans held for sale are loans that the Company plans to sell under the Purchase Program. Management continually assesses its future loan sale plans and may transfer loans or record loans directly into the held for sale portfolio to meet the Company's anticipated near term sale requirements. These loans are recorded at the lower of cost, consisting of principal and deferred costs, or fair value. During 2010 and 2009, loans held for sale were composed of loans to be sold to the Department under the Purchase Program, which provides for a purchase price that is higher than the carrying value of the loans. For the three months ended March 31, 2010 and 2009, the fair value of loans held for sale exceeded cost and no write down was necessary.

Changes in the Company's loans held for sale are presented in the table below:

	Three Months Ended March 31,	
(Dollars in thousands)	2010	2009
Balance at beginning of period	$ 2,409,267	$ 1,072,316
Originations and purchases	2,024,010	1,165,172
Transfers back into the operating loan portfolio	(1,331)	(3,812)
Loan sales	–	(6)
Other (1)	(138,425)	(77,172)
Balance at end of period	$ 4,293,521	$ 2,156,498

(1) Amounts include, among other things, borrower principal payments and loan cancellations.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represents amounts related to the Company's secured borrowings. This cash must be used to make payments related to the secured borrowings and is classified as a component of Other assets. Amounts on deposit in these accounts represent reserve accounts or are the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

Derivatives

The Company currently has one cross-currency swap and one interest rate swap. The cross-currency swap is intended to manage the Company's exposure to foreign currency exchange rate fluctuations on its Euro denominated secured borrowing. The Company's interest rate swap is intended to hedge the Company's exposure resulting from fluctuations between prime and London Interbank Offered Rate (LIBOR) on certain of its private education loans that have been securitized.

The Company historically had derivative financial instruments including interest rate swaps and floor options which were intended to economically hedge the interest rate risk inherent in its residual interests and servicing assets in off-balance sheet securitizations. The Company closed out of these positions during the fourth quarter of 2009 in anticipation of changes in accounting standards effective January 1, 2010, which resulted in the consolidation of the Company's previously unconsolidated securitizations and the elimination of the related retained interests. The Company's derivative instruments do not qualify for hedge accounting under ASC 815 and are carried at fair value in Other assets and Other liabilities with changes in fair value recorded currently in Fee and other income.

Internally Developed Software

Certain direct costs associated with the development of internal use software are capitalized. The Company capitalizes development costs for internal use software in accordance with the provisions of ASC 350-40. These costs are included in Other assets and are amortized by the straight-line method over the service period, not to exceed ten years. Capitalization of development costs starts after the preliminary project stage is completed and ends when the project is substantially complete and ready for its intended use. Capitalized internally developed software costs are periodically reviewed for impairment. Capitalized costs of projects deemed to be obsolete or abandoned are written off as operating expenses.

Accounting Changes

Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements

In February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-09, Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements. This ASU clarifies that an entity that is an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. However, an entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This ASU is effective for the Company for the quarter ended March 31, 2010.

Additional Disclosures Regarding Fair Value Measurements

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. The ASU requires disclosing the amounts of significant transfers in and out of Level 1 and 2 of the fair value hierarchy and describing the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 15, 2009. The Company adopted ASU 2010-06 as of January 1, 2010. The required disclosures are included in Note 11. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in the Level 3 of the fair value measurement hierarchy will be required for fiscal years beginning after December 15, 2010.

Elimination of QSPEs and Changes in the Consolidation Model for Variable Interest Entities

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (SFAS 166, now incorporated into ASC Topic 860) and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167, now incorporated into ASC Topic 810). The Company adopted both standards on January 1, 2010 and has elected to apply both standards prospectively. Accordingly, prior periods have not been restated.

SFAS 166 eliminated QSPEs. SFAS 167 details three key changes to the consolidation model. First, former QSPEs are now included in the scope of SFAS 167. In addition, the FASB has changed the method of analyzing which party to a VIE should consolidate the VIE (known as the primary beneficiary) to a qualitative determination of which party to the VIE has “power” combined with potentially significant benefits or losses, instead of the previous quantitative risks and rewards model. The party that has “power” has the ability to direct the activities of the VIE that most significantly impact the VIE’s economic performance. Finally, the new standard requires that the primary beneficiary analysis be re-evaluated whenever circumstances change. The previous rules required reconsideration of the primary beneficiary only when specified reconsideration events occurred.

