

SLM CORP
Form 10-K
February 19, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from **to**

Commission file numbers 001-13251

SLM Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Other Jurisdiction of

Incorporation or Organization)

300 Continental Drive, Newark, Delaware
(Address of Principal Executive Offices)

(302) 283-8000

52-2013874
(I.R.S. Employer

Identification No.)

19713
(Zip Code)

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(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act

Common Stock, par value \$.20 per share.

Name of Exchange on which Listed:

The NASDAQ Global Select Market

6.97% Cumulative Redeemable Preferred Stock, Series A, par value \$.20 per share

Floating Rate Non-Cumulative Preferred Stock, Series B, par value \$.20 per share

Name of Exchange on which Listed:

The NASDAQ Global Select Market

Medium Term Notes, Series A, CPI-Linked Notes due 2017

Medium Term Notes, Series A, CPI-Linked Notes due 2018

6% Senior Notes due December 15, 2043

Name of Exchange on which Listed:

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2013 was \$9.9 billion (based on closing sale price of \$22.86 per share as reported for the NASDAQ Global Select Market).

As of January 31, 2014, there were 428,698,212 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the Registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

SLM CORPORATION

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

Definitions for certain capitalized terms used in this Annual Report on Form 10-K can be found in the Glossary at the end of this report.

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

AVAILABLE INFORMATION

Our website address is www.salliemae.com. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, copies of our Board Governance Guidelines, Code of Business Conduct (which includes the code of ethics applicable to our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer) and the governing charters for each committee of our Board of Directors are available free of charge on our website, as well as in print to any stockholder upon request. We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Principal Executive Officer or Principal Financial Officer) by posting such information on our website. Information contained or referenced on our website is not incorporated by reference into and does not form a part of this Annual Report on Form 10-K.

PART I.

**Item 1. Business
Overview**

SLM Corporation, more commonly known as Sallie Mae, is the nation's leading saving, planning and paying for education company. For 40 years, we have made a difference in students' and families' lives, helping more than 31 million Americans pay for college. We recognize there is no single way to achieve this task, so we provide a range of products to help families whether college is a long way off or right around the corner. We promote responsible financial habits that help our customers dream, invest and succeed.

We were formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise (GSE), with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, we terminated the federal charter, incorporated SLM Corporation as a business corporation in the State of Delaware, and dissolved the GSE. Our principal executive offices are located at 300 Continental Drive, Newark, Delaware 19713, and our telephone number is (302) 283-8000.

On May 29, 2013, we announced our intent to separate into two distinct publicly-traded entities—an education loan management business (NewCo) and a consumer banking business (SLM BankCo). It is our intent to effect the separation through the distribution of the common stock of NewCo, which was formed to hold the assets and liabilities associated with our education loan management business. In order to effect the separation, we will first undergo an internal corporate reorganization, which is necessary for the contemplated separation of NewCo from our consumer banking business. This internal corporate reorganization will be then followed by a pro rata share distribution of all of the shares of NewCo common stock to our stockholders that will implement the actual separation of NewCo. Throughout this Annual Report on Form 10-K, we sometimes collectively refer to the proposed internal corporate reorganization and separation as the Spin-Off. NewCo was incorporated under the temporary name New Corporation. The actual and brand name of NewCo will be publicly disclosed prior to the Spin-Off in an amendment to New Corporation's Form 10 registration statement. For a discussion of the reasons for the Spin-Off, its mechanics and the businesses to be retained by or transferred to and operated by NewCo and SLM BankCo, see the section titled Reorganization and the Spin-Off.

In this Annual Report on Form 10-K, we provide a review of our current business and operations as of and for the fiscal year ended December 31, 2013, as well as information regarding the proposed separation of our existing businesses in the event of the completion of the Spin-Off. Upon completion of the Spin-Off, SLM BankCo, a newly incorporated, publicly-traded holding company, will succeed and continue to operate our consumer banking business through Sallie Mae Bank, Upromise, Inc. (Upromise) and Sallie Mae Insurance Services. SLM BankCo will continue to use the brand name Sallie Mae and trade under our symbol SLM. NewCo, on the other hand, will hold the assets and liabilities related to our education loan management business, which constitute substantially all of our assets and liabilities, and NewCo will trade under a new symbol on the NASDAQ Global Select Market (the NASDAQ). Our historical financial statements prior to the Spin-Off will become the historical financial statements of NewCo. As a result, the presentation of the financial results of the business and operations of SLM BankCo, which will be the publicly-traded successor registrant to the Company, for periods arising after the completion of the Spin-Off will be substantially different from the presentation of our financial results in this Annual Report on Form 10-K and in our prior filings with the SEC. To provide additional information to our investors regarding the anticipated impact of the Spin-Off, we have included in this Annual Report on Form 10-K certain unaudited pro forma financial information of SLM BankCo, on a stand-alone basis as of and for the year ended December 31, 2013, to provide some reference for SLM BankCo's expected reissued historical financial statements post Spin-Off and future manner of presentation of its financial condition and results of operations. See the section titled SLM BankCo Pro Forma Financial Information (Unaudited).

For a discussion of the products and services to be offered by each of NewCo and SLM BankCo following completion of the Spin-Off, see the sections titled Business Segments, NewCo After the Spin-Off and SLM BankCo After the Spin-Off.

The completion of the Spin-Off is subject to certain customary conditions, including final approval by our Board of Directors, confirmation of the tax-free nature of the transaction by the Internal Revenue Service (IRS), and the effectiveness of New Corporation s registration statement, which was initially filed with the SEC on December 6, 2013 and subsequently amended on February 7, 2014, which can be accessed through the SEC s website at www.sec.gov/edgar. The contemplated Spin-Off will not require a stockholder vote. Although we currently anticipate the Spin-Off will be completed during the first half of 2014, there can be no assurance as to when or if the Spin-Off will ultimately occur. See the section titled Risks Related to the Spin-Off in Item 1A. Risk Factors for a discussion of the risks and uncertainties related to the Spin-Off. All information in this Annual Report on Form 10-K regarding the proposed Spin-Off, and any description of the anticipated consumer banking business of the registrant after the Spin-Off, is qualified by the foregoing.

Our Approach to Advising Students and Families How to Pay for College

Students and their families use multiple sources of funding to pay for their college education, including savings, current income, grants, scholarships, federal education loans and Private Education Loans. We use Private Education Loans to mean education loans to students or their families that are non-federal loans not insured or guaranteed under the previously existing Federal Family Education Loan Program (FFELP). We advise students and their families to follow a three-step process to pay for college. In recent years, we have increased our focus on business-to-consumer and business-to-business activities that align with each of these three steps and future plans revolve largely around continuing to develop these types of activities.

Step 1: Use scholarships, grants, savings and income.

We make available to consumers at no charge an extensive online database of scholarships which includes information about more than three million scholarships with an aggregate value in excess of \$16 billion. Our Upromise consumer savings network helps families jumpstart their save-for-college plan by providing financial rewards on everyday purchases. Traditional savings products, like High-Yield Savings Accounts, Money Market Accounts and CDs, are available through Sallie Mae Bank.

Step 2: Pursue federal government loan options.

We encourage consumers to explore federal government loan options. Our free online tool, the Education Investment Planner, helps families estimate the full cost of a college degree and build a customized plan to pay for the full cost of a college degree. The Education Investment Planner takes families through a series of questions, prompting users to model various funding sources including 529 college-savings plans, parent and student savings and income, scholarships, federal and state grants, institutional aid, and if necessary, federal and private student loans. The Education Investment Planner also estimates monthly payments on education loans and helps project how much a graduate would need to earn to keep payments manageable.

Step 3: Consider affordable Private Education Loans to fill the gap.

We offer Private Education Loan products to bridge the gap between family resources, federal loans, grants, student aid and scholarships, and the cost of a college education. While we actively maintain our presence in school marketing channels, we also continue to develop and evolve our marketing efforts through various other direct and indirect marketing channels, such as direct mailings, Internet channels and marketing alliances with various banks and financial institutions.

Our Approach to Assisting Students and Families in Repaying their Education Loans

In total, we provide service to approximately 13 million FFELP Loan, Direct Loan and Private Education Loan customers including cosigners, and post-default counseling to an additional 500,000 customers. This includes processing more than 70 million payments and making and responding to approximately 500 million calls annually. Employee emphasis is placed on providing service with accuracy, courtesy, consistency and empathy. If we fall short, we make it a priority to correct our mistake, and we make it a priority to prevent it from happening again.

We understand managing repayment of education loans is critical for students to achieve their educational goals, recognize their full earning potential, and develop a strong credit profile. A key indicator of future success in loan repayment is graduation. We encourage customers to plan for the full cost of their education to increase their likelihood of completing their course of study because we know that those who drop out or do not complete their course of study are more likely to default on their education loans.

When it comes to repaying education loans, customer success means making steady progress toward repayment, instead of falling behind on payments. Our experience has taught us that the transition from school to full repayment requires making and carrying out a financial plan. For many, this is their first borrowing experience. For new graduates, salaries grow over time, typically making payments easier to handle as their career progresses. It is also not uncommon for some to return to school, experience illness or encounter temporary interruptions in earnings.

To help customers manage these realities, we have made customer success and default prevention top priorities. Contact and counseling keep customers on track, and we go beyond what is required in our efforts to assist customers with past-due student loan payments. That outreach pays off: approximately 90 percent of federal loan customers we reach successfully leverage the options available to them to resolve their delinquency. As a result of our outreach, the federal education loans we service default at rates 30 percent better than the national average.

Most customers tell us they want to repay their loans as quickly as they can, thus minimizing their borrowing costs. Customers who request additional payment flexibility are most frequently in the early years of repayment. Having multiple repayment options from which to choose helps customers find a plan that is right for their individual situation. No one option serves all, and we use a variety of tools such as videos, online resources, letters, text messaging, email, and live chat to facilitate customer access to repayment information that allows them to make an informed choice that is right for their financial circumstance and goals.

One of the hallmarks of our responsible borrowing philosophy is to encourage payments, even small ones, instead of no payment. When done while the student is in school and even when not required, even nominal payments may help minimize the accumulation of total indebtedness. We also recognize that, during periods of repayment, customers may struggle to meet their financial obligations. We work with each individual to understand their financial situations and identify alternative payment arrangements. And when we do, our counseling includes straight talk about debt, including the impact of delaying repayment on total borrowing costs.

Business Segments

Currently, we have three primary operating business segments Consumer Lending, Business Services and FFELP Loans. A fourth segment Other, primarily consists of the financial results of our holding company, including activities related to the repurchase of debt, the corporate liquidity portfolio and all overhead, as well as the results from certain, smaller wind-down and discontinued operations.

A summary of financial information for each of our business segments for each of the last three fiscal years is included in Note 15 Segment Reporting to the consolidated financial statements.

Consumer Lending Segment

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' resources. We continue to offer loan products to parents and graduate students where we believe we are competitive with similar federal education loan products. In this segment, we earn net interest income on our Private Education Loan portfolio (after provision for loan losses). Operating expenses for this segment include costs incurred to acquire and to service our loans.

Managed growth of our Private Education Loan portfolio is central not only to our strategy for growing the Consumer Lending segment but also for the future of Sallie Mae Bank. In 2013, we originated \$3.8 billion of Private Education Loans, an increase of 14 percent and 39 percent from the years ended December 31, 2012 and 2011, respectively. As of December 31, 2013, 2012 and 2011, we had \$37.5 billion, \$36.9 billion, and \$36.3 billion of Private Education Loans outstanding, respectively. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segment Earnings Summary Core Earnings Basis Consumer Lending Segment for a full discussion of our Consumer Lending business and related Private Education Loan portfolio.

Private Education Loans in Context

Private Education Loans help students and families fill the gap between their own resources, financial aid, federal education loans, and the total cost of college. Historically, Private Education Loans have not replaced federal aid and education loans. However, the interplay between federal and Private Education Loans, their respective terms and conditions and interest rate structures has changed significantly over time. Most notably, over time, federal education lending has expanded to include loans to graduate students and parents of undergraduate students sufficient to cover the full cost of college and graduate school attendance.

We offer responsible Private Education Loan products to families and students. Since 2009, we have:

voluntarily required school certification of both the need for, and the amount of, all of our Private Education Loans;

introduced our Smart Option Student Loan product to emphasize payments while in school and to shorten repayment terms based on loan amounts and class level;

obtained cosigners on an average of 90 percent of all Private Education Loans originated; and

offered, through our rate reduction program, temporary relief to assist customers having difficulty making payments on their Private Education Loans.

In addition, we provide many repayment options—reduced monthly payments, interest-only payments, extended repayment schedules, temporary interest rate reductions and, if appropriate, forbearance—all scaled to a customer's individual circumstances. These programs, much like the adjustments available to customers under federal student loans, must be used wisely given their potential to significantly increase the overall costs of education financing to customers.

Private Education Loans bear the full credit risk of the customer and cosigner. We manage this risk by underwriting and pricing based upon customized credit scoring criteria and the addition of qualified cosigners. For the year ended December 31, 2013, our annual charge-off rate for Private Education Loans (as a percentage of loans in repayment) was 2.8 percent, as compared with 3.4 percent for the prior year.

The core of our marketing strategy is to generate student loan originations by promoting our products on campus through the financial aid office and through direct marketing to students and their families. Since the beginning of 2006, virtually all of our Private Education Loans have been originated and funded by Sallie Mae Bank, a Utah industrial bank subsidiary, which is regulated by the Utah Department of Financial Institutions

(UDFI) and the Federal Deposit Insurance Corporation (FDIC). At December 31, 2013, Sallie Mae Bank had total assets of \$10.7 billion, including \$6.7 billion in Private Education Loans and \$1.4 billion of FFELP Loans. As of the same date, Sallie Mae Bank had total deposits of \$9.3 billion. Sallie Mae Bank currently relies on both retail and brokered deposits to fund its assets and periodically sells originated Private Education Loans to affiliates for inclusion in securitization trusts or collection. See the section titled SLM BankCo Funding Sources for a description of SLM BankCo s funding sources after the Spin-Off. Currently, Sallie Mae and its affiliates provide services and technology support to Sallie Mae Bank through various service agreements. See the section titled SLM BankCo s Post-Separation Relationship with NewCo for a description of how these services will be provided after the Spin-Off.

