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Student Loan Activity

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
(Dollars in thousands)	Private Education Loans	FFELP Loans	Total Portfolio	Private Education Loans	FFELP Loans	Total Portfolio
Beginning balance	$7,208,356	$1,394,563	$8,602,919	$5,832,126	$1,077,836	$6,909,962
Acquisitions and originations	396,941	—	396,941	387,822	107,571	495,393
Capitalized interest and premium/discount amortization	25,440	10,393	35,833	17,896	9,977	27,873
Sales	(74,952)	(59)	(75,011)	(813,197)	(50)	(813,247)
Repayments and other	(119,560)	(47,151)	(166,711)	(89,416)	(35,545)	(124,961)
Ending balance	$7,436,225	$1,357,746	$8,793,971	$5,335,231	$1,159,789	$6,495,020

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
(Dollars in thousands)	Private Education Loans	FFELP Loans	Total Portfolio	Private Education Loans	FFELP Loans	Total Portfolio
Beginning balance	$6,506,642	$1,424,735	$7,931,377	$5,447,700	$1,039,754	$6,487,454
Acquisitions and originations	1,913,926	7,470	1,921,396	1,789,446	159,171	1,948,617
Capitalized interest and premium/discount amortization	53,197	25,463	78,660	34,525	19,674	54,199
Sales	(713,046)	(7,654)	(720,700)	(1,677,853)	(127)	(1,677,980)
Repayments and other	(324,494)	(92,268)	(416,762)	(258,587)	(58,684)	(317,271)
Ending balance	$7,436,225	$1,357,746	$8,793,971	$5,335,231	$1,159,788	$6,495,019

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Student Loan Allowance for Loan Losses Activity

	Three Months Ended June 30,					
	2014			2013		
(Dollars in thousands)	Private Education Loans	FFELP Loans	Total Portfolio	Private Education Loans	FFELP Loans	Total Portfolio
Beginning balance	$71,453	$6,181	$77,634	$65,381	$4,199	$69,580
Less:						
Charge-offs	—	(654)	(654)	—	(534)	(534)
Student loan sales	(17,467)	—	(17,467)	(12,546)	—	(12,546)
Plus:						
Provision for loan losses	329	685	1,014	(1,966)	951	(1,015)
Ending balance	$54,315	$6,212	$60,527	$50,869	$4,616	$55,485
Troubled debt restructuring[1]	$4,508	$—	$4,508	$—	$—	$—

	Six Months Ended June 30,					
	2014			2013		
(Dollars in thousands)	Private Education Loans	FFELP Loans	Total Portfolio	Private Education Loans	FFELP Loans	Total Portfolio
Beginning balance	$61,763	$6,318	$68,081	$65,218	$3,971	$69,189
Less:						
Charge-offs	—	(1,297)	(1,297)	—	(754)	(754)
Student loan sales	(46,430)	—	(46,430)	(32,627)	—	(32,627)
Plus:						
Provision for loan losses	38,982	1,191	40,173	18,278	1,399	19,677
Ending balance	$54,315	$6,212	$60,527	$50,869	$4,616	$55,485
Troubled debt restructuring[1]	$4,508	$—	$4,508	$—	$—	$—

(1) Represents the recorded investment of loans classified as troubled debt restructuring.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Smart Option - interest only[(1)]	$86,136	$85,183	$454,801	$447,181
Smart Option - fixed pay[(1)]	106,781	103,347	580,954	536,249
Smart Option - deferred[(1)]	153,147	142,091	807,383	725,621
Smart Option - principal and interest	213	347	921	544
Other	26,628	31,286	40,301	48,199
Total Private Education Loan originations	$372,905	$362,254	$1,884,360	$1,757,794

(1) Interest only, fixed pay and deferred describe the payment option while in school or in grace period. See "Private Education Loan Repayment Options" for further discussion.

Private Education Loan Delinquencies and Forbearance
Prior to the Spin-Off, the Bank exercised its right and sold substantially all of the Private Education Loans it originated that became delinquent or were granted forbearance to one or more of its then affiliates. Because of this arrangement, the Bank did not hold many loans in forbearance. As a result, the Bank had very little historical forbearance activity and very few delinquencies.
In connection with the Spin-Off, the agreement under which the Bank previously made these sales was amended so that the Bank now only has the right to require Navient to purchase loans where (a) the borrower has a lending relationship with both the Bank and Navient ("Split Loans") and (b) the Split Loans are either (1) more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At June 30, 2014, we held approximately $1.3 billion of Split Loans.
Pre-Spin-Off SLM's default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus more on loans 60 to 120 days delinquent. This change has the effect of accelerating the recognition of losses due to the shorter charge-off period. In addition, we changed our loss confirmation period from two years to one year to reflect the shorter charge-off policy and our revised servicing practices. These two changes resulted in a $14 million net reduction in our allowance for loan losses because we are now only reserving for one year of losses as compared with two years under the prior policy which more than offset the impact of the shorter charge-off period.
For the reasons described above, many of our historical credit indicators and period-over-period trends are not indicative of future performance and future performance may be somewhat affected by ongoing sales of Split Loans to Navient. The following results have not been adjusted to reflect what the delinquencies, charge-offs and recoveries would have been had we not sold these loans. Because we now retain more delinquent loans, we believe it could take up to two years before our credit performance indicators provide meaningful period-over-period comparisons.

The table below presents our Private Education Loan delinquency trends.

	June 30,					
	2014			2013		
(Dollars in thousands)	Balance	%		Balance	%	
Loans in-school/grace/deferment[1]	$3,017,257			$2,297,148		
Loans in forbearance[2]	39,964			4,199		
Loans in repayment and percentage of each status:						
Loans current	4,396,772	99.3	%	3,054,707	99.2	%
Loans delinquent 31-60 days[3]	21,381	0.5		18,520	0.6	
Loans delinquent 61-90 days[3]	5,987	0.1		8,462	0.2	
Loans delinquent greater than 90 days[3]	1,433	0.1		53	—	
Total Private Education Loans in repayment	4,425,573	100.0	%	3,081,742	100.0	%
Total Private Education Loans, gross	7,482,794			5,383,089		
Private Education Loan unamortized discount	7,746			3,011		
Total Private Education Loans	7,490,540			5,386,100		
Private Education Loan allowance for losses	(54,315)			(50,869)		
Private Education Loans, net	$7,436,225			$5,335,231		
Percentage of Private Education Loans in repayment		59.1	%		57.2	%
Delinquencies as a percentage of Private Education Loans in repayment		0.7	%		0.8	%
Loans in forbearance as a percentage of loans in repayment and forbearance		0.9	%		0.1	%

(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 their 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.

(4) Based on number of months in an active repayment status for which a scheduled monthly payment was due.

Allowance for Private Education Loan Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Allowance at beginning of period	$71,453	$65,381	$61,763	$65,218
Provision for Private Education Loan losses	329	(1,966)	38,982	18,278
Discount on delinquent student loan sales	(17,467)	(12,546)	(46,430)	(32,627)
Allowance at end of period	$54,315	$50,869	$54,315	$50,869
Allowance as a percentage of ending total loans	0.73%	0.94%	0.73%	0.94%
Allowance as a percentage of ending loans in repayment	1.23%	1.65%	1.23%	1.65%
Delinquencies as a percentage of loans in repayment	0.7%	0.8%	0.7%	0.8%
Loans in forbearances as a percentage of loans in repayment and forbearance	0.9%	0.1%	0.9%	0.1%
Percentage of loans with a cosigner	89.7%	89.2%	89.7%	89.2%
Average FICO at origination	745	745	745	745
Ending total loans[2]	$7,482,794	$5,383,128	$7,482,794	$5,383,128
Average loans in repayment	$4,322,356	$3,243,513	$4,354,878	$3,670,291
Ending loans in repayment	$4,425,573	$3,081,929	$4,425,573	$3,081,929

(1) Includes loans that are required to make a payment for the first time.

(2) Ending total loans represents gross Private Education Loans.

As part of concluding on the adequacy of the allowance for loan losses, we review key allowance and loan metrics. The most significant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages.

Use of Forbearance as a Private Education Loan Collection Tool

Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a customer’s unique situation, including historical information and judgments. We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer’s ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

Forbearance may be granted to customers who are exiting their grace period to provide additional time to obtain employment and income to support their obligations, or to current customers who are faced with a hardship and request forbearance time to provide temporary payment relief. In these circumstances, a customer’s loan is placed into a forbearance status in limited monthly increments and is reflected in the forbearance status at month-end during this time. At the end of their granted forbearance period, the customer will enter repayment status as current and is expected to begin making their scheduled monthly payments on a go-forward basis.

Forbearance may also be granted to customers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the customer is returned to a current repayment status. In more limited instances, delinquent customers will also be granted additional forbearance time.