Based on the qualitative analysis performed, the Company has determined that it is the primary beneficiary of all of its previously off-balance sheet securitizations because the Company was determined to be the variable interest holder with the power to most significantly influence the economic performance of the trusts. In addition, through its residual interest, the Company was determined to have the obligation to absorb losses and the right to receive benefits of the VIE that could potentially be significant to the VIE. This resulted in the consolidation of all of the Company's previously off-balance sheet securitizations on January 1, 2010. The Company consolidated all of the former QSPEs by initially measuring the assets and liabilities of the former QSPEs at their carrying values (the amounts at which the assets and liabilities would have been carried in the Consolidated Financial Statements if the Company had always consolidated these former QSPEs).

The consolidation of the Company's previously unconsolidated securitization trusts on January 1, 2010 had the following impact on the Company's Consolidated Balance Sheet:

(Dollars in thousands)	January 1, 2010 (Unaudited)
Assets:	
Federally insured student loans	$ 11,825,513
Private education loans	2,064,716
Deferred origination and premium costs	247,902
Allowance for loan losses	(6,987)
Student loans, net	14,131,144
Residual interest in securitized loans	(820,291)
Other assets	274,666
Total Assets	$ 13,585,519
Liabilities and Stockholders' Equity:	
Long-term secured borrowings	$ 14,165,862
Deferred income taxes	(219,113)
Other liabilities	2,878
Total Liabilities	13,949,627
Retained earnings	(364,108)
Total Liabilities and Stockholders' Equity	$ 13,585,519

2. CORRECTION OF IMMATERIAL ERRORS

The Company previously identified certain errors in the tax provision and related accounts from prior periods. The errors primarily related to accounting for state and local income taxes, deferred tax amounts for loan securitizations, and accounting for uncertain tax positions. Certain of these errors were recorded as out of period immaterial adjustments in prior periods. The Company assessed the materiality of these errors and concluded that they are immaterial to amounts reported in prior period financial statements. The correction of these immaterial amounts will continue to be reflected in the Company's current and future Exchange Act reports. The impact of the correction on the Company's previously reported Consolidated Statements of Income is provided below.

	Three Months Ended March 31, 2009	
(Dollars in thousands)	As Reported	As Corrected
Income Taxes	$ 1,507	$ 1,513
Net Income	7,528	7,522
Basic and Diluted Earnings Per Share	$ 0.38	$ 0.38

3. STUDENT LOANS

The Company's portfolio of student loans consists primarily of loans originated under government guaranteed loan programs, principally the FFEL Program, and private education loans, primarily CitiAssist loans.

The Company's loans are summarized by program type as follows:

(Dollars in thousands)	March 31, 2010	December 31, 2009
Federal Stafford Loans	$ 11,496,774	$ 10,414,533
Federal Consolidation Loans	15,904,297	5,864,695
Federal SLS/PLUS/HEAL Loans	1,752,693	1,669,478
Private education loans	9,909,604	7,432,471
Total student loans held, excluding deferred costs	39,063,368	25,381,177
Deferred origination and premium costs	748,606	548,083
Student loans held	39,811,974	25,929,260
Less: allowance for loan losses	(173,245)	(149,098)
Student loans held, net	39,638,729	25,780,162
Loans held for sale, excluding deferred costs	4,245,158	2,381,026
Deferred origination and premium costs	48,363	28,241
Loans held for sale	4,293,521	2,409,267
Other loans and lines of credit (1)	1,808	5,616
Total loan assets	$ 43,934,058	$ 28,195,045

(1) Recorded in Other Assets and included in Other in Note 4.

4.OTHER ASSETS

Other assets are summarized as follows:

(Dollars in thousands)	March 31, 2010	December 31, 2009
Accrued interest receivable:		
from student loan borrowers	$ 1,106,855	$ 889,461
from federal government	5,602	1,607
Restricted cash and cash equivalents	1,207,877	690,536
Deferred financing fees	106,509	39,667
Income taxes receivable	96,496	114,077
Equipment and computer software (1)	23,512	24,745
Servicing asset from securitization activity	–	176,587
Retained notes from securitization activities	–	19,750
Other	22,472	34,093
Total other assets	$ 2,569,323	$ 1,990,523

(1) Amounts are reflected net of accumulated depreciation and software amortization of $69.8 million and $67.0 million at March 31, 2010 and December 31, 2009, respectively.

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5. SHORT- AND LONG-TERM BORROWINGS

The following table summarizes the Company’s total borrowings:

March 31, 2010