Our ability to obtain deposit funding and offer competitive interest rates on deposits will become more important to sustain the continuing growth of our Private Education Loan originations. Our ability to obtain such funding is also dependent in part on the capital level of Sallie Mae Bank and compliance with other applicable regulatory requirements. At the time of this filing, there are no restrictions on Sallie Mae Bank s ability to obtain deposit funding or the interest rates Sallie Mae Bank charges other than those restrictions generally applicable to all similarly situated banks.

At the time of this filing, Sallie Mae Bank remains subject to a cease and desist order originally issued in August 2008 by the FDIC and the UDFI. In July 2013, the FDIC notified us that it plans to replace the existing cease and desist order on Sallie Mae Bank with a new formal enforcement action against Sallie Mae Bank that would more specifically address certain cited violations of Section 5 of the Federal Trade Commission Act (the FTC Act), including practices relating to payment allocation practices and the disclosures and assessments of certain late fees, as well as alleged violations under the Servicemembers Civil Relief Act (the SCRA). In November 2013, the FDIC notified us that the new formal enforcement action would be against Sallie Mae Bank and an additional enforcement action would be against Sallie Mae, Inc. (SMI), in its capacity as a servicer of education loans for other financial institutions, and would include civil money penalties and restitution. Sallie Mae Bank has been notified by the UDFI that it does not intend to join the FDIC in issuing any new enforcement action. For additional information regarding these and related regulatory matters and the reserves we have recorded in connection therewith, see Item 3. Legal Proceedings Regulatory Matters. Our failure to comply with various laws and regulations, the terms of the cease and desist order, or to timely address issues raised during any examination could result in limitations on our ability to obtain deposit funding in Sallie Mae Bank and could materially and adversely impact Sallie Mae Bank s business, financial condition and results of operations.

Key Drivers of Private Education Loan Market Growth

The size of the Private Education Loan market is based on three primary factors: college enrollment levels, the costs of attending college and the availability of funds from the federal government to pay for a college education. The amounts that students and their families can contribute toward a college education and the availability of scholarships and institutional grants are also important. If the cost of education continues to increase at a pace exceeding family income and savings growth and the availability of federal fund grants, and scholarship levels remain constant or decrease, more students and families can be expected to borrow privately. If enrollment levels or college costs decline or the availability of federal fund grants and scholarships significantly increase, Private Education Loan originations could decrease.

Undergraduate and graduate enrollments at four-year institutions increased by approximately 16 percent from 2007 to 2011. According to ED s projections released in January, 2013, enrollment is projected to increase by 12 percent from 2012 to 2021. While a clear trend has not yet been identified, recent enrollment statistics indicate more moderate enrollment growth in the near term.

¹ Source: U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2021 (NCES 2013-008, January 2013)

Average tuition and fees at four-year public institutions and four-year private institutions were \$8,893 and \$30,094, respectively for Academic Year (AY) 2013-2014 and have increased at a compound annual growth rate of 6.7 percent and 4.7 percent, respectively, since AY 2003-2004.²

There has been a 48 percent increase in borrowing from federal loan programs since AY 2007-2008. In AY 2012-2013, borrowing from federal loan programs, according to the College Board, totaled \$101.5 billion, an increase of 136 percent since AY 2002-2003.³ A substantial portion of this increase was driven by the creation of the Grad PLUS program in 2006 and increases in federal borrowing limits in 2007 and 2008. The College Board also reported that, over the same time period, federal grants increased 198 percent to \$47 billion. In AY 2012-2013, borrowing from Private Education Loan programs increased to an estimated \$7.2 billion, up 13 percent over the previous year; an increase of 3 percent as compared to AY 2002-2003 levels.²

Tuition and fees represent only a portion of total costs of attendance. Utilizing consistent data from available public sources with regard to room and board, books and supplies and transportation costs, we have estimated total costs of college attendance have grown from approximately \$324 billion for AY 2007-2008 to \$438 billion for AY 2012-2013.³

We face competition for Private Education Loans from a group of the nation's larger banks and local credit unions.

Implications of the Spin-Off

If the Spin-Off occurs, SLM BankCo and its subsidiaries will continue to originate, finance and service Private Education Loans and earn revenue on the Private Education Loan portfolio held by SLM BankCo and its affiliates. By agreement, NewCo will not originate Private Education Loans prior to 2019. On a pro forma basis as of December 31, 2013 and as currently proposed as part of the Spin-Off, SLM BankCo will retain approximately \$6.5 billion of our Private Education Loan portfolio, and NewCo will continue to service and collect on its own portfolio of education loans, as well as on those owned by numerous banks, credit unions and non-profit education lenders.

During a transition period, NewCo and its affiliates will assist SLM BankCo in the servicing and collections on the Private Education Loans held by SLM BankCo and its affiliates. It is currently anticipated that NewCo will also continue to service Private Education Loans owned by SLM BankCo with respect to individual borrowers who also have Private Education Loans which are owned by NewCo. NewCo will also service and collect on SLM BankCo's portfolio of FFELP Loans. For additional information, see the section titled "SLM BankCo's Post-Separation Relationship with NewCo."

Business Services Segment

We are currently the largest holder, servicer and collector of loans made under the previously existing FFELP, and the majority of our income has been derived, directly or indirectly, from our portfolio of FFELP Loans and servicing we have provided for FFELP Loans. In 2010, Congress passed legislation ending the origination of education loans under FFELP. The terms and conditions of existing FFELP Loans were not affected by this legislation. Our FFELP Loan portfolio will amortize over approximately 20 years. The fee income we have earned from providing servicing and contingent collection services on such loans will similarly decline over time. For a full description of FFELP, see Appendix A "Description of Federal Family Education Loan Program." We also provide servicing, loan default aversion and defaulted loans collection services on

² Source: The College Board "Trends in College Pricing 2013" © 2013 The College Board. www.collegeboard.org. Cost of attendance is in current dollars and includes tuition, fees and on-campus room and board.

³ Extrapolated from various materials produced by U.S. Department of Education, College Board, McKinsey & Company, MeasureOne, National Student Clearing House, Company Analysis.

behalf of Guarantors of FFELP Loans and other institutions, including the U.S. Department of Education (ED). With the elimination of FFELP in July 2010, these FFELP-related revenue sources will continue to decline.

After the Spin-Off is completed, NewCo will perform substantially all of the activities of our existing Business Services segment, other than the activities of Upromise and Sallie Mae Insurance Services, which will be carried on by SLM BankCo.

Servicing revenues from the FFELP Loans we own and manage represent intercompany charges to the FFELP Loans segment at rates paid to us by the trusts which own the loans. These fees are legally the first payment priority of the trusts and exceed the actual cost of servicing the loans. Intercompany loan servicing revenues declined to \$530 million in 2013 from \$670 million in 2012. Intercompany loan servicing revenues will decline as the FFELP portfolio amortizes. Prepayments of FFELP Loans could further accelerate the rate of decline.

In 2013, we earned account maintenance fees on FFELP Loans serviced for Guarantors of \$38 million, down from \$44 million in 2012. These fees will continue to decline as the portfolio amortizes. Prepayments of FFELP Loans could further accelerate the rate of decline.

We provide default aversion, post default collections and claims processing to 15 of the 30 Guarantor agencies that serve as an intermediary between the U.S. federal government and FFELP lenders and are responsible for paying the claims made on defaulted loans. In 2013, collection revenue from Guarantor clients totaled \$303 million, compared to \$264 million the prior year. As FFELP Loans are no longer originated, these revenues will generally decline over time unless we acquire additional work for Guarantor clients. The rate at which these revenues will decrease will also be affected by the Bipartisan Budget Act (the Budget Act) enacted on December 26, 2013 and effective on July 1, 2014, which reduces the amount to be paid to Guarantor agencies for defaulted FFELP Loans that are rehabilitated under Section 428F of the Higher Education Act (the HEA). The precise effect of the Budget Act will depend on the decisions of our Guarantor agency clients about their continued participation in FFELP default collections, as well as by how the fee reduction is implemented by ED. We earned approximately \$283 million in fee income from these activities in 2013, and we currently estimate the Budget Act will reduce fee income in 2014 by approximately \$60 million.

In 2013, FFELP-related revenues accounted for 77 percent of total Business Services segment revenues, as compared with 82 percent and 82 percent, respectively, for the previous two years. Total Business Services segment revenues were \$1.16 billion for the year ended December 31, 2013, down from \$1.20 billion for the prior year.

The end of the FFELP program will likely cause owners of FFELP Loan portfolios as well as Guarantors of those loans to seek to further reduce their FFELP servicing costs or sell those portfolios. Given the volume of FFELP Loans we service for our affiliates and third parties, we are, and after the Spin-Off NewCo will be, uniquely situated to adapt to the increasing levels of education loan-specific disclosure, compliance, servicing and collection standards which other financial institutions and servicers may not find economical to continue to support. Acquiring additional FFELP servicing volume as others sell FFELP portfolios, exit existing FFELP servicing businesses or seek to find lower cost providers for those services is a key component of our current Business Services growth strategy, notwithstanding the end of the FFELP program, and, after completion of the Spin-Off, will be a key component of NewCo's Business Services segment growth strategy.

ED Collection and Servicing Contracts

Since 1997, we have provided collection services on defaulted student loans to ED, and these collection services will continue to be provided by the Company, or NewCo should the Spin-Off occur. The current contract runs through April 21, 2015. There are 21 other collection providers, of which we compete with 16 providers for account allocation based on quarterly performance metrics. The remaining five providers are small businesses that are ensured a particular allocation of business. As a consistent top performer, our share of allocated accounts

has ranged from six percent to eight percent for this contract period. Currently, we are participating in ED's procurement process for a new debt collection contract and expect them to announce the recipients by April 30, 2014.

Since the second quarter of 2009, we have been one of four large servicers awarded a servicing contract by ED to service Direct Student Loan Program (DSL) federal loans owned by ED. We serviced approximately 5.7 million accounts under this DSL servicing contract as of December 31, 2013. The DSL servicing contract spans five years with one five-year renewal at the option of ED. In November 2013, ED gave notice to Sallie Mae of its intent to exercise its five-year renewal option to extend the DSL servicing contract. As such, we will continue to compete for DSL servicing volume from ED with the three other large servicing companies that also have similar contracts. New account allocations for the upcoming contract year are awarded annually based on each company's performance on five different metrics over the most recently ended contract year: defaulted borrower count, defaulted borrower dollar amount, a survey of borrowers, a survey of schools and a survey of ED personnel. Pursuant to the contract terms related to annual volume allocation of new loans, the maximum any servicer could be awarded is 40 percent of net new borrowers in that contract year. Our share of new loans serviced for ED under the contract increased to 18 percent in 2013 from 15 percent in the prior contract year as a result of our relative standing, as compared to other servicing companies, on the ED Scorecard. We earned \$109 million of revenue under the contract for the year ended December 31, 2013.

To date, the DSL servicing contract with ED has not contributed meaningful net income to us; however, the opportunity to significantly and profitably expand the services we can provide under the DSL directly to ED or otherwise, has been an important component of the Business Services segment's growth strategy and will continue to be an important component of NewCo's Business Services segment growth strategy if the Spin-Off occurs. In fiscal year 2014, ED is projected to originate more than \$112 billion in new federal education loans and spend more than \$1.7 billion in contracted services. To expand the services we provide under the DSL, we or, upon completion of the Spin-Off, NewCo will seek to improve on the performance metrics that determine the allocation of new accounts under the servicing contract with ED.

We have generated significant volumes of work and consistently delivered high levels of objectively measurable performance under both the ED collection contract and the DSL servicing contract. However, to date, the servicing contract structure has not permitted us to scale the work we are doing to achieve meaningful profitability.

Other

Upromise generates transaction fees through our Upromise consumer savings network. Since inception through December 31, 2013, members have earned approximately \$800 million in rewards by purchasing products at hundreds of online retailers, booking travel, purchasing a home, dining out, buying gas and groceries, using the Upromise World MasterCard, or completing other qualified transactions. We earn a fee for the marketing and administrative services we provide to companies that participate in the Upromise savings network. We also compete with other loyalty shopping services and companies. After the Spin-Off, the Upromise consumer savings network will be operated by SLM BankCo.

Previously, we provided program management services for 529 college-savings plans through our 529 college-savings plan administration business and our Campus Solutions business provided processing capabilities to educational institutions designed to help campus business offices increase their services to students and families. However, in the second quarter of 2013, we sold our Campus Solutions business and recorded an after-tax gain of \$38 million. Additionally, in the fourth quarter of 2013, we sold our 529 college-savings plan administration business and recorded an after-tax gain of \$71 million.

FFELP Loans Segment

Our FFELP Loans segment consists of our FFELP Loan portfolio (approximately \$104.6 billion as of December 31, 2013) and the underlying debt and capital funding the loans. We are currently the largest holder of

FFELP Loans. 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. In the case of death, disability or bankruptcy of the borrower, these guarantees cover 100 percent of the loan's principal and accrued interest. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segment Earnings Summary Core Earnings Basis FFELP Loans Segment for a full discussion of our FFELP Loans segment. After completion of the Spin-Off, we anticipate that SLM BankCo will retain only Sallie Mae Bank's FFELP Loan portfolio (approximately \$1.4 billion as of December 31, 2013), and NewCo will retain the remainder of our FFELP Loan portfolio (approximately \$103.2 billion as of December 31, 2013).

As a result of the long-term funding used in the FFELP Loan portfolio and the insurance and guarantees provided on these loans, the net interest margin recorded in the FFELP Loans segment is relatively stable and the capital we choose to retain with respect to the segment is modest. For more discussion of the FFELP and related credit support mechanisms, see Appendix A Description of Federal Family Education Loan Program.

In 2013, we sold Residual Interests in FFELP Loan securitization trusts to third parties. We continue to service the student loans in the trusts under existing agreements, and after completion of the Spin-Off, NewCo and its affiliates will continue to service and collect the student loans owned by such trusts. As a result of the sale of the Residual Interests in FFELP securitizations, we removed securitization trust assets of \$12.5 billion and the related liabilities of \$12.1 billion from our balance sheet and recorded a \$312 million gain as part of gains (losses) on sales of loans and investments for the year ended December 31, 2013.