Prior to the Spin-Off, the Bank sold Private Education Loans that were delinquent more than 90 days or were granted a hardship forbearance to n entity that is now a subsidiary of Navient. As such, the Bank did not hold many loans in forbearance. Because of this past business practice, we do not have historic forbearance activity. However, subsequent to the Spin-Off, we began using forbearance as part of our loss mitigation efforts. The historic default experience on loans put into forbearance that

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Navient (pre-Spin-Off SLM) experienced prior to the Spin-Off is considered in the determination of our allowance for loan losses.

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At June 30, 2014, loans in forbearance status as a percentage of loans in repayment and forbearance were 0.9 percent for loans that have been in active repayment status for less than 25 months. Approximately 80 percent of our Private Education Loans in forbearance status has been in active repayment status less than 25 months.

(Dollars in millions)	Monthly Scheduled Payments Due					Not Yet in Repayment	Total
June 30, 2014	0 to 12	13 to 24	25 to 36	37 to 48	More than 48		
Loans in-school/grace/deferment	$—	$—	$—	$—	$—	$3,017	$3,017
Loans in forbearance	24	8	5	3	—	—	40
Loans in repayment - current	2,425	1,050	505	378	39	—	4,397
Loans in repayment - delinquent 31-60 days	12	4	2	3	—	—	21
Loans in repayment - delinquent 61-90 days	4	1	1	—	1	—	7
Loans in repayment - delinquent greater than 90 days	1	—	—	—	—	—	1
Total	$2,466	$1,063	$513	$384	$40	$3,017	7,483
Unamortized discount							7
Allowance for loan losses							(54)
Total Private Education Loans, net							$7,436
Loans in forbearance as a percentage of loans in repayment and forbearance	0.98 %	0.73 %	0.89 %	0.86 %	0.58 %	— %	— %

(Dollars in millions)	Monthly Scheduled Payments Due					Not Yet in Repayment	Total
June 30, 2013	0 to 12	13 to 24	25 to 36	37 to 48	More than 48		
Loans in-school/grace/deferment	$—	$—	$—	$—	$—	$2,297	$2,297
Loans in forbearance	2	1	1	—	—	—	4
Loans in repayment - current	1,577	830	595	40	12	—	3,054
Loans in repayment - delinquent 31-60 days	10	4	4	—	—	—	18
Loans in repayment - delinquent 61-90 days	5	2	2	—	—	—	9
Loans in repayment - delinquent greater than 90 days	—	—	—	—	—	—	—
Total	$1,594	$837	$602	$40	$12	$2,297	5,382
Unamortized discount							3
Allowance for loan losses							(51)
Total Private Education Loans, net							$5,334
	0.15 %	0.09 %	0.17 %	0.05 %	0.21 %	— %	— %

Loans in forbearance as a percentage of loans in repayment and forbearance

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Private Education Loan Repayment Options

Certain loan programs allow customers to select from a variety of repayment options depending on their loan type and their enrollment/loan status, which include the ability to extend their repayment term or change their monthly payment. The chart below provides the optional repayment offerings in addition to the standard level principal and interest payments as of June 30, 2014.

(Dollars in thousands	Signature and Other	Smart Option	Career Training	Total
$ in repayment	$125,208	$4,283,202	$17,163	$4,425,573
$ in total	$276,244	$7,189,239	$17,311	$7,482,794
Payment method by enrollment status:				
In-school/grace	Deferred[1]	Deferred[1], interest-only or fixed $25/month	Interest-only or fixed $25/month	
Repayment	Level principal and interest or graduated	Level principal and interest	Level principal and interest	

(1) “Deferred” includes loans for which no payments are required and interest charges are capitalized into the loan balance.

Accrued Interest Receivable

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

	Accrued Interest Receivable		
(Dollars in thousands)	Total Interest Receivable	Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
June 30, 2014	$434,847	$69	$3,633
December 31, 2013	$333,857	$1	$4,076
June 30, 2013	$280,267	$3	$3,490

Liquidity and Capital Resources

Funding and Liquidity Risk Management

We define liquidity as the ability to fund all creditworthy loans, invest in future asset growth and business operations at reasonable market rates, meet customer demand for deposit withdrawals and maintain state and federal liquidity requirements. Our four primary liquidity needs include our ongoing ability to fund our businesses throughout market cycles (including during periods of financial stress), our ongoing ability to fund originations of Private Education Loans, servicing our bank deposits and payment of required dividends on our preferred stock. To achieve these objectives we analyze and monitor our liquidity needs, maintain excess liquidity and plan to access diverse funding sources. This includes the expected issuance of secured debt primarily through asset-backed securitizations and/or other financing facilities and through deposits at the Bank. It is our policy to manage operations so that liquidity needs are fully satisfied through normal operations so that there is no need to make unplanned sales of assets under emergency conditions. The Bank will target an investment portfolio that meets its liquidity needs. Our liquidity management is guided by policies developed and monitored by our Asset and Liability Committee and approved by our Board of Directors. These policies take into account the volatility of cash flow forecasts, expected maturities, anticipated loan demand and a variety of other factors to establish minimum liquidity guidelines.

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

Sources of Liquidity and Available Capacity

Ending Balances

(Dollars in thousands)	June 30, 2014	December 31, 2013
Sources of primary liquidity:		
Unrestricted cash and liquid investments:		
Holding Company and other non-bank subsidiaries	$8,664	$1,052
Sallie Mae Bank[1]	1,515,512	2,181,813
Available-for-sale investments	149,399	102,105
Total unrestricted cash and liquid investments	$1,673,575	$2,284,970

(1) This amount will be used primarily to originate student loans at the Bank. See discussion below on restrictions on the Bank to pay dividends.

Average Balances

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Sources of primary liquidity:				
Unrestricted cash and liquid investments:				
Holding Company and other non-bank subsidiaries	$50,467	$1,246	$4,858	$996
Sallie Mae Bank[1]	1,705,493	1,626,773	1,542,794	1,399,305
Available-for-sale investments	138,251	648,392	125,752	618,288
Total unrestricted cash and liquid investments	$1,894,211	$2,276,411	$1,673,404	$2,018,589

(1) This amount will be used primarily to originate student loans at the Bank. See discussion below on restrictions on the Bank to pay dividends.

Deposits

The following table summarizes total deposits at June 30, 2014 and December 31, 2013.

(Dollars in thousands)	June 30, 2014	December 31, 2013
Deposits - interest bearing	$9,503,559	$9,239,554
Deposits - non-interest bearing	42,455	55,036
Total Sallie Mae Bank deposits	9,546,014	9,294,590
Less money market deposits with subsidiaries	(655,805)	(293,040)
Total deposits	$8,890,209	$9,001,550

Interest Bearing

Interest bearing deposits as of June 30, 2014 and December 31, 2013 consisted of non-maturity savings deposits, brokered and retail certificates of deposit and affiliated money market deposits, as discussed further below, and brokered money market deposits. These deposit products are serviced by third party providers. Placement fees associated with the brokered certificates of deposit are amortized into interest expense using the effective interest rate method. We recognized placement fee expense of $2,472 thousand and $2,379,000 thousand for the three months ended June 30, 2014 and 2013, respectively and $5,222 thousand and $4,879 thousand for the six months ended June 30, 2014 and 2013, respectively. No fees were paid to third party brokers related to these certificates of deposit during the three and six months ended June 30, 2014 and 2013.

Historically, we have also offered consumer deposit products in the form of debit cards associated with interest bearing consumer (“NOW”) accounts to facilitate the distribution of financial aid refunds and other payables to students. These deposit products were serviced by third party providers. As of April 30, 2014, we no longer offer these products.

Interest bearing deposits at June 30, 2014 and December 31, 2013 are summarized as follows:

(Dollars in thousands)	June 30, 2014 Amount	June 30, 2014 Year-End Weighted Average Stated Rate	December 31, 2013 Amount	December 31, 2013 Year-End Weighted Average Stated Rate
Money market	$4,643,164	0.60 %	$3,505,929	0.60 %
Savings	727,350	0.81	743,742	0.81
NOW	—	—	18,214	0.12
Certificates of deposit	4,133,045	1.09	4,971,669	1.39
Deposits - interest bearing	$9,503,559		$9,239,554	

As of June 30, 2014 and December 31, 2013, there were $ 258 million and $159 million of deposits exceeding Federal Deposit Insurance Corporation ("FDIC") insurance limits. Accrued interest on deposits was $10 million and $13 million at June 30, 2014 and December 31, 2013, respectively.

Money market deposits with affiliates

Our Upromise subsidiary maintains a money market deposit at the Bank which totaled $288 million and $293 million at June 30, 2014 and December 31, 2013, respectively, which was interest bearing. Interest expense incurred on these deposits during the three months ended June 30, 2014 and 2013 totaled $66 thousand and $85 thousand, respectively and for the six months ended June 30, 2014 and 2013 totaled $117 thousand and $192 thousand, respectively. The

Company also maintains a money market deposit at the Bank which totaled $368 million at June 30, 2014 and $0 at December 31, 2013.

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NonInterest Bearing

Noninterest bearing deposits as of June 30, 2014 and December 31, 2013 consisted of money market deposit accounts and are summarized as follows:

(Dollars in thousands)	June 30, 2014	December 31, 2013
Money market	$42,455	$55,036
Deposits - noninterest bearing	$42,455	$55,036

Counterparty Exposure

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

Our investment portfolio is composed of very short-term securities issued by a diversified group of highly rated issuers, limiting our counterparty exposure, as well as mortgage-backed securities issued by government agencies and government sponsored enterprises. Additionally, our investing activity is governed by Board-approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. ("ISDA") Credit Support Annexes ("CSAs"), or clearinghouses for OTC derivatives which eliminate counterparty risk. CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties' credit risk when determining the fair value of derivative positions on our exposure net of collateral.

Title VII of the Dodd-Frank Act requires all standardized derivatives, including most interest rate swaps to be submitted for clearing to central counterparties to eliminate counterparty risk. As of June 30 2014, $2.0 billion notional of our derivative contracts were cleared on the Chicago Mercantile Exchange and the London Clearing House. All derivative contracts cleared through an exchange require collateral to be exchanged based on the fair value of the derivative. Our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding.

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

The table below highlights exposure related to our derivative counterparties at June 30, 2014.

(Dollars in thousands)	SLM Corporation and Sallie Mae Bank Contracts	
Exposure, net of collateral	$2,256	
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	8	%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's Baa	8	%

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Regulatory Capital

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

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

	Actual			Well Capitalized Regulatory Requirements			
(Dollars in thousands)	Amount	Ratio		Amount		Ratio	
As of June 30, 2014:							
Tier I Capital (to Average Assets)	$1,291,390	11.6	%	$554,956	>	5.0	%
Tier I Capital (to Risk Weighted Assets)	$1,291,390	15.2	%	$509,071	>	6.0	%
Total Capital (to Risk Weighted Assets)	$1,351,917	15.9	%	$848,451	>	10.0	%
As of December 31, 2013:							
Tier I Capital (to Average Assets)	$1,221,416	11.7	%	$521,973	>	5.0	%
Tier I Capital (to Risk Weighted Assets)	$1,221,416	16.4	%	$446,860	>	6.0	%
Total Capital (to Risk Weighted Assets)	$1,289,497	17.3	%	$745,374	>	10.0	%

Capital Management

The Bank's goal is to remain well-capitalized at all times with sufficient capital to support asset growth, operating needs, unexpected credit risks and to protect the interests of depositors and the deposit insurance fund. We are required by our regulators, the UDFI and the FDIC, to comply with mandated capital ratios. We intend to maintain levels of capital that significantly exceed the levels of capital necessary to be considered "well capitalized" by the FDIC. The Company is a source of strength for the Bank and will provide additional capital if necessary. The Board of Directors and management evaluated the anticipated change in the Bank's ownership structure, the quality of assets, the stability of earnings, and the adequacy of the Allowance for Loan Losses and believe that current capital levels can be maintained throughout 2014. As of June 30, 2014, the Bank held total Risk-Based Capital of $1.4 billion or 15.9 percent. We expect significant asset growth and are a new stand-alone bank as a result of the Spin-Off. We do not plan to pay a dividend or or authorize any publicly announced share repurchase program in 2014 or 2015. The Bank will reinvest excess capital in its Private Education Loan business.

On July 9, 2013, the FDIC Board of Directors approved an interim final rule that adopts new rules related to regulatory capital measurement and reporting. The interim final rule would strengthen both the quantity and quality of risk-based capital for all banks, placing greater emphasis on Tier 1 common equity capital. The Bank's updated Capital Policy, approved in December 2013, requires that management begin monitoring the new capital standards ahead of their implementation date of January 2015. Under the new guidelines, well-capitalized institutions will be required to maintain a minimum Tier 1 Leverage ratio of 5 percent, a minimum Tier 1 common equity risk-based capital ratio of 6.5 percent, a minimum Tier 1 risk-based capital of 8 percent and minimum total risk-based capital of 10 percent. In addition, a capital conservation buffer will be phased in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625 percent of risk weighted assets for 2016, 1.25 percent for 2017, 1.875 percent for 2018 and 2.5 percent for 2019 and beyond, resulting in the following minimum ratios beginning in 2019: a Tier 1 common equity risk-based capital ratio of a minimum 7.0 percent, a Tier 1 capital ratio of a minimum 8.5 percent and a total risk-based capital ratio of a minimum 10.5 percent. Institutions that do not maintain the capital conservation buffer could face restrictions on dividend payments, share repurchases and the payment of discretionary bonuses.

As of June 30, 2014, the Bank had a Tier 1 leverage ratio of 11.6 percent, a Tier 1 risk-based capital ratio of 15.2 percent and total risk-based capital ratio of 15.9 percent, exceeding the current guidelines by a significant factor. Our ratios would also exceed the future guidelines if we calculated them today based on the new definitions of capital and risk weighted assets.

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the FDIC. The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends to the Company from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. The Bank paid no dividends for the three months ended June 30, 2014 and 2013 or for the six months ended June 30, 2014. For the six months ended June 30, 2013, the Bank paid dividends of $120 million. For the foreseeable future, we expect the Bank to pay dividends to the Company only in amounts sufficient to provide for regularly scheduled dividends payable on the Company's Series A and Series B Preferred Stock.

Contractual Cash Obligations

The following table provides a summary of our contractual principal obligations associated with long-term bank deposits at June 30, 2014.

(Dollars in thousands)	June 30, 2014
One year or less	$ 948,769
One to 3 years	1,790,342
3 to 5 years	963,536
Over 5 years	—
Total contractual cash obligations	$ 3,702,647

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Critical Accounting Policies and Estimates
Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. Actual results may differ from these estimates under varying assumptions or conditions. On a quarterly basis, management evaluates its estimates, particularly those that include the most difficult, subjective or complex judgments and are often about matters that are inherently uncertain. The most significant judgments, estimates and assumptions relate to the following critical accounting policies that are discussed in more detail below.
Allowance for Loan Losses

In determining the allowance for loan losses on our Private Education Loan non-TDR portfolio, we estimate the principal amount of loans that will default over the next year (one year being the expected period between a loss event and default) and how much we expect to recover over the same one year period related to the defaulted amount. Expected defaults less our expected recoveries equal the allowance related to this portfolio. Our historical experience indicates that, on average, the time between the date that a customer experiences a default causing event (i.e., the loss trigger event) and the date that we charge off the unrecoverable portion of that loan is one year.

In estimating both the non-TDR and TDR allowance amounts, we start with historical experience of customer delinquency and default behavior. We make judgments about which historical period to start with and then make further judgments about whether that historical experience is representative of future expectations and whether additional adjustments may be needed to those historical default rates. We may also take the economic environment into consideration when calculating the allowance for loan losses.

Our non-TDR allowance for loan losses is estimated using an analysis of delinquent and current accounts. Our model is used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge off ("migration analysis"). Once a charge-off forecast is estimated, a recovery assumption is layered on top.

In connection with the Spin-Off, we changed our charge-off policy for Private Education Loans to charging off loans after 120 days of delinquency. Pre-Spin-Off SLM default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. Our default aversion strategies are now focused on loans that are 60 to 120 days delinquent. It is uncertain if our existing default aversion strategies will be as successful in this compressed collection timeframe. We implemented our 120 day collection strategy in April 2014. Through June 30, 2014, our delinquency cure rates have exceeded our expectations.

The migration analysis model is based upon sixteen months of actual collection experience which includes twelve months of collection experience using the 212 day charge off default aversion strategies and four months of experience using the 120 day charge off default aversion strategies. We only used collection data from the first four collection buckets for all sixteen months. This results in our placing a greater emphasis on older periods when the accounts were not being aggressively collected in the 60 to 120 days delinquent buckets. We believe this is appropriate as we have a very limited data since the change in collection practices to be confident that the positive trends will continue. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. As part of this process we consider changes in laws and regulations that could potentially impact the allowance for loan losses. We did not adjust our allowance to reflect any qualitative impacts.

Separately, for our TDR portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan's original effective interest rate. Our TDR portfolio is comprised mostly of loans with interest rate reductions and forbearance usage greater than three months.

The separate allowance estimates for our TDR and non-TDR portfolios are combined into our total allowance for Private Education Loan losses. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates and assumptions that may be susceptible to significant changes. If actual future performance in delinquency, charge-offs or recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement.

Similar to the rules governing FFELP payment requirements, our collection policies allow for periods of nonpayment for borrowers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered separately in the allowance for loan losses. The loss confirmation period is in alignment with the typical collection cycle and takes into account these periods of nonpayment.

As part of concluding on the adequacy of the allowance for loan loss, we review key allowance and loan metrics. The most relevant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages.

We consider a loan to be delinquent 31 days after the last payment was contractually due. We use a model to estimate the amount of uncollectible accrued interest on Private Education Loans and reserve for that amount against current period interest income.