Our FFELP Loan portfolio will amortize over approximately 20 years. Our goal is to maximize the cash flow generated by the portfolio. We will seek to acquire other third-party FFELP Loan portfolios to add net interest income and servicing revenue, and this FFELP Loan acquisition strategy will be maintained by NewCo after the completion of the Spin-Off.

The HEA continues to regulate every aspect of the FFELP, including ongoing communications with borrowers and default aversion requirements. Failure to service a FFELP Loan properly could jeopardize the insurance and guarantees and federal support on these loans. The insurance and guarantees on our existing loans were not affected by the July 2010 termination of the FFELP program.

Other Segment

The Other segment consists primarily of the financial results related to activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from certain, smaller wind-down and discontinued operations within this segment. Overhead expenses include costs related to executive management, the Board of Directors, accounting, finance, legal, human resources, stock-based compensation expense and certain information technology costs related to infrastructure and operations.

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.

As noted in more detail below, in coming years we expect the regulators overseeing several of our businesses will increase in number or change and consumer protection regulations and standards will evolve to become more detailed in scope. We expect this evolution will significantly add to our compliance, marketing, servicing and operating costs. Currently enhanced operations and compliance processes cannot provide assurance that past practices or products will not be the focus of examinations, inquiries or lawsuits, including, for example, the pending regulatory matters described in Item 3. Legal Proceedings. Prior to 2009, one or more of our current or then-existing subsidiaries were involved in the origination and sale of home mortgages, automobile loans, boat/RV/manufactured housing loans, construction loans, and other personal loans.

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 Sallie Mae Bank as well as our customers and the financial industry more generally. While 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 Consumer Financial Protection Bureau (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 Sallie Mae Bank has four consecutive quarters with total assets of at least \$10 billion, the CFPB will become its primary compliance supervisor. The UDFI and FDIC will remain the prudential regulatory authorities with respect to Sallie Mae Bank's financial strength.

Throughout 2013, the CFPB continued to be active in the student loan industry and undertook a number of initiatives relative to the Private Education Loan Market and student loan servicing, including:

In February 2013, the CFPB published a notice soliciting information on potential options to offer more affordable repayment options to borrowers having difficulty repaying their private student loans. Based on the more than 28,000 comments received, on May 8, 2013, the CFPB published a report highlighting the ways in which private student loan debt can be a roadblock to financial soundness for consumers. The report analyzes the impact of private student loan debt on the broader economy, assesses recent actions of policymakers in the student loan market and discusses policy options put forth by the public regarding private student loans. Reports such as these may continue to influence regulatory developments in the student lending market. The report proposes a number of considerations for policymakers and market participants, such as refinancing relief and monthly payments more closely correlated with a borrower's debt-to-income ratio. Certain of these CFPB recommendations in the report could negatively affect our private education loan portfolio if implemented. For a discussion on our approach to helping customers, see the section titled *Our Approach to Assisting Students and Families in Repaying their Education Loans*.

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.

On December 3, 2013, the CFPB issued a final rule defining larger participants of the student loan servicing market. The rule, which will become effective on March 1, 2014, will allow the CFPB to federally supervise certain nonbank student loan servicers for the first time. Under the final rule, the CFPB will have supervisory authority over any nonbank student loan servicer that services more than one million borrower accounts, including accounts for both Private Education Loans and federal student loans. Our student loan servicing subsidiaries will be subject to this new oversight. The CFPB's supervision will include gathering reports, conducting examinations for compliance with federal consumer financial laws and taking enforcement actions as appropriate, similar to the CFPB's current supervisory authority over large bank student loan servicers.

Debt Collection Supervision

Consistent with the authority granted to it under the Dodd-Frank Act, the CFPB also maintains supervisory authority over larger consumer debt collectors. On October 24, 2012, the CFPB issued its final debt collection larger participant rule and examination procedures. The rule defines larger participants as third-party debt collectors, debt buyers and collection attorneys with more than \$10 million in annual receipts resulting from consumer debt collection. The rule became effective January 2, 2013. Under the rule, our collection subsidiaries are considered larger participants and are subject to supervision. The issuance of the CFPB's rules does not preempt the various and varied levels of state consumer and collection regulations to which the activities of our subsidiaries are currently subject. We also utilize third-party debt collectors to collect certain defaulted and charged-off education loans. We continue to be responsible for oversight of their procedures and controls.

Regulation of Sallie Mae Bank

Sallie Mae Bank was chartered in 2006 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, Sallie Mae Bank and our other non-bank subsidiaries.

General

Sallie Mae 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 Sallie Mae 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, Sallie Mae 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 Sallie Mae 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, Sallie Mae 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 Sallie Mae 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 Sallie Mae 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, Sallie Mae Bank remains subject to a cease and desist order originally issued in August 2008 by the FDIC and the UDFI. In July 2013, the FDIC notified us that it plans to replace the existing cease and desist order on Sallie Mae Bank with a new formal enforcement action against Sallie Mae Bank that would more specifically address certain cited violations of Section 5 of the FTC Act, including practices relating to payment allocation practices and the disclosures and assessments of certain late fees, as well as alleged violations under the SCRA. In November 2013, the FDIC notified us that the new formal enforcement action would be against Sallie Mae Bank and an additional enforcement action would be against SMI, in its capacity as a servicer of education loans for other financial institutions, and would include civil money penalties and restitution. Sallie Mae Bank has been notified by the UDFI that it does not intend to join the FDIC in issuing any new enforcement action. For additional information regarding these regulatory and related matters and the reserves we have recorded in connection therewith, see Item 3. Legal Proceedings Regulatory Matters. We and Sallie Mae Bank may be required to, or otherwise determine to, make changes to the business practices and products of Sallie Mae Bank and our other affiliates to respond to regulatory concerns. Following the Spin-Off, Sallie Mae Bank will continue to oversee significant activities performed outside Sallie Mae Bank by affiliates.

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 Sallie Mae 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 Sallie Mae Bank require minimum levels of capital that 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 Sallie Mae 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.

In addition to the foregoing, Sallie Mae Bank's annual business plans are periodically reviewed by the FDIC. Recently the FDIC expressed its objection to the payment of dividends from Sallie Mae Bank to the Company prior to the completion of the Spin-Off. The bases for the objection are unrelated to the current capitalization of Sallie Mae Bank or the results of its operations. The FDIC has stated its preference that Sallie Mae Bank refrain from making periodic dividends to the Company for any reason other than the payment of the normal quarterly cash dividend paid by the Company to holders of its two series of preferred stock until all terms of the pending formal enforcement action with the FDIC are resolved and the Spin-Off has been completed. Sallie Mae Bank does not expect to declare such a dividend prior to the occurrence of the Spin-Off and not doing so will not materially or adversely affect the financial condition, operations or liquidity of the Company and its subsidiaries taken as a whole. If the FDIC continues its general objection to the payment of dividends from Sallie Mae Bank to its parent for an extended period of time after the completion of the Spin-Off, SLM BankCo's financial condition, operations, liquidity and ability to access capital markets could be materially and adversely affected.

Capital Requirements under Basel III

The current risk-based capital guidelines that apply to Sallie Mae 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 and, following the Spin-Off, will not include Sallie Mae 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 Sallie Mae 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 Sallie Mae 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, and following the Spin-Off will not, include Sallie Mae 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, Sallie Mae Bank had total assets of \$10.7 billion. Once Sallie Mae 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 Sallie Mae Bank, to conduct annual company-run stress test scenarios provided by the FDIC and publish a summary of those results.

Deposit Insurance and Assessments

Deposits at Sallie Mae 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 Sallie Mae Bank's deposits, see the section titled "Certain Unaudited Financial and Statistical Information of SLM BankCo and Sallie Mae Bank."

Regulatory Examinations

Sallie Mae Bank currently undergoes regular on-site examinations by Sallie Mae 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 Sallie Mae Bank and to commit resources to support Sallie Mae Bank in circumstances when we might not do so absent the statutory requirement. Any loans by us to Sallie Mae Bank would be subordinate in right of payment to depositors and to certain other indebtedness of Sallie Mae Bank.

Community Reinvestment Act

The Community Reinvestment Act requires the FDIC to evaluate the record of Sallie Mae 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 Sallie Mae Bank.

Privacy Laws

Financial institutions are required to disclose their policies for collecting and protecting confidential customer information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties, with some exceptions, such as the processing of transactions requested by the consumer. Financial institutions generally may not disclose certain consumer or account information to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing. Federal and state banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information, and Sallie Mae Bank is subject to such standards, as well as certain federal and state laws or standards for notifying consumers in the event of a security breach.

Regulation of Systemically Important Non-Bank Financial Companies

As directed by the Dodd-Frank Act, on April 3, 2012, the Financial Stability Oversight Council (FSOC) approved the final rule and interpretive guidance it will use for designating non-bank financial companies as systemically important to the financial stability of the United States and subject to supervision by the Board of Governors of the Federal Reserve System (the FRB) under enhanced prudential supervision and regulatory standards. To be subject to FRB enhanced supervision, a non-bank financial company s material financial distress, its nature, scope, size, scale, concentration, interconnectedness, or mix of activities, must pose a threat to the financial stability of the United States. For a further discussion of the risks and implications of being designated a Systematically Important Financial Institution (SIFI), see Item 1A. Risk Factors Legal, Regulatory and Compliance.

While we have no way of knowing the qualitative judgments the FSOC will use in the future to determine if a non-bank financial company merits SIFI designation, and no assurances can be given, we continue to believe it is unlikely the FSOC will determine that we qualify for SIFI designation, especially in light of the proposed Spin-Off of NewCo from Sallie Mae Bank, which will reduce the complexity of both organizations.

Oversight of Derivatives

The Dodd-Frank Act created a comprehensive new regulatory framework for derivatives transactions, to be implemented by the Commodity Futures Trading Commission and the SEC. This new framework, among other things, subjects certain swap participants to new capital and margin requirements, recordkeeping and business conduct standards and imposes registration and regulation of swap dealers and major swap participants. The scope of potential exemptions remains to be further defined through agency rulemakings. Moreover, while we may or may not qualify for exemptions, many of our derivatives counterparties are likely to be subject to the new capital, margin and business conduct requirements.

Other Significant Sources of Regulation

Many aspects of our businesses are subject to regulation by federal and state regulation and administrative oversight. Some of the most significant of these are described below.

HEA

We are subject to the HEA and our student loan operations are periodically reviewed by ED and Guarantors. As a servicer of federal student loans, we are subject to ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our servicing operations, we must comply with, on behalf of Guarantor clients, ED regulations that govern Guarantor activities as well as agreements for reimbursement between ED and our Guarantor clients.

Federal Financial Institutions Examination Council

As a third-party service provider to financial institutions, we are also subject to examination by the Federal Financial Institutions Examination Council (the FFIEC). The FFIEC is a formal interagency body of the U.S. government empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the FRB, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions.

Consumer Protection and Privacy

Our originating and servicing of federal and Private Education Loans and our debt collection and receivables management activities subject us to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant laws and regulations that are applicable to our business include:

various laws governing unfair, deceptive or abusive acts or practices;

the federal Truth-In-Lending Act and Regulation Z issued by the FRB, which governs disclosures of credit terms to consumer borrowers;

the Fair Credit Reporting Act and Regulation V issued by the FRB, which governs the use and provision of information to consumer reporting agencies;

the ECOA and Regulation B issued by the FRB, which prohibits discrimination on the basis of race, creed or other prohibited factors in extending credit;

the SCRA, which applies to all debts incurred prior to commencement of active military service (including education loans) and limits the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that are related to the obligation or liability;

the Fair Debt Collection Act, which governs the manner in which consumer debts may be collected by collection agencies;

the Truth in Savings Act and Regulation DD issued by the FRB, which requires disclosure of deposit terms to consumers;

Regulation CC issued by the FRB, which relates to the availability of deposit funds to consumers;

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the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

the Electronic Funds Transfer Act and Regulation E issued by the FRB, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights

the Telephone Consumer Protection Act, which governs communication methods that may be used to contact customers; and

the Gramm-Leach-Bliley Act, which governs the ability of financial institutions to disclose nonpublic information about consumers to non-affiliated third parties.

Employees

At December 31, 2013, we had approximately 7,200 employees, none of which are covered by collective bargaining agreements.

Reorganization and the Spin-Off

Background

On May 29, 2013, we first announced our intent to separate into two distinct publicly-traded entities – an education loan management business and a consumer banking business. The education loan management business will be comprised primarily of our portfolios of education loans not held by Sallie Mae Bank at the effective date of the Spin-Off, as well as servicing and collection activities on these loans and loans held by third parties. The consumer banking business, comprised primarily of Sallie Mae Bank and its Private Education Loan origination business, the Private Education Loans it holds and a related servicing business, will be a consumer banking franchise with expertise in helping families save, plan and pay for college.

We are in the process of implementing our announced separation of our education loan management business in a new public company, NewCo, which is to be preceded by a related internal corporate reorganization. In connection with the Spin-Off, a newly incorporated, publicly-traded holding company, SLM BankCo, will succeed and continue to operate our consumer banking business through Sallie Mae Bank and Upromise, Inc. and Sallie Mae Insurance Services. SLM BankCo will continue using the brand name Sallie Mae and trade under the symbol SLM on the NASDAQ. NewCo was incorporated under the temporary name New Corporation. The actual and brand name of NewCo will be publicly disclosed prior to the Spin-Off in an amendment to New Corporation's Form 10 registration statement, which was initially filed with the SEC on December 6, 2013 and subsequently amended on February 7, 2014, which can be accessed through the SEC's website at www.sec.gov/edgar. NewCo will trade under a new symbol on the NASDAQ.

Private education loan origination will continue to be operated out of Sallie Mae Bank as a subsidiary of SLM BankCo. Sallie Mae Bank was chartered in 2006 and is a Utah industrial bank regulated by the UDFI and the FDIC. Sallie Mae Bank had total assets of \$10.7 billion as of December 31, 2013, \$6.7 billion of which were Private Education Loans and \$1.4 billion of which were FFELP Loans.

We have the sole and absolute discretion to determine (and change) the terms of, and whether to proceed with, the Spin-Off and, if we determine to proceed, to determine the distribution date for the shares of NewCo common stock to the U.S. holders of our common stock. It is expected that the Spin-Off, if completed, will occur in the first half of 2014. Our ability to timely effect the Spin-Off is subject to customary conditions, including receipt of a private letter ruling from the IRS to the effect the Spin-Off will be tax-free to SLM BankCo and our stockholders, and the effectiveness of the New Corporation registration statement, which was initially filed with the SEC on December 6, 2013 and subsequently amended on February 7, 2014, which can be accessed through the SEC's website at www.sec.gov/edgar. We cannot assure that we will be able to complete the Spin-Off in a timely fashion, if at all. For these and other reasons, the Spin-Off may not be completed on the terms or timeline contemplated. Further, if the Spin-Off is completed, we may not achieve the intended results or SLM BankCo may, following the Spin-Off, not be composed as described herein. Any such difficulties could adversely affect our business, results of operations or financial condition. Further information on the Spin-Off and SLM BankCo may be contained in our future filings with the SEC to the extent we determine, in our sole discretion, to provide such information.

The Spin-Off

If we determine to proceed with the Spin-Off, there will first be an internal corporate reorganization followed by a distribution of the shares of common stock of NewCo, on a 1-to-1 basis, to the holders of shares of our common stock that will implement the actual separation of the education loan management business. Before the Spin-Off can be effected, our Board of Directors will need to approve the record date and distribution date for the distribution of all of the issued and outstanding shares of NewCo.

Internal Corporate Reorganization

The following diagrams show the progression of the Company, which is referred to below as Existing SLM, through the internal corporate reorganization and the structure of SLM BankCo and NewCo after the Spin-Off, simplified for illustrative purposes. As used in the three diagrams below:

Existing SLM refers to SLM Corporation as of the date of this Annual Report on Form 10-K. As part of the internal corporate reorganization, Existing SLM will become a limited liability company and ultimately be contributed to, and become a wholly owned subsidiary of, NewCo.

SLM BankCo refers to New BLC Corporation, a newly formed Delaware corporation that (a) is currently a subsidiary of Existing SLM and (b) after the internal corporate reorganization, will replace Existing SLM as the publicly-traded parent company pursuant to the SLM Merger (as defined herein) and change its name to SLM Corporation. SLM BankCo will own and operate the consumer banking business and will be the company that distributes all of the issued and outstanding shares of NewCo common stock in the Spin-Off.

NewCo refers to New Corporation, a newly formed Delaware corporation that (a) is currently a subsidiary of Existing SLM, (b) as part of the internal corporate reorganization will be transferred by Existing SLM to, and become a subsidiary of, SLM BankCo and (c) will be distributed to the Existing SLM stockholders pursuant to the Spin-Off. NewCo was formed to own and operate Existing SLM's education loan management business.

Bank refers to Sallie Mae Bank, a Utah industrial bank that (a) is currently a subsidiary of Existing SLM and (b) as part of the internal corporate reorganization, will be transferred by Existing SLM to, and become a subsidiary of, SLM BankCo.

Upromise refers to Upromise, Inc., a Delaware corporation that operates the Upromise Rewards program that (a) is currently a subsidiary of Existing SLM and (b) as part of the internal corporate reorganization will be transferred by Existing SLM to, and become a subsidiary of, SLM BankCo.

Insurance Business refers to the Existing SLM insurance services business which offers tuition insurance, renters insurance and student health insurance to college students and higher education institutions. The Insurance Business (a) is currently operated through one or more subsidiaries of Existing SLM and (b) as part of the internal corporate reorganization will be transferred by Existing SLM to, and be operated through one or more subsidiaries of, SLM BankCo.

SMI refers to Sallie Mae, Inc., a Delaware corporation that is currently a subsidiary of Existing SLM and is responsible for most of its servicing and collection businesses. In connection with the internal corporate reorganization, SMI will contribute some of the assets and liabilities of its private education loan servicing business to a new subsidiary, referred to herein as Private ServiceCo. After the internal corporate reorganization, SMI will remain a subsidiary of Existing SLM and be an indirect subsidiary of NewCo.

Private ServiceCo refers to SMB Servicing Company, Inc., a Delaware corporation formed to hold the private education loan services assets to be transferred to it by SMI. Private ServiceCo is currently a subsidiary of SMI and as part of the internal corporate reorganization will be transferred to, and become a subsidiary of, SLM BankCo.

SLMIC refers to Sallie Mae Investment Corporation, a Rhode Island corporation that owns the Residual Interests of the FFELP Loans and Private Education Loans that have been funded through securitization

trusts. SLMIC is currently a subsidiary of Existing SLM and after the internal corporate reorganization will remain a subsidiary of Existing SLM and be an indirect subsidiary of NewCo.

Unsecured Debt refers to Existing SLM's unsecured public indebtedness of \$18.3 billion outstanding as of December 31, 2013, consisting of the senior notes and medium term notes. After the internal corporate reorganization, the Unsecured Debt will remain the obligation of Existing SLM, which will be a subsidiary of NewCo.

Preferred Stockholders refers to the holders of Existing SLM's outstanding shares of the Series A Preferred Stock and the Series B Preferred Stock. As part of the internal corporate reorganization and pursuant to the SLM Merger, all of the outstanding shares of Existing SLM Series A Preferred Stock and Series B Preferred Stock will be converted, on a 1-to-1 basis, into substantially identical shares of SLM BankCo preferred stock without any action being required by these holders.

TRANSACTION STRUCTURE

(simplified for illustrative purposes)

The diagram below shows the structure of Existing SLM before the Spin-Off:

The diagram below shows the structure of SLM BankCo, as the publicly-traded successor to Existing SLM, immediately after completion of the internal corporate reorganization but before the separation and distribution:

The diagram below shows the structure of SLM BankCo and NewCo immediately after completion of the

Spin-Off:

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In connection with and just prior to the Spin-Off, Existing SLM will undergo an internal corporate reorganization to facilitate the separation of the education loan management business and the consumer banking business in a manner intended to be largely tax-free to SLM BankCo.

As part of the internal corporate reorganization, Existing SLM has formed the following three new companies:

NewCo, which is initially a wholly owned subsidiary;

SLM BankCo, which is initially a wholly owned subsidiary; and

A limited liability company wholly owned by SLM BankCo that is referred to as Merger Sub.

Pursuant to Section 251(g) of the Delaware General Corporation Law (DGCL), by action of Existing SLM s Board of Directors and without the requirement for a stockholder vote, Existing SLM will merge with and into Merger Sub (the SLM Merger). As a result of the SLM Merger:

All issued and outstanding shares of Existing SLM s common stock will be converted, through no action on the part of the holders thereof and by operation of law, into shares of SLM BankCo common stock, on a 1-to-1 basis;

Each series of issued and outstanding shares of Existing SLM s 6.97% cumulative redeemable preferred stock, Series A, par value \$.20 per share (the Series A Preferred Stock) and Existing SLM s floating rate non-cumulative preferred stock, Series B, par value \$.20 per share (the Series B Preferred Stock) will be converted, through no action on the part of the holders thereof and by operation of law, into the same series of substantially identical shares of SLM BankCo preferred stock, on a 1-to-1 basis;

Existing SLM will be merged with and into Merger Sub and will become a limited liability company wholly-owned by SLM BankCo; and

SLM BankCo will change its name to SLM Corporation.

The charter and by-laws of SLM BankCo following the SLM Merger will be substantially identical to Existing SLM s charter and by-laws as they exist today.

Following the SLM Merger, through a series of internal transactions, all of the assets and liabilities related to Existing SLM s consumer banking business, including Sallie Mae Bank, a new private education loan servicing company, Existing SLM s Upromise business and Sallie Mae Insurance Services business, will be distributed by Existing SLM to SLM BankCo. Existing SLM will also distribute the capital stock of NewCo to SLM BankCo. In addition, on a pro forma basis as of December 31, 2013 and as currently proposed as part of the Spin-Off, SLM BankCo will retain an additional \$578 million of cash primarily to offset the liability represented by SLM BankCo becoming the issuer of the Series A Preferred Stock and the Series B Preferred Stock as a result of the SLM Merger. SLM BankCo will then contribute to NewCo, its direct subsidiary, the limited liability company interests of Existing SLM, which will continue to own substantially all of the assets and liabilities associated with portfolio of FFELP Loans and Private Education Loans not owned by Sallie Mae Bank, as well as substantially all of Existing SLM s existing business of servicing and collecting student education loans. Existing SLM will continue to hold substantially all of its assets and liabilities related to the education loan management businesses, which will then be contributed by SLM BankCo to NewCo. Existing SLM s liabilities included, as of December 31, 2013, outstanding unsecured public debt of \$18.3 billion and derivative contracts with a net liability of \$794 million.

Once the internal corporate reorganization is completed, SLM BankCo (as Existing SLM s publicly-traded successor holding company) will distribute all of the issued and outstanding shares of NewCo common stock, on the basis of one share of NewCo common stock for each share of Existing SLM s common stock issued and outstanding as of the close of business on the record date for the distribution. The completion of the internal corporate reorganization is a condition to the distribution.

After the completion of the Spin-Off,

SLM BankCo, as the publicly-traded successor to Existing SLM, will own the assets, liabilities and operations of Sallie Mae Bank, including the student loans it holds, a new private education loan servicing business that will service the Private Education Loans currently held and subsequently originated by Sallie Mae Bank, Upromise and the Sallie Mae Insurance Services businesses; and

NewCo will be an independent, publicly-traded company and will own, through its wholly-owned subsidiary Existing SLM, Existing SLM's portfolio of student loans not held by Sallie Mae Bank, together with substantially all of Existing SLM's student loan servicing and collection businesses.

Reasons for the Spin-Off

Our Board of Directors believes that separating us into two companies – an education loan management business and a consumer banking business – is in our best interest and the best interests of our stockholders. We considered a wide variety of factors during our evaluation of the Spin-Off. Among other things, our Board of Directors considered the following potential benefits of the Spin-Off:

Distinct identities and strategies. The consumer banking business and the education loan management business have evolved independently over time. The FFELP loan portfolio and related servicing businesses generate highly predictable income, but are in wind down as the universe of FFELP loans amortizes over a period of approximately 20 years. By contrast, the Private Education Loan business is expected to grow over time as Sallie Mae Bank continues to originate and service more Private Education Loans. The additional expense of originating these loans, their higher rates of return and growth, their higher risk profile, the capital support risks associated with ownership of a federally insured financial institution and increasing demands of regulatory compliance require a different business model than that of the education loan management business. As a result, the investor bases for these two businesses are different. The Spin-Off will allow investors to separately value SLM BankCo and NewCo based on their unique operating identities and strategies, including the merits, performance and future prospects of their respective businesses. The Spin-Off will also provide investors with two distinct and targeted investment opportunities.

Enhanced strategic and management focus. The Spin-Off will allow each of SLM BankCo and NewCo to more effectively pursue its respective distinct operating priorities and strategies, which have diverged over time, and will enable the management of each company to focus on pursuing unique opportunities for long-term growth and profitability. For example, NewCo will seek to acquire additional student loan portfolios and grow its servicing and collection businesses, while SLM BankCo will initially be focused on Private Education Loan origination, servicing those loans and other activities related to or associated with Sallie Mae Bank, including the Upromise Rewards program and the Sallie Mae Insurance services business.

Distinct regulatory profiles. SLM BankCo and NewCo will be able to better manage their distinct regulatory profiles post-Spin-Off:

- i Sallie Mae Bank, a Utah industrial bank and insured depository institution, will continue to be subject to prudential bank regulatory oversight and periodic examination by both the UDFI and the FDIC. Sallie Mae Bank has voluntarily entered into the FDIC's large bank supervision program. In addition, it is further expected that by the end of 2014, Sallie Mae Bank and SLM BankCo will be subject to the requirements established under the Dodd-Frank Act applicable to institutions with total assets greater than \$10 billion, including regulation by the CFPB and the establishment of an independent risk committee.
- i NewCo will continue to be subject to CFPB enforcement, supervisory and examination authority. As a FFELP loan servicer, NewCo will continue to be subject to the HEA and related regulations, in addition to regulation, and periodic examinations, by ED. As a third-party service provider to financial institutions, NewCo will also continue to be subject to examination by the FFIEC. Although NewCo

will not be subject to direct regulatory oversight by the FDIC, certain subsidiaries of NewCo that will continue to be third-party vendors of services to, and institution affiliated parties of, Sallie Mae Bank will continue to be subject to the FDIC's examination and enforcement authority. In addition, to facilitate compliance with certain consumer information privacy laws during an information technology transition period post-Spin-Off in which both NewCo and SLM BankCo loans and associated customer accounts will continue to be serviced from a single information technology system hosted by SMI, SMI will remain an affiliate of each of NewCo and SLM BankCo for broader bank regulatory purposes for the duration of that transition period. Among other things, this will mean that transactions between SMI and Sallie Mae Bank will remain subject to the affiliate transaction restrictions of Sections 23A and 23B of the Federal Reserve Act during this transition period.

Reduced complexity. The Spin-Off of NewCo from SLM BankCo will reduce the complexity of both organizations, creating greater transparency for investors and potentially unlocking further value in each company.

Direct access to capital markets. The Spin-Off will create an independent equity structure for each of SLM BankCo and NewCo that will afford each company direct access to the capital markets for the purpose of pursuing their unique operating strategies and facilitate the ability of each company to effect future alliances and acquisitions utilizing their respective common stock. As a result, each company will have more flexibility to capitalize on its unique opportunities.

There can be no assurance that the following the Spin-Off, any of the benefits described above or otherwise will be realized to the extent anticipated or at all.

Our Board of Directors also considered a number of potentially negative factors in evaluating the Spin-Off, including the risks described in Item 1A. Risk Factors Risks Related to the Spin-Off and the following:

Possible loss of synergies and joint purchasing power and increased costs. Currently, the consumer banking business has historically taken advantage of our size and purchasing power in procuring goods and services. After the Spin-Off, SLM BankCo may be unable to obtain these goods and services at prices or on terms as favorable as those we have obtained prior to the Spin-Off. SLM BankCo will also incur costs to build systems and administrative functions to replace those that will be retained by NewCo.