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 after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement. For loans disbursed prior to October 1, 1993, we receive 100 percent reimbursement.

The allowance for FFELP Loan losses uses historical experience of customer default behavior and a two year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered.

Fair Value Measurement

The most significant assumptions used in fair value measurements, including those related to credit and liquidity risk, are as follows:

1. Derivatives - When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposure for each counterparty is adjusted based on market information available for that specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to us related to our derivatives, we fully collateralize the exposure, minimizing the adjustment necessary to the derivative valuations for our own credit risk. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives.
2. Education Loans - Our Private Education Loans and FFELP Loans are accounted for at cost or at the lower of cost or fair value if the loan is held-for-sale. The fair values of our student loans are disclosed in Note 10, "Fair Value Measurements." For both Private Education Loans and FFELP Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, the amount funded by deposits versus equity, and required return on equity. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management's qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions) or are obtained through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to validate the model. In most cases, these are either infrequent or not observable. For FFELP Loans classified as held-for-sale and accounted for at the lower of cost or market, the fair value is based on the committed sales price of the various loan purchase programs established by the U.S. Department of Education ("ED").

For further information regarding the effect of our use of fair values on our results of operations, see Note 10, "Fair Value Measurements."

Derivative Accounting
The most significant judgments related to derivative accounting are: (1) concluding the derivative is an effective hedge and qualifies for hedge accounting and (2) determining the fair value of certain derivatives and hedged items. To qualify for hedge accounting a derivative must be concluded to be a highly effective hedge upon designation and on an ongoing basis. There are no “bright line” tests on what is considered a highly effective hedge. We use a historical regression analysis to prove ongoing and prospective hedge effectiveness. See the previous discussion in the section titled “Critical Accounting Policies and Estimates - Fair Value Measurement” for significant judgments related to the valuation of derivatives. Although some of our valuations are more judgmental than others, we compare the fair values of our derivatives that we calculate to those provided by our counterparties on a monthly basis. We view this as a critical control which helps validate these judgments. Any significant differences with our counterparties are identified and resolved appropriately.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
Interest Rate Sensitivity Analysis

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

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

A number of potential interest rate scenarios are simulated using our asset liability management system. The Bank is primary source of interest rate risk within the Company. The majority of the Bank's assets are priced off of 1-month LIBOR. Therefore, 1-month LIBOR is considered the core rate in our interest rate risk analyses with other interest rate changes are correlated to this rate through a detailed statistical analysis. In addition, all rates have floors which indicate how low each specific rate is likely to go. Rates are adjusted up or down via a set of scenarios that includes both shocks and ramps. Shocks represent an immediate and sustained change in 1-month LIBOR plus the resulting changes in other indexes correlated accordingly. Ramps represent a linear increase in 1-month LIBOR over the course of 12 months plus the resulting changes in other indexes correlated accordingly.

The following tables summarize the potential effect on earnings over the next 24 months and the potential effect on fair values of balance sheet assets and liabilities at June 30, 2014 and December 31, 2013, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant, as well as a hypothetical 100 basis point decrease in market interest rates. The earnings sensitivity is applied only to financial assets and liabilities, including hedging instruments that existed at the balance sheet date, and does not take into account new assets, liabilities or hedging instruments that may arise in 2014.

	June 30, 2014		June 30, 2013	
	+300 Basis Points	+100 Basis Points	+300 Basis Points	+100 Basis Points
EAR - Shock	13.1 %	4.2 %	10.5 %	3.4 %
EAR - Ramp	8.2 %	2.4 %	7.0 %	2.3 %
EVE	(3.2)%	(3.3)%	(2.4)%	(0.9)%

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, due to the ability of some FFELP Loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating. In addition, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

In the preceding tables, under the scenario where interest rates increase 100 and 300 basis points, the change in net interest income is primarily due to the impact of (i) our unhedged FFELP Loans being in a fixed-rate mode due to Floor Income, while being funded with variable debt in low interest rate environments; and (ii) a portion of our variable assets being funded with fixed rate liabilities and equity. Item (i) will generally cause net interest income to decrease when interest rates increase from a low interest rate environment, whereas item (ii) will generally offset this decrease.

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

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Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of June 30, 2014. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the “gains (losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

(Dollars in billions) Index	Frequency of Variable Resets	Assets	Funding [(1)]	Funding Gap
3-month Treasury bill	weekly	$0.4	$—	$0.4
1-month LIBOR	daily	0.9	—	0.9
1-month LIBOR	weekly	—	0.5	(0.5)
1-month LIBOR	monthly	6.4	3.3	3.1
Non-Discrete reset[(2)]	daily/weekly	1.7	2.8	(1.1)
Fixed Rate[(3)]		2.0	2.3	(0.3)
Total		$11.4	$8.9	$2.5

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

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

(3) Assets include receivables and other assets (including premiums and reserves). Funding includes unswapped time deposits.

The "Funding Gap" in the above table primarily mismatches in the reset frequency of the 1-month LIBOR index. We consider the risk to be minimal since they are all indexed to the same rate as the reset frequency is not materially different.

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

Weighted Average Life

The following table reflects the weighted average life of our earning assets and liabilities at June 30, 2014.

(Averages in Years)	Weighted Average Life
Earning assets	
Student loans	6.7
Cash and investments	0.6
Total earning assets	5.7

Deposits	
Short-term deposits	0.1
Long-term deposits	2.4
Total deposits	0.8

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2014. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2014, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Before the Spin-Off, the Company relied on the controls and resources of pre-Spin-Off SLM for internal control over financial reporting. In conjunction with the Spin-Off, several areas of internal control over financial reporting have changed. We have implemented our own financial, administrative, and other support systems as well as new corporate oversight functions, primarily through the retention of pre-Spin-Off SLM personnel, policies and procedures within the Company and giving consideration to the significantly smaller size of the Company post-Spin-Off.

Other than those noted above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

Legal Proceedings

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. We believe that these claims, lawsuits and other actions will not, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. In the ordinary course of business, it is common for the Company, our subsidiaries and affiliates to receive information and document requests and investigative demands from state attorneys general, legislative committees and administrative agencies. These requests may be for informational or regulatory purposes and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. Our practice has been and continues to be to cooperate with these bodies and be responsive to any such requests.
Regulatory Update

At the time of this filing, the Bank remains subject the 2014 FDIC Order. The 2014 FDIC Order replaces a prior cease and desist order jointly issued in August 2008 by the FDIC and the UDFI which was terminated on July 15, 2014. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the Department of Justice regarding disclosures and assessments of certain late fees, as well as compliance with the SCRA. Under the FDIC's 2014 Order, the Bank agreed to pay $3.3 million in fines and oversee the refund of up to $30 million in late fees assessed on loans owned or originated by the Bank since its inception in November 2005.

Under the terms of the Separation and Distribution Agreement, Navient is responsible for funding all liabilities under the regulatory orders, other than fines directly levied against the Bank in connection with these matters. Under the Department of Justice order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

As required by the 2014 FDIC Order and the Department of Justice order, the Bank is implementing new SCRA policies, procedures and training, has updated billing statement disclosures, and is taking additional steps to ensure its third-party service providers are also fully compliant in these regards. The 2014 FDIC Order also requires the Bank to have its current compliance with consumer protection regulations audited by independent qualified audit personnel. The Bank is focused on achieving timely and comprehensive remediation of each item contained in the orders and on further enhancing its policies and practices to promote responsible financial practices, customer experience and compliance.

In May 2014, the Bank received a Civil Investigative Demand from the CFPB in the Bank's capacity as a former affiliate of Navient as part of the CFPB's separate investigation relating to fees and policies of pre-Spin-Off SLM during the period prior to the Spin-Off of Navient. We are cooperating fully with the CFPB but are not in a position at this time to predict the duration or outcome of the investigation. Given the timeframe covered by this demand, Navient would be responsible for all costs, expenses, losses or remediation likely to arise from this investigation.

Item 1A. Risk Factors

Our business activities involve a variety of risks. Below we describe the significant risk factors affecting our business. The implications of the recently completed Spin-Off, the ongoing transition of our business and related operational platforms after the Spin-Off, as well as our ongoing involvement with, and reliance on, Navient will add to these risks in the near term. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Quarterly Report on Form 10-Q because these factors could cause our actual results or financial condition to differ materially from those projected in forward-looking statements.

Economic Environment

Economic conditions could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Our business is always influenced by economic conditions. Economic growth in the United States remains slow and uneven. Our earnings are dependent on the expected future creditworthiness of our student loan customers and their co-borrowers. High unemployment rates and the failure of our in-school borrowers to graduate are two of the most significant macroeconomic factors that could increase loan delinquencies, defaults and forbearance, or otherwise negatively affect performance of our existing education loan portfolios. Since 2009, the unemployment rate has been higher than historical norms. In 2008, the unemployment rate was 5.8 percent; it reached a high of 9.6 percent in 2010 and declined to 7.4 percent in 2013. Forbearance program provides temporary relief for borrowers experiencing difficulty in making payments but may also have the effect of delaying the recognition of potential defaults. Higher credit-related losses and weaker credit quality could also negatively affect our business, financial condition and results of operations and limit funding options, which could also adversely impact our liquidity position. If the type and amount of federal funds available to pay for a college education or refinance existing education loans increases, the volume of our new loan originations and the repayment rates of our existing loans could be materially and adversely effected.

Regulatory

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

We are subject to extensive regulation and supervision that govern almost all aspects of our operations. Intended to protect clients, depositors, the Deposit Insurance Fund (the “DIF”), and the overall financial system, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividend or distributions that the Bank can pay to us, restrict the ability of institutions to guarantee our debt, limit proprietary trading and investments in certain private funds, impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles, among other things. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations, as well as increased intensity in supervision, often impose additional compliance costs. We, like the rest of the banking sector, are facing increased regulation and supervision of our industry by the federal bank regulatory agencies and expect that there will be additional and changing requirements and conditions imposed on us. Once the Bank has four consecutive quarters with total assets of at least $10 billion, the Consumer Financial Protection Bureau (the “CFPB”) will become its primary consumer compliance supervisor, with exclusive examination authority and primary enforcement authority. CFPB jurisdiction could result in additional regulation and supervision, which could increase our costs and limit our ability to pursue business opportunities. Consent orders, decrees or settlements entered into with governmental agencies may also increase our compliance costs or restrict certain of our activities. The Bank is subject to a Consent Order, Order to Pay Restitution and Order to Pay Civil Money Penalty issued by the FDIC. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the Department of Justice regarding disclosures and assessments of certain late fees, as well as compliance with the Servicemembers Civil Relief Act (“SCRA”). Further, our failure to comply with these laws and regulations, even if the failure is inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Finally, we operate in a politically charged environment for student loan lending and originations, which could lead to further laws and regulations limiting our business.

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Funding, Liquidity, and Capital

Our business is heavily reliant on our ability to obtain deposits and dispose of portions of the loans we originate. If we are unable to obtain funds from which to make new Private Education Loans or sell sufficient portions of the loans we produce, our business, financial condition and results of operations would be materially adversely affected.

We fund Private Education Loan originations through term and liquid brokered and retail deposits raised by the Bank. Assets funded in this manner result in refinancing risk because the average term of the deposits is shorter than the expected term of the education loan assets we create. Also, our ability to maintain our current level of deposits or grow our deposit base could be affected by regulatory restrictions, including the possible imposition of prior approval requirements or restrictions on deposit growth through brokered deposits. As a supervisory matter, reliance on brokered deposits as a significant source of funding is discouraged. As a result, in order to grow our deposit base, we will need to expand our non-brokered channels for deposit generation, including through new marketing and advertising efforts, which may require significant time, capital, and effort to implement. Further, we are likely to face significant competition for deposits from other banking organizations that are also seeking stable deposits to support their funding needs. If we are unable to develop new channels of deposit origination, it could have a material adverse effect on our business, results in operations, and financial position.

We cannot increase the rate of growth on Private Education Loan originations and remain within FDIC-stipulated growth rates unless we can sell significant amounts of our loan production in secondary capital markets transactions. There is no assurance that secondary buyers of our loan production will be available at sufficient levels or costs that make the origination of new Private Education Loans possible or profitable.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine transactions including with our derivative counterparties could be adversely affected by the actions and commercial soundness of other financial institutions or market utilities. Defaults by, or even rumors or questions about, one or more financial institutions or market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and a lack of confidence in financial institutions and could lead to losses or defaults by us or by other financial institutions.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements, which may increase the price of, or decrease our ability to obtain, necessary liquidity.

Net interest income is the primary source of cash flow generated by our portfolios of Private Education Loans and FFELP Loans. Interest earned on Private Education Loans and FFELP Loans is primarily indexed to one-month LIBOR rates. In a rising interest rate environment, this difference in timing may compress the net interest margin on Private Education Loans and FFELP Loans.

The different interest rate characteristics of our loan portfolio and liabilities funding these loans also result in basis risk and re-pricing risk. It is not possible to hedge all of our exposure to such risks. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. In these circumstances, our earnings could be materially adversely affected.

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

We must effectively manage the liquidity risk to which we are exposed. We require liquidity to meet cash requirements such as day-to-day operating expenses, extensions of credit on our Private Education Loans, meet demand for deposit withdrawals and payment of required dividends on our preferred stock. Our primary sources of liquidity and funding are from customer deposits, payments made on Private Education Loans and FFELP Loans that we hold, and proceeds from loan sales we undertake. We may maintain too much liquidity, which can be costly, or we may be too illiquid, which could result in financial distress during times of financial stress or capital market disruptions.

Unexpected and sharp changes in the overall economic environment may negatively impact the performance of our loan and credit portfolios and cause increases in our provision for loan losses and charge-offs.

Unexpected changes in the overall economic environment, including unemployment, may result in the credit performance of our loan portfolio being materially different from what we expect. Our earnings are dependent on the expected future creditworthiness of our education loan customers, especially with respect to our Private Education Loan portfolio. We maintain an allowance for credit losses based on expected future charge-offs expected over primarily the next year, which considers

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many factors, including levels of past due loans and forbearances and expected economic conditions. However, management's determination of the appropriate allowance level may under- or over-estimate future losses. If the credit quality of our customer base materially decreases, if a market risk changes significantly, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations could suffer.

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

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

Our use of derivatives also exposes us to market risk and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates and market liquidity. Some of the swaps we use to manage earnings variability caused by having different reset characteristics on interest-earning assets and interest-bearing liabilities do not qualify for hedge accounting treatment. Therefore, the change in fair value, called the "mark-to-market," of these derivative instruments is included in our statement of income. A decline in the fair value of these derivatives could have a material adverse effect on our reported earnings.

We are also subject to the creditworthiness of other third parties, including counterparties to derivative transactions. For example, we have exposure to the financial conditions of various lending, investment and derivative counterparties. If a counterparty fails to perform its obligations, we could, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, we might not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment, and thus be exposed to a greater level of interest rate and/or foreign currency exchange rate risk which could lead to additional losses. Our counterparty exposure is more fully discussed in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Counterparty Exposure." If our counterparties are unable to perform their obligations, our business, financial condition and results of operations could suffer.

Defaults on education loans, particularly Private Education Loans, could adversely affect our earnings, financial condition, and liquidity.

We bear the full credit exposure on Private Education Loans. Delinquencies are an important indicator of the potential future credit performance for Private Education Loans. Our delinquencies, as a percentage of Private Education Loans in repayment, were 0.7 percent at June 30, 2014.

The evaluation of our allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. As of June 30, 2014, our allowance for Private Education Loan losses was approximately $54 million. During the six months ended June 30, 2014, we recognized provisions for Private Education Loan losses of $39 million. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that management believes is appropriate to cover probable losses inherent in the loan portfolio. However, future defaults can be higher than anticipated due to a variety of factors outside of our control, such as downturns in the economy, regulatory or operational changes and other unforeseen future trends. Losses on Private Education Loans are also determined by risk characteristics such as school type, loan status (in-school, grace, forbearance, repayment and delinquency), loan seasoning (number of months in active repayment), underwriting criteria (e.g., credit scores), a cosigner and the current economic environment. General economic and employment conditions, including employment rates for recent college graduates during the recent recession, led to higher rates of education loan defaults. If actual loan performance is worse than currently estimated, it could materially affect our estimate of the allowance for loan losses and the related provision for loan losses in our statements of income and, as a

result, adversely affect our results of operations.
Additionally, pre-Spin-Off SLM’s Private Education Loan default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy to charging off at 120 days delinquent and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus more on loans 60 to 120 days delinquent. We have little experience in executing our default aversion strategies on such compressed collection timeframes. If we are unable to maintain or improve on our existing default aversion levels during these shortened collection timeframes default rates on our Private Education Loans could increase.

FFELP Loans are insured or guaranteed by state or not-for-profit agencies and are also protected by contractual rights to recovery from the United States pursuant to guaranty agreements among ED and these agencies. These guarantees generally cover at least 97 percent of a FFELP Loan's principal and accrued interest for loans disbursed and, in limited circumstances, 100 percent of the loan's principal and accrued interest. Nevertheless, we are exposed to credit risk on the non-guaranteed portion of the FFELP Loans in our portfolio and to the possible loss of the insurance or guarantee due to a failure of our servicer to comply with the Higher Education Act and related regulations.