Disruptions to the business as a result of the Spin-Off. The actions required to separate SLM BankCo's and NewCo's respective businesses will take significant management time and attention and could disrupt our operations.

One-time costs of the Spin-Off. NewCo and SLM BankCo will incur costs in connection with the transition to being two stand-alone publicly-traded companies, including costs to separate information systems, accounting, tax, legal and other professional services costs, recruiting and relocation costs associated with hiring key senior management personnel and costs related to establishing a new brand identity in the marketplace for NewCo.

NewCo may not realize anticipated benefits of the Spin-Off. NewCo may not achieve the anticipated benefits of the Spin-Off for a variety of reasons, including, among others: (a) the Spin-Off will require significant amounts of management's time and effort, which may divert management's attention from operating NewCo's business; (b) following the Spin-Off, NewCo may be more susceptible to market fluctuations and other adverse events than if it were still a part of the Company; (c) following the Spin-Off, NewCo's business will be less diversified than our business prior to the Spin-Off; and (d) NewCo may be unable to replace or supplement the revenue and servicing fees from its FFELP Loan portfolio, which has a weighted average life of 7.6 years and will amortize over the next 20 years.

SLM BankCo may not realize anticipated benefits of the Spin-Off. SLM BankCo may not achieve the anticipated benefits of the Spin-Off for a variety of reasons, including, among others: (a) the Spin-Off will require significant amounts of management's time and effort, which may divert management's attention from operating SLM BankCo's business; (b) following the Spin-Off, SLM BankCo may be

more susceptible to market fluctuations and other adverse events than if it were still a part of the Company; (c) following the Spin-Off, SLM BankCo's business will be less diversified than our business prior to the Spin-Off; and (d) other actions required to separate SLM BankCo's and NewCo's respective businesses could disrupt SLM BankCo's operations. For additional information, see Item 1A. Risk Factors Risks Related to the Spin-Off.

Limitations placed upon NewCo and SLM BankCo as a result of the tax sharing agreement. To preserve the tax-free treatment to the Company of the Spin-Off, under the tax sharing agreement that NewCo will enter into with SLM BankCo, both SLM BankCo and NewCo will be restricted from taking any action that prevents the distribution and related transactions from being tax-free for U.S. federal income tax purposes. These restrictions could limit both SLM BankCo's and NewCo's near term ability to repurchase its respective shares or to issue additional shares, pursue strategic transactions or engage in other transactions that might increase the value of its respective businesses. For additional information, see Item 1A Risk Factors Risks Related to the Spin-Off.

Our Board of Directors concluded that the potential benefits of the Spin-Off outweighed these negative factors.

NewCo After the Spin-Off

Following completion of the Spin-Off, NewCo will hold the largest portfolio of education loans insured or guaranteed under FFELP Loans, as well as the largest portfolio of Private Education Loans. 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. Private Education Loans are education loans to students or their families that are non-federal loans and not insured or guaranteed under FFELP. Private Education Loans bear the full credit risk of the customer and any cosigner and are made primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or students' and families' resources. As of December 31, 2013, approximately 85 percent of the FFELP Loans and 60 percent of the Private Education Loans held by NewCo were funded to term with non-recourse, long-term securitization debt through the use of securitization trusts.

NewCo will service and collect on its own portfolio of education loans, as well as on those owned by ED, financial institutions, banks, credit unions and non-profit education lenders. It will also provide servicing support for Guarantor agencies, which serve as intermediaries between the U.S. federal government and FFELP lenders and are responsible for paying claims on defaulted FFELP Loans. These services include account maintenance, default aversion, post default collections and claim processing. NewCo will also be one of four large servicers to ED under its DSLP, and will provide collection services to ED. NewCo will also generate revenue through collection of delinquent debt (consisting of both education loans as well as other asset classes) on behalf of its clients on a contingent basis. In addition, NewCo will service and collect on SLM BankCo's portfolio of FFELP Loans and, during a transition period, SLM BankCo's portfolio of Private Education Loans. It is currently anticipated that NewCo will continue to service Private Education Loans owned by SLM BankCo with respect to individual borrowers who also have Private Education Loans which are owned by NewCo.

In 2010, Congress passed legislation ending the origination of education loans under the FFELP program. FFELP Loans that remain outstanding will amortize over approximately the next 20 years, and NewCo's goal is to maximize the cash flow generated by its FFELP Loan portfolio, including by acquiring additional FFELP Loans from third parties and expanding its related servicing business.

As of December 31, 2013, on a pro forma basis, NewCo's principal assets consisted of:

\$103.2 billion in FFELP Loans, which yield an average of 2.05 percent annually on a Core Earnings basis and have a weighted average life of 7.6 years;

\$31.0 billion in Private Education Loans, which yield an average of 6.31 percent annually on a Core Earnings basis and have a weighted average life of 7.1 years;

\$6.9 billion of other interest-earning assets, including securitization trust restricted cash;

a leading student loan servicing platform that services loans for more than 12 million FFELP Loan, Direct Loan and Private Education Loan customers (including cosigners), including 5.7 million customer accounts serviced under NewCo's contract with ED; and

a leading student loan contingent collection platform with an outstanding inventory of contingent collection receivables of approximately \$16.2 billion, of which approximately \$13.5 billion was student loans and the remainder was other debt.

In connection with the internal corporate reorganization, we will become a subsidiary of NewCo and will retain all of our liabilities and obligations, including as obligor on our \$18.3 billion of unsecured public debt outstanding as of December 31, 2013. We are also a party to derivative contracts on which we had a net liability of \$794 million as of December 31, 2013.

For more information regarding the businesses to be transferred to and operated by NewCo, NewCo pro forma financial information, information regarding NewCo's management and other information concerning NewCo, please review the registration statement on Form 10 filed by New Corporation, which was initially filed with the SEC on December 6, 2013 and subsequently amended on February 7, 2014, which can be accessed through the SEC's website at www.sec.gov/edgar.

SLM BankCo After the Spin-Off

Following completion of the Spin-Off, SLM BankCo will continue to originate Private Education Loans by promoting products on campus through the financial aid office and through direct marketing to students and their families in the education loan market.

SLM BankCo will provide ongoing Private Education Loan servicing and collection on loans it originates and sells to third parties as a secondary fee-based business. It will also continue to offer various products both to help families save for college including its free Upromise service that provides financial rewards on everyday purchases and to protect their college investment through tuition, rental and life insurance services.

SLM BankCo will continue to fund Private Education Loan originations through retail and brokered deposits, and obtain additional funding through sales of Private Education Loans and their securitization.

Business of SLM BankCo

The following description of the business of SLM BankCo is based in part on Sallie Mae Bank's current business plan. Sallie Mae Bank's business plan has been approved and is subject to periodic review by our Board of Directors and the Board of Directors of Sallie Mae Bank. Sallie Mae Bank's business plan is also reviewed annually by the FDIC as Sallie Mae Bank's regulator. The business plan is based on assumptions and other factors that are subject to change.

Private Education Loans

SLM BankCo will market, price, underwrite and disburse its Private Education Loan products. To maintain high credit standards, it will:

focus its business on helping students attending four-year and graduate schools;

continue the use of regularly revised and updated statistical underwriting models utilizing ten or more years of proprietary credit performance data;

generally require a credit qualified cosigner as a co-obligor; and

certify and disburse all Private Education Loans through schools.

In 2009, we introduced, and SLM BankCo will continue to offer, the Smart Option private education loan product emphasizing in-school payment features to minimize total finance charges. The product features three repayment types. The first two, Interest Only and \$25 Fixed Pay options, require monthly payments while the student is in school and they accounted for approximately 56 percent of the Private Education Loans originated during the fiscal year ended December 31, 2013. The third repayment option is the more traditional deferred private education loan product where customers do not begin making payments until after graduation.

Private Education Loan Servicing

A subsidiary of SLM BankCo (Private ServiceCo) will provide servicing and loan collection for Private Education Loans originated and held by Sallie Mae Bank, as well as those sold to third parties. As part of the Spin-Off of the consumer banking business and the education loan management business, SLM BankCo will obtain ownership, and transition into management and operation of, all assets and personnel needed to operate all aspects of its Private Education Loan business from asset origination to asset servicing to asset funding. Over time, SLM BankCo's business plan contemplates seeking additional funding, liquidity and revenue from the sale or securitization of loan assets it originates as well as the servicing of the loan assets it sells to third parties. SLM BankCo's business plan does not contemplate servicing financial assets originated by other institutions. The physical and logistical separation of SLM BankCo's servicing and collection platforms from those of NewCo is currently expected to be completed within twelve months after completion of the Spin-Off, but could take significantly longer. During that period, SLM BankCo's Private Education Loan servicing will be conducted by NewCo, Sallie Mae Bank and Private ServiceCo employees pursuant to various transition agreements. For further detail on these agreements, see the section titled SLM BankCo's Post-Separation Relationship with NewCo.

Upromise

The Upromise save-for-college membership program stands alone as a consumer service committed exclusively to helping Americans save money for higher education. Membership is free and each year more than one million customers enroll as members to use the service. Members earn money for college by receiving cash back when shopping at on-line or brick-and-mortar retailers, booking travel, dining out or buying gas or groceries at participating merchants or by using their Upromise MasterCard. As of December 31, 2013, more than 1,000 merchants participated by providing discounts on purchases that are returned to the customer. Since inception, Upromise members have saved approximately \$800 million for college, and more than 340,000 members actively use the Upromise credit card for everyday purchases.

Sallie Mae Insurance Services

Through the existing Sallie Mae Insurance Services venture, SLM BankCo will continue to partner with an established insurance brokerage to offer America's college students and young adults insurance programs that address their unique life-stage needs, including tuition insurance, renters insurance, life insurance and auto insurance.

SLM BankCo Funding Sources

Deposits

Sallie Mae Bank gathers low-cost retail deposits through its direct banking platform which serves as an important source of funding. Sallie Mae Bank also utilizes brokered deposits as needed to supplement its funding needs and enhance its liquidity position. As of December 31, 2013, Sallie Mae Bank had \$9.3 billion of customer deposits, representing 86 percent of interest earning assets, composed of \$2.9 billion of retail deposits, \$5.9 billion of brokered deposits and \$0.5 billion of other deposits on a pro forma basis.

Loan Sales and Securitizations

Prior to the Spin-Off, we have operated our Private Education Loan business as an integrated set of activities and used various subsidiaries to perform the functions necessary to underwrite, originate, fund in the short-term, fund long-term, service and collect Private Education Loans. These Private Education Loans are originated by Sallie Mae Bank and initially funded with its deposits. During the year-ended December 31, 2013 and December 31, 2012, Sallie Mae Bank sold loans to our affiliates in the amount of \$2.4 billion and \$2.6 billion, respectively. During the same periods, Sallie Mae Bank originated \$3.8 billion and \$3.3 billion of Private Education Loans.

After the Spin-Off, SLM BankCo may continue to sell Private Education Loans to third parties through an open auction process as well as through securitization transactions. It may retain servicing of these transferred Private Education Loans at prevailing market rates for such services. As such, it may incur gains and losses on sales in future periods. Loan sales and securitization volumes will be determined to prudently manage SLM BankCo's asset values, growth rates, and capital and liquidity needs. NewCo may participate in open auction processes on arm's length terms. While there may be limited, near-term Private Education Loans sales to NewCo to facilitate an orderly transition after the Spin-Off, neither SLM BankCo nor NewCo will have any ongoing obligation to buy or sell Private Education Loans to the other. Following the Spin-Off, it is currently anticipated that Private Education Loans that are originated by SLM BankCo for individual borrowers who also have Private Education Loans which are owned by NewCo, will be sold by SLM BankCo to NewCo from time to time.

Competitive Strengths

SLM BankCo will have the following competitive strengths:

Industry Leader with the Most Recognized Brand in Education Loan Industry. SLM BankCo will continue operating our Private Education Loan origination business under the brand Sallie Mae. Once the Spin-Off is complete, SLM BankCo operations will contain all the capabilities, resources and personnel responsible for generating our current Private Education Loan originations.

Simple Low-Cost Delivery System. SLM BankCo will leverage an experienced regional-based sales force and a well-established loan origination network that operates through financial aid offices, direct marketing and the internet without the need for a physical distribution infrastructure. It will also benefit from the ability of Sallie Mae Bank to gather deposits and to service accounts online without need of a branch network.

Disciplined Credit Approach. SLM BankCo will continue a disciplined approach to credit. It will use a proprietary scorecard and deploy experienced credit analysts for selective review. Since the introduction of the Smart Option loan in 2009, approximately 92 percent of our Smart Option loans have cosigners. As of December 31, 2013, the average FICO score at origination for our Smart Option loans was 746. To reinforce responsible borrowing, SLM BankCo will continue to disburse loan proceeds directly to schools, encourage customers to make payments while in school, and send statements to borrowers and cosigners during matriculation.

Strong Capital Position and Experienced Funding Capabilities. Sallie Mae Bank is well-capitalized. As of December 31, 2013, it had a Tier 1 risk-based capital ratio of 16.4 percent.

In addition, on a pro forma basis as of December 31, 2013 and as currently proposed as part of the Spin-Off, SLM BankCo will serve as an additional source of strength by having \$165 million of Series A Preferred Stock and \$400 million of Series B Preferred Stock. The existing Series B Preferred Stock could potentially qualify as Additional Tier 1 capital under Basel III standards were Basel III to apply at the SLM BankCo level.

SLM BankCo will also retain experienced capital markets professionals currently responsible for securitizing our current Private Education Loans in the asset-backed market.

Attractive Customer Base. SLM BankCo's customer base will be dominated by college students, graduate students and credit qualified cosigners. SLM BankCo's customer base also includes more than 12 million Upromise members who enroll in the college saving service. Customers who are our current customers or will become customers of SLM BankCo through the Sallie Mae and Upromise brands following the Spin-Off may also use SLM BankCo's other products. Approximately 49 percent of Sallie Mae Bank's depositors have another product with us.

Experienced Management Team. SLM BankCo's management team is experienced industry professionals with extensive expertise in managing rigorous underwriting, marketing, servicing, collection and financing platforms. Most have at least 25 years of experience in the financial services and consumer banking industries. The SLM BankCo leadership team have been key players in the development and execution of our Private Education Loan and consumer banking strategy, including the design of the Smart Option product.