The revised capital requirements under the U.S. Basel III capital rules impose heightened capital standards which may adversely affect us, our business, results of operations and financial position.
In July 2013, the federal banking regulators issued the U.S. Basel III final rule. The final rule implements the Basel III capital framework in the United States and certain provisions of the Dodd-Frank Act, including the Collins Amendment. The U.S. Basel III final rule will apply to the Bank beginning on January 1, 2015. Consistent with the Basel Committee on Banking Supervision's Basel III capital framework, the U.S. Basel III final rule includes a new minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5 percent and a Common Equity Tier 1 capital conservation buffer of greater than 2.5 percent of risk-weighted assets that will apply to all U.S. banking organizations, including the Bank. Failure to maintain the capital conservation buffer will result in increasingly stringent restrictions on a banking organization's ability to make dividend payments and other capital distributions and pay discretionary bonuses to executive officers. The capital conservation buffer and certain other aspects of the U.S. Basel III final rule will be phased in over several years. The final rule also increases the minimum ratio of Tier 1 capital to risk-weighted assets from 4 percent to 6 percent, while maintaining the current minimum total risk-based capital ratio of 8 percent. Effective January 1, 2015, the final rule revises the capital categories, including the well-capitalized category, in the prompt corrective action framework applicable to insured depository institutions such as the Bank to reflect the higher Basel III capital ratios. If the Bank fails to satisfy regulatory capital or leverage capital requirements, it may be subject to serious regulatory sanctions which could also have an impact on us. If any of these sanctions were to occur, they could prevent us from successfully executing our business plan and may have a material adverse effect on our business, results of operations, and financial position.

Operations

A failure of our operating systems or infrastructure could disrupt our business, cause significant losses, result in regulatory action or damage our reputation.

A failure of operating systems or infrastructure could disrupt our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal and regulatory standards and our product specifications, which change to reflect our business needs and new or revised regulatory requirements. As processing demands change and our loan portfolios grow in both volume and differing terms and conditions, developing and maintaining our operating systems and infrastructure becomes increasingly challenging. There is no assurance that we can adequately or efficiently develop, maintain or acquire access to such systems and infrastructure. Our loan originations and conversions and the servicing, financial, accounting, data processing or other operating systems and facilities that support them may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our clients, result in financial loss or liability to our clients, disrupt our business, result in regulatory action or cause reputational damage. Despite the plans and facilities we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, Internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could adversely affect our business, financial condition and results of operations.

We depend on secure information technology, and a breach of those systems could result in significant losses, disclosure of confidential customer information and reputational damage, which would adversely affect our business.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our computer systems and networks. Although we take protective measures, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. Our technologies, systems, networks and those of third parties may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations. Moreover, information security risks for large financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties.

If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through, our computer systems and networks, could be jeopardized or could cause interruptions or malfunctions in our operations that could result in significant losses or reputational damage. We also routinely transmit and receive personal, confidential and proprietary information, some through third parties. We have put in place secure transmission capability, and work to ensure third parties follow similar procedures. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm. In the event personal, confidential or other information is jeopardized, intercepted, misused or mishandled, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to fines, penalties, litigation costs and settlements and financial losses that are either not insured against or not fully covered through any insurance maintained by us. If one or more of such events occur, our business, financial condition or results of operations could be significantly and adversely affected.

We depend on third parties for a wide array of services, systems and information technology applications, and a breach or violation of law by one of these third parties could disrupt our business or provide our competitors with an opportunity to enhance their position at our expense.

We increasingly depend on third parties for a wide array of services, systems and information technology applications. Third-party vendors are significantly involved in aspects of our software and systems development, the timely transmission of information across our data communication network, and for other telecommunications, processing, remittance and technology-related services in connection with our banking and payment services businesses. If a service provider fails to provide the services we require or expect, or fails to meet applicable contractual or regulatory requirements, such as service levels or compliance with applicable laws, the failure could negatively impact our business by adversely affecting our ability to process customers' transactions in a timely and accurate manner, otherwise hampering our ability to serve our customers, or subjecting us to litigation and regulatory risk for matters as diverse as poor vendor oversight or improper release or protection of personal information. Such a failure could adversely affect the perception of the reliability of our networks and services, and the quality of our brands, and could materially adversely affect our revenues and/or our results of operations.

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

The preparation of our consolidated financial statements requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. A description of our critical accounting estimates and assumptions may be found in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" and in Note 1, "Significant Accounting Policies" to the consolidated financial statements included in this Form 10-Q. If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could materially and adversely affect our business, financial condition and results of operations.

Risks Related to the Spin-Off

The actions required to implement the complete separation of our pre-Spin-Off businesses into two, distinct, publicly-traded entities have and will continue to take significant management time and attention and could disrupt operations.
The complete separation of the pre-Spin-Off organization into two publicly-traded companies will require significant ongoing execution and administration at all levels of the internal organization. A team of employees is charged with implementing the Spin-Off, reporting frequently to management on status and progress of the project. For the foreseeable future, high-level employees and management will continue to dedicate a significant amount of time to the implementation of the Spin-Off to ensure that it is carried out timely and appropriately. The time and attention that high-level employees and management dedicate to the implementation of the Spin-Off could limit the time and attention spent on managing the business which could disrupt current and future operations.

We will incur significant costs in connection with being a stand-alone company and lose the advantage of our larger size and purchasing power that existed prior to the Spin-Off.
We will incur significant costs in connection with the transition to being a stand-alone public company and implementing the Spin-Off, including costs to separate information systems, accounting, tax, legal and other professional services costs and recruiting and relocation costs associated with hiring key senior management personnel new to us. In addition, the businesses that we operate have historically taken advantage of our larger size and purchasing power prior to the Spin-Off in procuring goods and services. After the Spin-Off, we are no longer able to rely on this purchasing power and, as a result, we may not be able to obtain goods and services from third-party service providers and vendors at prices or on terms as favorable as those we obtained prior to the Spin-Off. Furthermore, prior to the Spin-Off, our businesses have obtained services from, or engaged in transactions with, our affiliates under intercompany agreements. Navient and its affiliates will provide services to us and our affiliates following the Spin-Off under a transition services agreement for a transition period and potentially thereafter. The fees charged by Navient and its affiliates for the provision of these services to us and our affiliates may be higher than those charged prior to the Spin-Off. All of these factors will result in costs that are higher than the amounts reflected in historical financial statements which could cause our profitability to decrease.
We continue to have significant exposures to risks related to Navient's loan servicing operations and its creditworthiness. If we are unable to obtain services, complete the transition of our origination and loan servicing operations as planned, or obtain indemnification payments from Navient, we could experience higher than expected costs and operating expenses and our results of operations and financial condition could be materially and adversely affected.
At the time of this filing, our loan origination and servicing capabilities continue to be provided by Navient pursuant to a transition services agreement. Pursuant to the Separation and Distribution Agreement and transition services agreement, Navient will also continue to bear significant responsibility for its servicing activities undertaken for the Bank during this transition period. We are continuing to work with Navient to complete an orderly and staged transition to our own separate, stand-alone loan origination and servicing platforms. Any unexpected delays or additional costs or expenses to complete this transition or to provide the servicing activities conducted by Navient on our behalf, whether or not due to Navient's actions, could significantly affect our operating expenses and earnings. Navient has also agreed to be responsible, and indemnify us, for all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to the Spin-Off other than those specifically excluded in the Separation and Distribution Agreement. Some significant examples of the types of indemnification obligations Navient has include:

- Pursuant to a tax sharing agreement, Navient has agreed to indemnify us for $283 million in deferred taxes that the Company will be legally responsible for but that relate to gains recognized by the Company's predecessor on debt repurchases made prior to the Spin-Off.

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Navient has responsibility to assume new or ongoing litigation matters relating to the conduct of most pre-Spin-Off SLM businesses operated or conducted prior to the Spin-Off.

- Under the terms of the Separation and Distribution Agreement, Navient is responsible for funding all liabilities under the recently agreed regulatory orders with the FDIC and the Department of Justice, other than fines directly levied against the Bank in connection with these matters. Under the Department of Justice order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

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

We may not achieve some or all of the expected benefits of the Spin-Off, and the Spin-Off may adversely affect our business.

We may not be able to achieve the full strategic and financial benefits expected to result from the Spin-Off, or such benefits may be delayed or not occur at all. The Spin-Off is expected to provide the following benefits, among others: (i) a distinct investment identity allowing investors to evaluate the merits, performance, and future prospects of the Company separately from Navient; (ii) cash flows significantly in excess of preferred stock dividend and debt service obligations; (iii) more efficient allocation of capital for the Company and Navient; (iv) reducing the likelihood the Company is designated a systemically important financial institution; and (v) a separate equity structure that allows direct access by the Company to the capital markets and the use of our equity for acquisitions and equity compensation.

We may not be able to realize these and other anticipated benefits for a variety of reasons, including, among others: (a) the Spin-Off will continue to require significant amounts of management's time and effort for the foreseeable future, which may divert management's attention from operating our business; (b) following the Spin-Off, the Company may be more susceptible to market fluctuations and other adverse events than if it were still part of the larger SLM Corporation that existed prior to the Spin-Off; (c) since the Spin-Off, our business is less diversified than our business prior to the Spin-Off; and (d) other actions required to separate our business from Navient could disrupt our operations. If we fail to achieve some or all of the benefits expected to result from the Spin-Off, or if such benefits are delayed, the business, financial condition and results of our operations of could be adversely affected and the value of its stock could be impacted.

Our common and preferred stock prices may fluctuate significantly.

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

- Actual or anticipated fluctuations in our operating results
- Our smaller market capitalization as compared to pre-Spin-Off SLM
- Changes in earnings estimated by securities analysts or our ability to meet those estimates
- Our policy of paying no common stock dividends
- The operating and stock price performance of comparable companies
- Changes to the regulatory and legal environment under which we and our subsidiaries operate
- Domestic and worldwide economic conditions

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

- Significant sales of our preferred stock, or the expectation of these sales or expectations of same
- Lack of credit agency ratings or FDIC insurance
- Movements in interest rates and spreads that negatively affect return
- Call and redemption features

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

Sallie Mae and Navient will each be subject to restrictions under a tax sharing agreement between them, and a violation of the tax sharing agreement may result in tax liability to Sallie Mae and to its stockholders.

In connection with the Spin-Off, the Company entered into a tax sharing agreement with Navient to preserve the tax-free treatment of the separation and distribution of Navient. Under this tax sharing agreement, both the Company and Navient will be restricted from engaging in certain transactions that could prevent the Spin-Off from being tax-free to the Company and its stockholders at the time of the Spin-Off for U.S. federal income tax purposes. Compliance with the tax sharing agreement and the restrictions therein may limit the Company's near-term ability to pursue certain strategic transactions or engage in activities that might be beneficial from a business perspective, including M&A transactions. This may result in missed opportunities or the pursuit of business strategies that may not be as beneficial for the Company and which may negatively affect the Company's anticipated profitability. If Navient fails to comply with the restrictions in the tax sharing agreement and as a result the Spin-Off was determined to be taxable for U.S. federal income tax purposes, the Company and its stockholders at the time of the Spin-Off that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities. Although the tax sharing agreement will provide that Navient is required to indemnify the Company for taxes incurred by the Company that may arise were Navient to fail to comply with its obligations under the tax sharing agreement, there is no assurance that Navient will have the funds to satisfy that liability. Also, Navient will not be required to indemnify our stockholders for any tax liabilities they may incur for its violation of the tax sharing agreement.

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

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, monitor, control and report the types of risk to which we are subject. We seek to monitor and control our risk exposure through a framework of policies, procedures, limits and reporting requirements. Management of risks in some cases depends upon the use of analytical and/or forecasting models. If the models that we use to mitigate these risks are inadequate, we may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and our financial condition and results of operations could be materially adversely affected.

Competition

We operate in a competitive environment. Our product offerings are primarily concentrated in loan and savings products for higher education.

We compete in the private credit lending business with banks and other consumer lending institutions, many with strong consumer brand name recognition and greater financial resources. We compete based on our products, origination capability and customer service. To the extent our competitors compete aggressively or more effectively, we could lose market share to them or subject our existing loans to refinancing risk. Our product offerings may not prove to be profitable and may result in higher than expected losses.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the marketplace. This concentration also creates risks in our business, particularly in light of our concentrations as a Private Education Loan lender. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, if the cost of attendance of higher education decreases, if public resistance to higher education costs increases, or if the demand for higher education loans decreases, our business could be negatively affected. In addition, the federal government, through the Direct Student Loan Program ("DSLP"), poses significant competition to our private credit loan products. If loan limits under the DSLP and other federal education lending programs increase, federally-funded education loans could be more widely available to students and their families, resulting in further decreases in the size of the Private Education Loan market and demand for our Private Education Loan products.

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Share Repurchases
The following table provides information relating to our purchase of shares of our common stock in the three months ended June 30, 2014.

(In thousands, except per share data)	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs[2]
Period:				
April 1 - April 30, 2014	—	—	—	—
May 1 - May 31, 2014	47	$8.87	—	—
June 1 - June 30, 2014	312	$8.58	—	—
Total second-quarter 2014	359	$8.62	—	

(1) All shares purchased are pursuant to the shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercise of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.
(2) At the present time the Company does not have a publicly announced share repurchase plan or program.

The closing price of our common stock on the NASDAQ Global Select Market on June 30, 2014 was $8.31.
Item 3. Defaults Upon Senior Securities
Nothing to report.
Item 4. Mine Safety Disclosures
Nothing to report.
Item 5. Other Information

Supervision and Regulation
Overview

The following discussion addresses the significant areas of supervision and regulation applicable to our current business and operations.

We are subject to extensive regulation, examination and supervision by various federal, state and local authorities. Significant aspects of the laws and regulations that apply to us and our subsidiaries are described below. These descriptions are qualified in their entirety by reference to the full text of the applicable statutes, legislation, regulations and policies, as they may be amended, and as interpreted and applied, by federal, state and local agencies. Such statutes, regulations and policies are continually under review and are subject to change at any time, particularly in the current economic and regulatory environment.
Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was adopted to reform and strengthen regulation and supervision of the U.S. financial services industry. It contains comprehensive provisions to govern the practices and oversight of financial institutions and other participants in the financial markets. It imposes significant regulations, additional requirements and oversight on almost every aspect of the U.S. financial services industry, including increased capital and liquidity requirements, limits on leverage and enhanced supervisory authority. It requires the issuance of many implementing regulations which will take effect over several years, making it difficult to anticipate the overall impact to us, our affiliates, including the Bank as well as our customers and the financial industry more generally. While

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the overall impact cannot be predicted with any degree of certainty, we are and will continue to be affected by the Dodd-Frank Act in a wide range of areas.

The Consumer Financial Protection Act, a part of the Dodd-Frank Act, established the CFPB, which has broad authority to write regulations under federal consumer financial protection laws and to directly or indirectly enforce those laws, including regulatory oversight of the Private Education Loan industry, and to examine financial institutions for compliance. It is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. It has authority to prevent unfair, deceptive or abusive practices by issuing regulations that define the same or by using its enforcement authority without first issuing regulations. The CFPB has been active in its supervision, examination and enforcement of financial services companies, most notably bringing enforcement actions, imposing fines and mandating large refunds to customers of several large banking institutions for practices relating to the sale of additional products associated with the extension of consumer credit. Once the Bank has four consecutive quarters with total assets of at least $10 billion, the CFPB will become its primary consumer compliance supervisor with exclusive examination authority and primary enforcement authority. The UDFI and FDIC will remain the prudential regulatory authorities with respect to the Bank’s financial strength.

The CFPB continues an active interest in the student loan industry undertaking a number of initiatives relative to the Private Education Loan Market and student loan servicing. On October 16, 2013, the Private Education Loan Ombudsman within the CFPB submitted its second report based on Private Education Loan inquiries received through the CFPB portal from October 1, 2012 through September 30, 2013, including 1,327 inquiries transmitted to Sallie Mae during that period. The Dodd-Frank Act created the Private Education Loan Ombudsman within the CFPB to receive and attempt to informally resolve inquiries about Private Education Loans. The Private Education Loan Ombudsman reports to Congress annually on the trends and issues that it identifies through this process. The report offers analysis, commentary and recommendations to address issues reported by consumers. The report’s key observations included: (1) just under 50 percent of all private student loan inquiries received were related to consumers seeking a loan modification or other option to reduce their monthly payment; (2) payment processing problems continue to represent a significant amount of the inquiries received by the CFPB, such as confusion about payment application policies, the application of excess payments and underpayments, timing of payment processing, access to payment histories, lost payments, obtaining payoff information and servicing transfers; and (3) many of the private student loan inquiries mirror the problems heard from consumers in the mortgage market and that recent changes to mortgage servicing and credit card servicing practices might be applicable to the Private Education Loan market.

Regulation of Sallie Mae Bank

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

General

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

Actions by Federal and State Regulators

Like all depository institutions, the Bank is regulated extensively under federal and state law. Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the UDFI and separately the FDIC as the insurer of bank deposits have the authority to compel or restrict certain actions on the Bank's part if they determine that it has insufficient capital or other resources, or is otherwise operating in a manner that may be deemed to be inconsistent with safe and sound banking practices. Under this authority, the Bank's regulators can require it to enter into informal or formal supervisory agreements, including board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders, pursuant to which the Bank would be required to take identified corrective actions to address cited concerns and to refrain from taking certain actions.

Enforcement Powers

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

At the time of this filing, the Bank remains subject to the 2014 FDIC Order. The 2014 FDIC Order replaces a prior cease and desist order jointly issued in August 2008 by the FDIC and the UDFI which was terminated on July 15, 2014. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the Department of Justice regarding disclosures and assessments of certain late fees, as well as compliance with the Servicemembers Civil Relief Act (“SCRA”). Under the FDIC’s 2014 Order, the Bank agreed to pay $3.3 million in fines and oversee the refund of up to $30 million in late fees assessed on loans owned or originated by the Bank since its inception in November 2005.