SLM BankCo's Post-Separation Relationship with NewCo

SLM BankCo will enter into a separation and distribution agreement with the Company and NewCo (the Separation and Distribution Agreement). In connection with the closing of the Spin-Off, SLM BankCo will enter into various other agreements with NewCo to effect the Spin-Off and provide a framework for its relationship with NewCo after the Spin-Off, such as a transition services agreement, a tax sharing agreement, an employee matters agreement, a loan servicing and administration agreement, a joint marketing agreement, a key services agreement, a data sharing agreement and a master sublease agreement. For additional information regarding the Separation and Distribution Agreement and the other transaction agreements, see the registration statement on Form 10 filed by New Corporation, which was initially filed with the SEC on December 6, 2013 and subsequently amended on February 7, 2014, which can be accessed through the SEC's website at www.sec.gov/edgar.

SLM BankCo Pro Forma Financial Information (Unaudited)

Shortly after the completion of the Spin-Off, SLM BankCo will be required to issue audited consolidated financial statements on a stand-alone basis for SLM BankCo and its subsidiaries for each of the three years ended December 31, 2013. These carve-out financial statements will be presented on a basis of accounting that reflects a change in reporting entity. Our historical financial statements prior to the Spin-Off will become the historical financial statements of NewCo. As a result, the presentation of the financial results of the business and operations of SLM BankCo, which will be the publicly-traded successor registrant to the Company, for periods arising after the completion of the Spin-Off will be substantially different from the presentation of our financial results in this Annual Report on Form 10-K and in our prior filings with the SEC. To provide additional information to our investors regarding the anticipated impact of the Spin-Off, we have included certain unaudited pro forma financial information of SLM BankCo, on a carve-out stand-alone basis as of and for the year ended December 31, 2013, to provide some reference for SLM BankCo's expected reissued historical financial statements post Spin-Off and future manner of presentation of its financial condition and results of operations.

The following unaudited condensed consolidated financial information of SLM BankCo as of and for the year ended December 31, 2013, which has been adjusted pro forma for the effects of the Spin-Off as currently proposed, is presented for informational purposes only. These carve-out pro forma financial statements and selected financial information are unaudited and represent only those operations, assets, liabilities and equity that will form SLM BankCo on a stand-alone basis. These carve-out pro forma financial statements do not take into account certain yet to be determined separation adjustments.

The stand-alone SLM BankCo unaudited financial information is comprised of financial information relating to Sallie Mae Bank, Upromise, Sallie Mae Insurance Services, and the Private Education Loan origination functions. Also included are certain general corporate overhead expenses allocated to SLM BankCo.

The stand-alone SLM BankCo unaudited financial information has then been adjusted to give effect to the Spin-Off of NewCo by way of a share distribution. The unaudited balance sheet of SLM BankCo as of

December 31, 2013 is adjusted pro forma for the effects of the Spin-Off as if it had been completed at December 31, 2013. The unaudited condensed consolidated income statement of SLM BankCo for the year ended December 31, 2013 is adjusted pro forma for the effects of the Spin-Off as if it had been completed on January 1, 2013. The stand-alone SLM BankCo financial information has further been adjusted pro forma for the effects of the Spin-Off by reflecting that the Spin-Off will be accounted for as a distribution by means of a tax-free distribution of the shares of common stock of NewCo, on a 1-to-1 basis, to the holders of shares of our common stock that will implement the actual separation of the education loan management business from SLM BankCo. The Spin-Off will also account for the transfer of certain assets and liabilities that were historically operated by NewCo and that will be held by SLM BankCo, SLM BankCo's anticipated post-separation capital structure and the impact of, and transactions contemplated by, certain agreements entered into by SLM BankCo in connection with the Spin-Off.

The unaudited condensed consolidated financial statements of SLM BankCo adjusted pro forma for the effects of the Spin-Off do not give effect to future estimated annual cost increases after the Spin-Off, attributable to various factors such as the following:

personnel required to operate as a stand-alone public company;

possible changes in compensation with respect to new and existing positions;

the level of assistance required from professional service providers; and

the amount of capital expenditures for information technology infrastructure investments associated with being a stand-alone public company.

In addition, prior to the Spin-Off, Sallie Mae Bank sold loans to affiliates for two reasons: (1) to fund the loans to term through the issuance of an asset back securitization; and (2) to enable the affiliates to manage loans that were granted forbearance or were 90 days or more past due. As a result of these past practices, Sallie Mae Bank's historical credit results do not reflect charge-offs or recoveries. The following results, pro forma for the effects of the Spin-Off, have not been adjusted to reflect what the delinquencies, charge-offs and recoveries would have been, had Sallie Mae Bank not sold these loans to its affiliates. After the Spin-Off, Sallie Mae Bank's results will reflect delinquencies and related charge-offs/recoveries as it is contemplated that it will retain loans throughout the life of the account and will charge off loans at 120 days past due.

The unaudited condensed consolidated financial statements of SLM BankCo adjusted pro forma for the effects of the Spin-Off have been prepared in accordance with GAAP and related carve-out conventions.

The pro forma adjustments are based on preliminary estimates, accounting judgments and currently available information and assumptions that our management believes are reasonable. The unaudited financial information of SLM BankCo adjusted pro forma for the effects of the Spin-Off has been prepared for illustrative purposes only and is not necessarily indicative of the financial position (had the Spin-Off actually occurred on December 31, 2013, for purposes of the pro forma balance sheet) or results of operations (had the Spin-Off actually occurred on January 1, 2013, for purposes of the pro forma income statement), nor is such unaudited pro forma financial information necessarily indicative of the results to be expected for any future period. A number of factors may affect the results. See the section titled "Risks Related to the Spin-Off" in Item 1A. Risk Factors for a discussion of the risks and uncertainties related to the Spin-Off.

For additional information on the preparation of the unaudited pro forma condensed consolidated financial statements of NewCo and the structure and accounting of the Spin-Off, please review the registration statement on Form 10 of New Corporation, which was initially filed with the SEC on December 6, 2013 and subsequently amended on February 7, 2014, which can be accessed through the SEC's website at www.sec.gov/edgar.

Below is the unaudited condensed consolidated balance sheet for SLM BankCo pro forma for the effects of the Spin-Off as of December 31, 2013, assuming such Spin-Off occurred on December 31, 2013.

SLM BANKCO

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2013

(In millions)

	Stand-alone SLM BankCo ⁽¹⁾	Separation Adjustments	Pro Forma SLM BankCo
Assets			
Interest earning assets:			
Cash and investments	\$ 2,286	\$ 578(a)	\$ 2,864
Private Education Loans (net of allowance for losses of \$62)	6,506		6,506
FFELP Loans (net of allowance for losses of \$6)	1,425		1,425
Other interest-earning assets	4		4
Total interest-earning assets	10,221	578	10,799
Other assets	486		486
Total assets	\$ 10,707	\$ 578	\$ 11,285
Liabilities and Equity			
Deposits	\$ 8,952	\$	\$ 8,952
Other liabilities	588		588
Total liabilities	9,540		9,540
Preferred stock, par value \$.20 per share, 20 million shares authorized			
Series A: 3.3 million shares issued, respectively, at stated value of \$50 per share		165(a)	165
Series B: 4 million shares issued, respectively, at stated value of \$100 per share		400(a)	400
Common stock			
Additional paid-in capital	690	13(a)	703
Accumulated other comprehensive loss	(3)		(3)
Retained earnings	475		475
Total stockholders' equity	1,162	578	1,740
Non-controlling interest	5		5
Total equity	1,167	578	1,745
Total liabilities and equity	\$ 10,707	\$ 578	\$ 11,285

⁽¹⁾ Represents the operations, assets, liabilities and equity of SLM BankCo, which will be comprised of Sallie Mae Bank, Upromise, Sallie Mae Insurance Services, and the Private Education Loan origination functions. Included in these amounts are also certain general corporate overhead payables related to SLM BankCo.

Notes:

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- (a) In connection with the Spin-Off, SLM BankCo, by reason of a statutory merger, will succeed us as the issuer of the Series A Preferred Stock and the Series B Preferred Stock. SLM BankCo will retain an additional \$578 million of cash, \$565 million of which will offset the obligation attributable to the principal of the Series A Preferred Stock and the Series B Preferred Stock. The remainder of \$13 million will be treated as additional paid-in capital. The amount of additional cash retained beyond the amount related to offset the preferred stock obligation was based upon meeting a targeted ending equity balance for SLM BankCo.

Below is the unaudited pro forma condensed consolidated income statement for SLM BankCo pro forma for the effects of the Spin-Off for the year ended December 31, 2013. This assumes that the Spin-Off occurred on January 1, 2013, for purposes of this presentation.

SLM BANKCO

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT

YEAR ENDED DECEMBER 31, 2013

(In millions)

	Stand-alone SLM BankCo ⁽¹⁾	Separation Adjustments	Pro Forma SLM BankCo
Interest income:			
Total interest income	\$ 551	\$	\$ 551
Total interest expense	89		89
Net interest income	462		462
Less: provisions for loan losses	69		69
Net interest income after provisions for loan losses	393		393
Other income:			
Gains on sales of loans and investments ⁽²⁾	260		260
Other	38		38
Total other income	298		298
Expenses:			
Operating expenses	268	4(a)	272
Acquired intangible asset amortization expense	3		3
Restructuring and other reorganization expenses	2		2
Total expenses	273	4	277
Income before tax expense	418	(4)	414
Income tax expense ⁽³⁾	159	(2)	157
Net income	259	(2)	257
Less: net loss attributable to noncontrolling interest	(1)		(1)
Preferred stock dividends		20(b)	20
Income available to common shareholders	\$ 260	\$ (22)	\$ 238

⁽¹⁾ Represents the operations, assets, liabilities and equity of SLM BankCo, which will be comprised of Sallie Mae Bank, Upromise, Sallie Mae Insurance Services, and the Private Education Loan origination functions. Included in these amounts are also certain general corporate overhead expenses related to SLM BankCo. General corporate overhead of \$77 million consisted of costs primarily associated with accounting, finance, legal, human resources, certain information technology, stock-based compensation, executive management and the Board of Directors.

⁽²⁾ Gains on sales of loans and investments during the period represent \$196 million of gains from the sale of loans to NewCo and \$64 million from the sale of investments.

⁽³⁾

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The pro forma income tax expense rate of approximately 38 percent is based on historical statutory rates. However, SLM BankCo's post-spin effective tax rate will increase to approximately 40 percent. The increase is primarily driven by operations being moved into Sallie Mae Bank. These operations are located in jurisdictions with higher tax rates than current Sallie Mae Bank operations. The rate increase should have an immaterial impact on SLM BankCo's equity.

Notes:

- (a) Represents \$21 million of personnel and information technology costs related to the servicing functions moving out of NewCo and into SLM BankCo and \$7 million in long-term service contracts with NewCo (primarily related to servicing and sales and marketing) and is net of the \$24 million intercompany servicing fee historically paid to NewCo to service SLM BankCo's Private Education Loans.
- (b) In connection with the Spin-Off, SLM BankCo, by reason of a statutory merger, will succeed us as the issuer of the Series A Preferred Stock and the Series B Preferred Stock. The adjustment reflects the effect of the dividends on the Series A and B Preferred Stock.

Certain Unaudited Financial and Statistical Information of SLM BankCo and Sallie Mae Bank

This section provides an overview of certain unaudited financial and statistical information of SLM BankCo and Sallie Mae Bank. The information includes SLM BankCo's net interest margin and deposits adjusted pro forma for the effects of the Spin-Off and historical information on Sallie Mae Bank's net interest margin, allowance for loan losses, its key credit quality indicators, and its capital information.

Net Interest Margin

The following table shows SLM BankCo's daily average net interest margin before provision for loan losses for the year ended December 31, 2013 adjusted pro forma for the effects of the Spin-Off.

(Dollars in millions)	Year ended December 31, 2013		
	Average Balance	Interest Income/ Expense	% Yield
Average Assets			
Private education loans	\$ 5,997	\$ 489	8.16%
FFELP loans	1,141	38	3.33
Taxable securities	493	20	3.98
Cash and short term investments	2,089	4	.20
Total interest-earning assets	9,720	\$ 551	5.67%
Non-interest-earning assets	651		
Total assets	\$ 10,371		
Average Liabilities and Equity			
Brokered deposits	\$ 5,010	\$ 62	1.24%
Retail and other deposits	3,010	26	.87
Total interest-bearing deposits	8,020	88	1.10
Other interest-bearing liabilities	21	1	3.06
Total interest-bearing liabilities	8,041	\$ 89	1.11%
Non-interest-bearing liabilities	689		
Equity	1,641		
Total liabilities and equity	\$ 10,371		
Net interest margin		\$ 462	4.75%

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The following table shows Sallie Mae Bank's historical daily average net interest margin on the loans that are part of the Private Education Loan portfolio for the year ended December 31, 2013.

	Year ended December 31, 2013
Net loan yield	8.16%
Cost of funds	(0.93)
Private Education Loan spread	7.23%
 (Dollars in millions)	
Average Private Education Loans	\$ 5,997

Allowance for Loan Losses

The following table summarizes Sallie Mae Bank's historical allowance for loan losses activity for the year ended December 31, 2013.

(Dollars in millions)	Allowance for Loan Losses		
	FFELP	Private Education Loans	Total
Year ended December 31, 2013			
Allowance at beginning of period	\$ 4	\$ 65	\$ 69
Less charge-offs ⁽¹⁾	(2)		(2)
Plus recoveries			
Net charge-offs	(2)		(2)
Write-down to fair market value ⁽²⁾		(68)	(68)
Plus provisions	4	65	69
Allowance at end of period	\$ 6	\$ 62	\$ 68

(1) Private Education Loans were sold to NewCo prior to being charged off.

(2) Represents fair value write-downs on delinquent loans sold to NewCo recorded at the time of sale.

Key Credit Quality Indicators

The following table highlights the principal historical balance of the Private Education Loan portfolio of Sallie Mae Bank stratified by the key credit quality indicators as of December 31, 2013.

(Dollars in millions)	Credit Quality Indicators	
	Private Education Loans December 31, 2013	
	Balance	%
Cosigner		
With cosigners	\$ 5,899	90%
Without cosigner	664	10
Total	\$ 6,563	100%
FICO at Origination		
Less than 670	\$ 461	7%
670 - 709	1,364	21
710 - 749	1,649	25
Greater than or equal to 750	3,089	47
Total	\$ 6,563	100%
Average FICO at origination	746	
Seasoning		
1 - 12 payments	\$ 1,840	28%
13 - 24 payments	1,085	17
25 - 36 payments	670	10
37 - 48 payments	362	6
More than 48 payments	31	
Not yet in repayment	2,575	39
Total	\$ 6,563	100%
Delinquencies by vintage		
Loans in school/grace/deferment	\$ 2,575	39%
Loans in forbearance	16	
Loans in repayment:		
Loans current	3,933	60
Loans delinquent 31 - 60 days	29	1
Loans delinquent 61 - 90 days	10	
Loans delinquent greater than 90 days		
Total loans in repayment	3,972	61
Total Private Education Loans, gross	6,563	
Unamortized premium/discount	5	
Allowance for loan losses	(62)	
Total Private Education Loans, net	\$ 6,506	100%

Deposits

The following tables show SLM BankCo's deposits pro forma for the effects of the Spin-Off as of December 31, 2013.

(Dollars in millions)	Deposit Portfolio		
	December 31, 2013	% of Total	% Cost
Brokered deposits ⁽¹⁾	\$ 5,895	63%	1.15%
Retail deposits	2,879	31	.93
Other deposits	521	6	.24
 Total Sallie Mae Bank deposits	 9,295	 100%	 1.03%
Less deposits with SLM BankCo affiliates	(293)		
Less pro forma reclasses to other liabilities	(50)		
 Total SLM BankCo deposits	 \$ 8,952		

(1) Total brokered deposits include money market deposit accounts, which are excluded from the maturity schedule below.

(Dollars in millions)	Deposit Maturity Schedule	
	December 31, 2013	
Brokered deposits^(a)		
Remaining maturity:		
Three months or less	\$	306
After three through six months		534
After six through twelve months		897
After twelve months		2,807
 Total brokered deposits ^(a)	 \$	 4,544

(a) The brokered deposits maturity schedule excludes money market deposit accounts.

Sallie Mae Bank Capital

The following tables show Sallie Mae Bank's actual, reported capital levels and capital ratios as of December 31, 2013, which do not take into account the effects of the change in reporting entity accounting treatment.

Capital Ratios

	December 31, 2013
Total risk-based capital	17.3%
Tier 1 risk-based capital	16.4%
Tier 1 leverage	11.7%

GAAP to Regulatory Capital Reconciliation

(Dollars in millions)	December 31, 2013
Shareholder equity ⁽¹⁾	\$ 1,218
Less intangible assets	
Less preferred stock ⁽¹⁾	
Tangible common equity	1,218
Total assets	10,742
Less intangible assets	
Tangible assets	10,742
Tangible common equity to tangible assets ratio	11.3%
Tier 1 common equity:	
Shareholder equity ⁽¹⁾	1,218
Qualifying capital securities:	
Less goodwill	
Less accumulated other comprehensive loss	(3)
Less other assets	
Total Tier 1 capital	1,221
Less qualifying capital securities	
Less preferred stock ⁽¹⁾	
Total Tier 1 common equity	1,221
Net risk-weighted assets	\$ 7,472

(1) Does not include the Series A Preferred Stock and Series B Preferred Stock outstanding at the time of the closing of the separation and distribution.

In July 2013, the federal banking regulators issued the U.S. Basel III final rule. For a more detailed description of the U.S. Basel III final rule, please see Item 1A. Risk Factors. Sallie Mae Bank will be subject to the U.S. Basel III final rule, including its increased risk-based capital requirements and increased leverage capital requirements beginning on January 1, 2015. In addition, as currently proposed as part of the Spin-Off, SLM BankCo will serve as an additional source of strength by having \$165 million of Series A Preferred Stock and \$400 million of Series B Preferred Stock. The existing Series B Preferred Stock could potentially qualify as additional Tier 1 capital under Basel III standards were Basel III to apply at the SLM BankCo level.

At the date of this Annual Report on Form 10-K, the FDIC has lodged a continuing objection to the payment of dividends by Sallie Mae Bank to the Company for any reason other than the payment of normal quarterly cash dividends paid by the Company to holders of its two series of preferred stock. For more information on this matter and potential implications post-Spin-Off, see Item 1. Business Regulation of Sallie Mae Bank Dividends.

Item 1A. Risk Factors

Our business activities involve a variety of risks. Below we describe the significant risk factors affecting our business. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K 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 stock price.

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, especially with respect to our Private Education Loan

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portfolio. 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 programs may have the effect of delaying default emergence as customers are granted a temporary waiver from having to make payments on their loans. 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.

Further deterioration in the economy could result in a decrease in demand for consumer credit and credit quality could adversely be affected. Higher credit-related losses and weaker credit quality could negatively affect our business, financial condition and results of operations and limit funding options, including capital markets activity, which could also adversely impact our liquidity position.

Funding and Liquidity

Legislation passed by Congress in 2010 prohibits new loan originations under the FFELP program, and, as a result, interest income on the existing FFELP Loan portfolio and fee-based revenue from servicing FFELP Loans will decline over time. We may not be able to develop revenue streams to replace the declining revenue from FFELP loans.

In 2010, Congress passed legislation ending the origination of student loans under the FFELP program. All federal student loans are now originated through the DSLP of the ED. The law did not alter or affect the terms and conditions of existing FFELP Loans. As a result of this legislation, interest income on our FFELP Loan portfolio and fee-based revenue from servicing that portfolio and third-party FFELP Loans will decline over time as existing FFELP Loans are paid down, refinanced or repaid after default by Guarantors. During the twelve months ended December 31, 2013, our FFELP Loan portfolio declined by approximately \$21.0 billion, or 17 percent, \$12 billion of which was attributed to the sale of Residual Interests in securitization trusts, and our intercompany FFELP Loan servicing revenue declined by approximately \$140 million, or 21 percent, compared to the prior year. If we do not acquire new loan portfolios or otherwise grow or develop new revenue streams to replace or supplement our existing, and declining, FFELP net interest and servicing revenue, our consolidated revenue and operating income will continue to decrease which could materially and adversely impact our earnings.

Our business can be affected by the cost and availability of funding in the capital markets.

The capital markets have from time to time experienced periods of significant volatility. This volatility can dramatically and adversely affect our financing costs when compared to historical norms. Additional factors that could make financing more expensive or unavailable include, but are not limited to, financial losses, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions. If financing becomes more difficult, expensive or unavailable, our business, financial condition and results of operations could be materially and adversely affected.

During 2013, we funded Private Education Loan originations through term-brokered and retail deposits raised by Sallie Mae Bank. Assets funded in this manner result in refinancing risk because the average term of the deposits is shorter than the expected term of some of the assets. There is no assurance that this or other sources of funding, such as the term asset-backed securities market, will be available at a level and cost that makes new Private Education Loan originations possible or profitable, nor is there any assurance that the loans can be refinanced at profitable margins. For additional discussion on regulatory and compliance risks relating to Sallie Mae Bank, see below at Item 1A. Risk Factors

Legal, Regulatory and Compliance. If we are unable to obtain funds from which to make new Private Education Loans, our business, financial condition and results of operations would be materially adversely affected.

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 FFELP Loans and Private Education Loans. Interest earned on FFELP Loans and Private Education Loans is primarily indexed to one-month LIBOR rates and either one-month LIBOR rates or the one-month Prime rate, respectively, but our cost of funds is primarily indexed to three-month LIBOR, creating the possibility of re-pricing risk related to these assets. In a declining interest rate environment, this difference in timing may compress the net interest margin on FFELP Loans and Private Education 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, required payments of principal and interest on our borrowings, and distributions to our stockholders. Our primary sources of liquidity and funding are from fees we collect for servicing education loans, payments made on FFELP and Private Education Loans that we hold, proceeds and distributions from securitization transactions and trusts that we undertake and offerings of debt and equity securities. 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.

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 student loan customers, especially with respect to our Private Education Loan portfolio. We maintain a reserve for credit losses based on expected future charge-offs expected over primarily the next two years, which considers many factors, including levels of past due loans and forbearances and expected economic conditions. However, management's determination of the appropriate reserve 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.

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 Item 7. 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.

Higher than expected prepayments of loans could reduce servicing revenues or reduce or delay payments we receive as the holder of the Residual Interests of securitization trusts holding education loans.

FFELP Loans and Private Education loans may be voluntarily prepaid without penalty by borrowers or, in the case of FFELP Loans, consolidated with the borrowers' other education loans through refinancing into the federal DSLP. FFELP Loans may also be repaid after default by the Guarantors of FFELP Loans. Prepayment rates and levels are subject to many factors which are beyond our control, including repayment through loan consolidation programs. When education loans contained within a securitization trust are prepaid, the fees we earn as servicer decrease and the value of any Residual Interest we own in the securitization trust may decline. While some fluctuation in prepayment levels is to be expected, extraordinary or extended increases in prepayment levels could materially adversely affect our liquidity, income and the value of those Residual Interests.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs and limit our access to the capital markets.

We have unsecured debt that totaled, as of December 31, 2013, approximately \$18.3 billion. In connection with our May 28, 2013 announcement of the proposed Spin-Off, three rating agencies took negative ratings actions with regard to our long-term unsecured debt ratings. Fitch Ratings, Inc. (Fitch) lowered its senior unsecured long-term debt rating one notch to BB+, one notch below its investment grade, and also placed its rating on negative watch. Moody's Investors Services, Inc. (Moody's) and Standard & Poor's Ratings Services LLC (S&P) placed their ratings on our senior unsecured long-term debt on review and watch, respectively, for possible downgrade. Moody's current rating is Ba1, one notch below its investment grade, and S&P's rating is BBB-, its lowest investment grade. Fitch and S&P indicated that if the Spin-Off occurs as planned, they expect to further lower their ratings by one notch and up to two notches, respectively. As a result of Fitch's action, two of the three credit rating agencies now rate our long term unsecured debt at below investment grade such that we are no longer considered an investment grade issuer. Whereas we had previously been included in the Investment Grade Index, we are now included in the High Yield Index. This has resulted in a higher cost of funds for us, and our senior unsecured debt to trade with greater volatility.

The negative actions taken by the credit rating agencies were based on concerns that the Spin-Off will have a negative impact on the holders of our senior unsecured debt. According to their ratings reports, these concerns primarily focus on NewCo's lack of future Private Student Loan originations and related servicing income, the loss of access to the earnings, cash flow, equity and potential market value of Sallie Mae Bank, the run-off of the FFELP Loan portfolio and strategic uncertainty as to the source of incremental earnings and cash flow to replace that in run-off, and an expected increase in our cost of accessing the unsecured debt markets, including for refinancing purposes.

We utilize the unsecured debt markets to help fund our business. The amount, type and cost of our funding directly affects the cost of operating our business and growing our assets and is dependent upon outside factors, including our credit ratings from ratings agencies. There can be no assurance that our credit ratings will not be changed in the future. A reduction in the credit ratings of our senior unsecured debt could adversely affect our liquidity, increase our borrowing costs or limit our access to the capital markets. We may also face additional challenges in the future, including more limited capital resources to invest in or expand our businesses.

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 student 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, foreign exchange rates and market liquidity. Our Floor Income Contracts and some of the basis 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.

Credit risk is the risk that a counterparty will not perform its obligations under a contract. Credit risk is limited to the loss of the fair value gain in a derivative that the counterparty or clearinghouse owes us and therefore exists for derivatives with a positive fair value. At December 31, 2013, we had a net positive exposure (derivative gain positions less collateral posted by counterparties) related to derivatives of \$83 million, excluding securitization trusts discussed below. If a counterparty or clearinghouse 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.

Our securitization trusts, which we are required to consolidate on our balance sheet, have \$10.7 billion of Euro and British Pound Sterling denominated bonds outstanding as of December 31, 2013. To convert these non-U.S. dollar denominated bonds into U.S. dollar liabilities, the trusts have entered into foreign-currency swaps with highly rated counterparties. In addition, the trusts have entered into \$12.8 billion of interest rate swaps, which are primarily used to convert Prime rate payments received on securitized loans to LIBOR paid on the bonds. At December 31, 2013, the net positive exposure on swaps in securitization trusts was \$968 million. A failure by a swap counterparty to perform its obligations could, if the swap has a positive fair value to us, materially and adversely affect our earnings.

High or increasing interest rate environments may cause our Floor Income to decline, which may adversely affect our earnings.

FFELP Loans disbursed before April 1, 2006, generally earn interest at the higher of either the borrower rate, which is fixed over a period of time, or a floating rate based on a Special Allowance Payment (SAP) formula set by ED. We have generally financed our FFELP Loans with floating rate debt whose interest is matched closely to the floating nature of the applicable SAP formula. If a decline in interest rates causes the borrower rate to exceed the SAP formula rate, we will continue to earn interest on the loan at the fixed borrower rate while the floating rate interest on our debt will continue to decline. The additional spread earned between the fixed borrower rate and the SAP formula rate is referred to as Floor Income.

Depending on the type of FFELP Loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. For loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time; for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with legislation enacted in 2006, holders of FFELP Loans are required to rebate Floor Income to ED for all FFELP Loans disbursed on or after April 1, 2006. After accounting for these required rebates, as of December 31, 2013, approximately \$56.8 billion of our FFELP Loan portfolio was eligible to earn Floor Income.

Floor Income can be volatile as rates on the underlying student loans move up and down. We generally hedge this risk by selling Floor Income Contracts to counterparties which lock in the value of the Floor Income over the term of the contract. As of December 31, 2013, approximately \$31.7 billion (56 percent) of our FFELP Loans eligible to earn Floor Income were economically hedged with Floor Income Contracts. A rise in interest rates will reduce the amount of Floor Income received on the approximately \$25.1 billion of FFELP Loans not hedged with Floor Income Contracts, which will compress our interest margins and depress its earnings.

Defaults on student education loans, particularly Private Education Loans, could adversely affect our earnings.