Under the terms of the Separation and Distribution Agreement, Navient is responsible for funding all liabilities under the regulatory orders, other than fines directly levied against the Bank in connection with these matters. Under the Department of Justice order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

As required by the 2014 FDIC Order and the Department of Justice order, the Bank is implementing new SCRA policies, procedures and training, has updated billing statement disclosures, and is taking additional steps to ensure its third-party service providers are also fully compliant in these regards. The 2014 FDIC Order also requires the Bank to have its current compliance with consumer protection regulations audited by independent qualified audit personnel. The Bank is focused on achieving timely and comprehensive remediation of each item contained in the orders and on further enhancing its policies and practices to promote responsible financial practices, customer experience and compliance.

In May 2014, the Bank received a Civil Investigative Demand from the CFPB in its capacity as a former affiliate of Navient as part of the CFPB’s separate investigation relating to fees and policies of pre-Spin-Off SLM during the period prior to the Spin-Off of Navient. We are cooperating fully with the CFPB but are not in a position at this time to predict the duration or outcome of the investigation. Given the timeframe covered by this demand, Navient would be responsible for all costs, expenses, losses or remediation likely to arise from this investigation.

Standards for Safety and Soundness

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

Dividends

The Federal Deposit Insurance Corporation Improvement Act generally prohibits a depository institution from making any capital distribution, including payment of a dividend, or paying any management fee to its holding company if the institution would thereafter be undercapitalized. In addition, federal banking regulations applicable to the Bank require minimum levels of capital that may limit the amounts available for payment of dividends. In addition, many regulators have a policy, but not a requirement, that a dividend payment should not exceed net income to date in the current year. Finally, the ability of the Bank to pay dividends, and the contents of its respective dividend policy, could be impacted by a range of regulatory changes made pursuant to the Dodd-Frank Act, many of which will require final implementing rules to become effective.

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the FDIC. The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. The Bank paid no dividends for the three months ended June 30, 2014 and 2013 or for the six months ended June 30, 2014. For the six months ended June 30, 2013, the Bank paid dividends of $120 million.
Capital Requirements under Basel III

The current risk-based capital guidelines that apply to the Bank are based on the 1988 Basel I capital accord. In 2007, the federal banking regulators established capital standards based on the advanced internal ratings-based approach for credit risk and the advanced measurement approaches for operational risk contained in the Basel Committee's second capital accord, referred to as "Basel II," for the largest and most internationally active U.S. banking organizations, which do not include the Bank. In December 2010, the Basel Committee reached agreement on a revised set of regulatory capital standards: Basel III. These new standards, which are aimed at increasing the quality and quantity of regulatory capital, seek to further strengthen financial institutions' capital positions by mandating a higher minimum level of common equity to be held, along with a capital conservation buffer to withstand future periods of stress.

In July 2013, the federal banking regulators issued the U.S. Basel III final rule. The final rule implements the Basel III capital framework and certain provisions of the Dodd-Frank Act, including the Collins Amendment. Certain aspects of the final rule, such as the new minimum capital ratios and the revised methodology for calculating risk-weighted assets, will become effective on January 1, 2015 for the Bank. Other aspects of the final rule, such as the capital conservation buffer and the new regulatory deductions from and adjustments to capital, will be phased in over several years beginning on January 1, 2015.

Consistent with the Basel Committee's Basel III capital framework, the U.S. Basel III final rule includes a new minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5 percent and a Common Equity Tier 1 capital conservation buffer of greater than 2.5 percent of risk-weighted assets that will apply to all U.S. banking organizations, including the Bank. Failure to maintain the capital conservation buffer will result in increasingly stringent restrictions on a banking organization's ability to make dividend payments and other capital distributions and pay discretionary bonuses to executive officers. The final rule also increases the minimum ratio of Tier 1 capital to risk-weighted assets from 4 percent to 6 percent, while maintaining the current minimum total risk-based capital ratio of 8 percent. In addition, for the largest and most internationally active U.S. banking organizations, which do not include the Bank, the final rule includes a new minimum supplementary leverage ratio that takes into account certain off-balance sheet exposures.

The U.S. Basel III final rule focuses regulatory capital on Common Equity Tier 1 capital, and introduces new regulatory adjustments and deductions from capital as well as narrower eligibility criteria for regulatory capital instruments. The new eligibility criteria for regulatory capital instruments results in, among other things, cumulative perpetual preferred stock not qualifying as Tier 1 capital.

Stress Testing Requirements

As of December 31, 2013, the Bank had total assets of $10.8 billion. Once the Bank's average total assets over four consecutive quarters exceed $10 billion, it will subsequently become subject to annual Dodd-Frank Act stress testing requirements. The Dodd-Frank Act imposes stress test requirements on banking organizations with total consolidated assets of more than $10 billion. The FDIC's implementing regulations require FDIC-regulated depository institutions, such as the Bank, to conduct annual company-run stress test scenarios provided by the FDIC and publish a summary of those results. If, as is expected, the proposed rule that revises Part 325 Subpart C of the FDIC Rules and Regulations is adopted, the Bank will be required to submit the results of its stress tests to the FDIC by July 31, 2016.

Deposit Insurance and Assessments

Deposits at the Bank are insured by the Deposit Insurance Fund (the "DIF"), as administered by the FDIC, up to the applicable limits established by law. The Dodd-Frank Act amended the statutory regime governing the DIF. Among other things, the Dodd-Frank Act established a minimum designated reserve ratio ("DRR") of 1.35 percent of estimated insured deposits, required that the fund reserve ratio reach 1.35 percent by September 30, 2020, and directed the FDIC to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments. Specifically, the Dodd-Frank Act requires the assessment base to be an amount equal to the average consolidated total assets of the insured depository institution during the assessment period, minus the sum of the average tangible equity of the insured depository institution during the assessment period and an amount the FDIC determines is necessary to establish assessments consistent with the risk-based assessment system found in the FDIA.

In December of 2010, the FDIC adopted a final rule setting the DRR at 2.0 percent. Furthermore, on February 7, 2011, the FDIC issued a final rule changing its assessment system from one based on domestic deposits to one based on the average consolidated total assets of a bank minus its average tangible equity during each quarter. The February 7, 2011 final rule modifies two adjustments added to the risk-based pricing system in 2009 (an unsecured debt adjustment and a brokered deposit adjustment), discontinues a third adjustment added in 2009 (the secured liability adjustment), and adds an adjustment for long-term debt held by an insured depository institution where the debt is issued by another insured depository institution. Under the February 7, 2011 final rule, the total base assessment rates will vary depending on the DIF reserve ratio.

With respect to brokered deposits, an insured depository institution must be well-capitalized in order to accept, renew or roll over such deposits without FDIC clearance. An adequately capitalized insured depository institution must obtain a waiver from the FDIC in order to accept, renew or roll over brokered deposits. Undercapitalized insured depository institutions generally may not accept, renew or roll over brokered deposits. For more information on the Bank's deposits, see the section titled "Certain Unaudited Financial and Statistical Information of Sallie Mae and Sallie Mae Bank."

Regulatory Examinations

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

Source of Strength

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

Community Reinvestment Act

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

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Properties

The following table lists the principal facilities owned by us as of June 30, 2014:

Location	Function	Related Business Area(s)	Approximate Square Feet
Newark, DE	Headquarters	Consumer Lending; Business Services; FFELP Loans; Other	160,000
Indianapolis, IN	Loan Servicing Center	Business Services	50,000

The following table lists the principal facilities leased by us as of June 30, 2014:

Location	Function	Related Business Area(s)	Approximate Square Feet
Reston, VA	Administrative Offices	Consumer Lending; Business Services; FFELP Loans; Other	18,000
Newton, MA	Upromise	Business Services	18,000
Salt Lake City, UT	Sallie Mae Bank	Consumer Lending	11,400

None of the facilities that we own is encumbered by a mortgage. We believe that our headquarters, loan servicing centers, data center, back-up facility and data management and collection centers are generally adequate to meet our long-term student loan and business goals. Our headquarters are currently located in owned space at 300 Continental Drive, Newark, Delaware, 19713.

Item 6. Exhibits
The following exhibits are furnished or filed, as applicable:

3.1	Amended and Restated Certificate of Incorporation of SLM Corporation
10.1	Employment Agreement, dated April 21, 2014 between Laurent C. Lutz and the Company†
10.2	Sallie Mae Employee Stock Purchase Plan, Amended and Restated as of June 25, 2014†
10.3	Form of SLM Corporation 2012 Omnibus Incentive Plan, Independent Director Restricted Stock Agreement - 2014†
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

†Management Contract or Compensatory Plan or Arrangement

SIGNATURES

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

SLM CORPORATION
(Registrant)

By: /S/ STEVEN J. MCGARRY
Steven J. McGarry
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
Date: July 23, 2014