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 to comply with HEA and related regulations.

We bear the full credit exposure on Private Education Loans. For the year ended December 31, 2013, the annual charge-off rate for our Private Education Loans (as a percentage of loans in repayment) was 2.8 percent. 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 8.3 percent at December 31, 2013.

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 December 31, 2013, our allowance for FFELP Loan and Private Education Loan losses was approximately \$119 million and \$2.1 billion, respectively. During the year ended December 31, 2013, we recognized provisions for FFELP Loan and Private Education Loan losses of \$52 million and \$787 million, respectively. 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 student loan defaults. Although default rates have decreased recently as economic conditions have improved, they remain higher than pre-recession levels. 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.

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. We also utilize third-party debt collectors significantly in the collection of defaulted Private Education Loans. 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.

Federal funding constraints and spending policy changes triggered by associated federal spending deadlines may result in disruption of federal payments for services we provide to the government, which could materially and adversely affect our business strategy or future business prospects.

We receive payments from the federal government on our FFELP Loan portfolio and for other services we provide to them, including servicing loans under the DSLP and providing default aversion and contingency collections to ED. Payments for these services may be affected by various factors, including the following:

The Bipartisan Budget Act enacted on December 26, 2013, includes several provisions that will have or could have an effect on our business. First, the Act reduced the amount paid to guaranty agencies for defaulted FFELP Loans rehabilitated under Section 428F of the HEA, beginning on July 1, 2014. See the section titled "Business Services Segment" in Item 1. Business for a discussion on the potential impact of the Budget Act on future operations. In addition, the Budget Act eliminated funding for the direct loan servicing performed by not-for-profit servicers. The Budget Act requires that all servicing funding be provided through the annual appropriations process which is subject to certain limitations. Although the payments for our direct loan servicing contract is already funded from annual appropriations, the requirement to fund all servicing from the limited appropriated funding could have an effect on our future business in ways we cannot predict at this time.

Other Higher Education Legislation: As Congress considers the reauthorization of the HEA, it could consider legislation that would reduce the payments to Guarantors or change the consolidation program to incentivize student loan borrowers to refinance their existing student loans, both private and federal. Such reforms could reduce our cash flows from servicing and interest income as well as its net interest margin.

It is possible that the Administration and Congress in the future could engage in a prolonged debate linking the federal deficit, debt ceiling and other budget issues resulting in a similar debate to the one that occurred around the Budget Control Act of 2011 and the raising of the debt ceiling in October 2013. If U.S. lawmakers in the future fail to reach agreement on these issues, the federal government could stop or delay payment on its obligations, including those on services we provide. We cannot predict how or what programs will be impacted by any actions that the Administration, Congress or the federal government may take. Further, legislation to address the federal deficit and spending could include proposals that would adversely affect FFELP and DSLP-related servicing businesses. A protracted reduction, suspension or cancellation of the demand for the services we provide, or proposed changes to the terms or pricing of services provided under existing contracts with the federal government, including our contract with ED, could have a material adverse effect on our revenues, cash flows, profitability and business outlook, and, as a result, could materially adversely affect our business, financial condition and results of operations.

We continue to undertake numerous cost-cutting initiatives to realign and restructure our business in light of significant legislative changes in the past several years and the amortization of the FFELP Loan portfolios we service. Our business, results of operations and financial condition could be adversely affected if we do not effectively align our cost structure with our current business operations, regulatory compliance obligations and future business prospects.

In response to significant legislative changes in the past several years, including the end of FFELP, we have undertaken and continue to undertake cost-cutting initiatives, including workforce reductions, servicing center closures, restructuring and transfers of business functions to new locations, enhancements to our web-based customer services, adoption of new procurement strategies and investments in operational efficiencies. Our business and financial condition could be adversely affected by these cost-cutting initiatives if cost reductions taken are so dramatic as to cause disruptions in our business, reductions in the quality of the services we provide or cause us to fail to comply with applicable regulatory standards. We may be unable to successfully execute on

certain growth and other business strategies or achieve certain business goals or objectives if cost reductions are too dramatic. Alternatively, we may not be able to achieve our desired cost savings. In either case our business, results of operations and financial condition could be adversely affected.

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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and in Note 2 Significant Accounting Policies to the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. 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.

Acquisitions or strategic investments that we pursue may not be successful and could disrupt our business, harm our financial condition or reduce our earnings.

We may consider or undertake strategic acquisitions of, or material investments in, businesses, products, or portfolios of loans. We may not be able to identify suitable opportunities and, if not, some of our strategies could fail. We may not be able to obtain necessary financing on satisfactory terms. We may not be able to obtain necessary regulatory approvals or complete the transactions on appropriate terms. If we pay the purchase price of any acquisition or investment in cash, it may have an adverse effect on our financial condition; if the purchase price is paid with our stock, it could be dilutive to our stockholders. We may assume liabilities, including unrecorded liabilities that are not discovered at the time of the transaction, and the repayment of those liabilities may have an adverse effect on our financial condition.

We may not be able to successfully integrate personnel, operations, businesses, products, or technologies of an acquisition. There may be additional risks if we enter into a line of business in which we have limited experience or the business operates in a legal, regulatory or competitive environment with which we are not familiar. We may not have or be able to maintain the expertise needed to manage the new business. Acquisitions and investments also may not perform to our expectations for various reasons, including the loss of key personnel, customers or vendors. If we fail to integrate acquisitions or investments or realize the expected benefits, we may lose the return on these acquisitions or investments or incur additional transaction costs, and our business and financial condition may be harmed as a result.

Risks Related to the Spin-Off

The proposed Spin-Off of our current business into two, distinct, publicly-traded entities is contingent upon the satisfaction of a number of conditions, which may not be consummated on the terms or timeline currently contemplated or may not achieve the intended results.

We are currently pursuing a strategic plan to separate our existing organization into two publicly-traded companies, an education loan management company and a consumer banking company. It is expected the Spin-Off, if completed, will occur in the first half of 2014. Our ability to timely effect the Spin-Off is subject to several conditions, including, among others, the receipt of a favorable private letter ruling from the Internal Revenue Service and the SEC declaring effective a registration statement relating to the securities of the separated entity. We cannot assure that the Spin-Off will be completed in a timely fashion, if at all. For these and other reasons, the Spin-Off may not be completed on the terms or timeline contemplated. Further, if the Spin-Off is completed, it may not achieve the intended results. Any such difficulties could adversely affect our business, results of operations or financial condition.

The actions required to implement the complete separation of our current 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 our existing 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 Spin-Off could limit the time and attention spent on managing the business which could disrupt current and future operations.

SLM BankCo will incur significant costs in connection with being a stand-alone company and lose the advantage of our larger size and purchasing power.

SLM BankCo 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 SLM BankCo. In addition, the businesses that will be operated out of SLM BankCo have historically taken advantage of our current size and purchasing power in procuring goods and services. After the Spin-Off, as a separate independent entity, SLM BankCo will no longer be able to rely on this joint purchasing power and, as a result, it may be unable to obtain goods and services from third-party service providers and vendors at prices or on terms as favorable as those it obtained prior to the Spin-Off. Furthermore, prior to the Spin-Off, the SLM BankCo businesses have obtained services from, or engaged in transactions with, our affiliates under intercompany agreements. NewCo and its affiliates will provide services for SLM BankCo and its affiliates following the Spin-Off under a transition services agreement for a transition period and potentially thereafter. The fees charged by NewCo and its affiliates for the provision of these services to SLM BankCo and its 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 SLM BankCo's profitability to decrease.

SLM BankCo may not achieve some or all of the expected benefits of the Spin-Off, and the Spin-Off may adversely affect its business.

SLM BankCo 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 SLM BankCo separately from NewCo; (ii) cash flows significantly in excess of preferred stock dividend and debt service obligations; (iii) more efficient allocation of capital for SLM BankCo and NewCo; (iv) reducing the likelihood SLM BankCo is designated a systemically important financial institution; and (v) a separate equity structure that allows direct access by SLM BankCo to the capital markets and the use of SLM BankCo equity for acquisitions and equity compensation.

SLM BankCo 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 SLM BankCo's business; (b) following the Spin-Off, SLM BankCo may be more susceptible to market fluctuations and other adverse events than if it were still a part of us as a whole; (c) following the Spin-Off, SLM BankCo's business will be less diversified than our business prior to the Spin-Off; and (d) other actions required to separate SLM BankCo's and NewCo's respective businesses could disrupt SLM BankCo's operations. If SLM BankCo fails 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 operations of SLM BankCo could be adversely affected and the value of its stock could be impacted.

We cannot predict the effect of the Spin-Off on the market value of SLM BankCo's common stock and after the Spin-Off its stock price may fluctuate significantly.

We cannot predict the prices at which shares of SLM BankCo's common stock may trade after the Spin-Off. We can also not predict the effect of the Spin-Off on the trading prices of SLM BankCo's common stock or whether the combined market value of the shares of SLM BankCo common stock and the shares of NewCo common stock will be less than, equal to or greater than the market value of our common stock immediately prior to the Spin-Off.

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

Actual or anticipated fluctuations in SLM BankCo's operating results;

The smaller market capitalization of SLM BankCo;

Changes in earnings estimated by securities analysts or SLM BankCo's ability to meet those estimates;

Uncertainty relating to the dividend policy between Sallie Mae Bank and SLM BankCo as a stand-alone entity;

The operating and stock price performance of comparable companies;

Changes to the regulatory and legal environment under which SLM BankCo operates; and

Domestic and worldwide economic conditions.

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 SLM BankCo 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 SLM BankCo's business, financing condition and results of operations.

Sallie Mae Bank and SMI are currently subject to ongoing consumer regulation investigations. Sallie Mae Bank is also subject to an ongoing 2008 cease and desist order jointly issued by the FDIC and the UDFI. Though we are unaware of any applicable requirement that the FDIC, UDFI, or CFPB approve of the Spin-Off, there can be no assurances that these or other federal or state consumer or financial regulators will not seek to affect the timing, manner or terms of the Spin-Off, or prohibit the Spin-Off altogether.

Sallie Mae Bank is subject to state and FDIC regulation, oversight and regular examination, including by the CFPB. The FDIC and state regulators have the authority to impose fines, penalties or other limitations on Sallie Mae Bank's operations should they conclude that its operations are not compliant with applicable laws and regulations. Sallie Mae Bank is currently subject to a 2008 cease and desist order issued jointly by the FDIC and the UDFI for weaknesses in its compliance function. Many of these weaknesses have previously been attributed to Sallie Mae Bank's oversight of significant activities performed outside Sallie Mae Bank by its affiliates, including by companies that will become subsidiaries of NewCo. The Spin-Off is expected to ameliorate this condition due to our separation into two, independent publicly-traded companies.

At the time of this filing, Sallie Mae Bank remains subject to a cease and desist order originally issued in August 2008 by the FDIC and the UDFI. In July 2013, the FDIC notified us that it plans to replace the existing cease and desist order on Sallie Mae Bank with a new formal enforcement action against Sallie Mae Bank that would more specifically address certain cited violations of Section 5 of the FTC Act, including practices relating to payment allocation practices and the disclosures and assessments of certain late fees, as well as alleged violations under the SCRA. In November 2013, the FDIC notified us that the new formal enforcement action would be against Sallie Mae Bank and an additional enforcement action would be against SMI, in its capacity as a servicer of education loans for other financial institutions, and would include civil

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money penalties and restitution. For additional information regarding these and related regulatory matters and the reserves we have recorded in connection therewith, see Item 3. Legal Proceedings Regulatory Matters.

SLM BankCo and NewCo 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 SLM BankCo and to its stockholders at the time of the Spin-Off.

In connection with the Spin-Off, SLM BankCo will enter into a tax sharing agreement with NewCo to preserve the tax-free treatment of the separation and distribution of NewCo. Under this tax sharing agreement, both SLM BankCo and NewCo will be restricted from engaging in certain transactions that could prevent the Spin-Off from being tax-free to SLM BankCo 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 SLM BankCo'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 SLM BankCo and which may negatively affect SLM BankCo's anticipated profitability. Were NewCo to fail 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, SLM BankCo 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 NewCo is required to indemnify SLM BankCo for taxes incurred by SLM BankCo that may arise were NewCo to fail to comply with its obligations under the tax sharing agreement, there is no assurance that NewCo will have the funds to satisfy that liability. Also, NewCo will not be required to indemnify our stockholders for any tax liabilities they may incur for its violation of the tax sharing agreement.

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 and as a servicer for the FFELP and DSLP. 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 consumer lending business could be negatively affected. In addition, the federal government, through the DSLP, poses significant competition to our private credit loan products. If loan limits under the DSLP increase, DSLP loans could be more widely available to students and their families and DSLP loans could increase, resulting in further decreases in the size of the Private Education Loan market and demand for our Private Education Loan products.

We serviced approximately 5.7 million accounts under a DSLP servicing contract with ED as of December 31, 2013. We compete for DSLP servicing volume from ED with three other servicing companies with whom we share the contract. New account allocations for each contract year are awarded annually based on each company's performance on five different metrics over the most recently ended contract year: defaulted borrower count; defaulted borrower dollar amount; a survey of borrowers; a survey of schools; and a survey of ED personnel. Pursuant to the contract terms related to annual volume allocation of new loans, the maximum a servicer can be awarded for any new contract year is 40 percent of net new borrowers in that contract year. We ranked last in the allocation of net accounts for the upcoming contract year. Our allocation of new customer loans serviced for ED under the DSLP servicing contract was 15 percent for the most recent contract year and is 18 percent for the upcoming contract year. If we are unable to improve on our performance metrics and increase our

relative standing compared to the three other servicing companies we compete with for account allocations under the DSLP servicing contract, our ability to increase our servicing business with ED may be materially adversely affected. In November 2013, ED gave notice to Sallie Mae of its intent to exercise its five-year renewal option to extend the DSLP servicing contract.

Legal, Regulatory and Compliance

Our businesses are regulated by various state and federal laws and regulations, and our failure to comply with these laws and regulations may result in significant costs, sanctions, litigation or the loss of insurance and guarantees on affected FFELP Loans.

Our consumer lending and debt collection businesses are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection, and are subject to numerous state and federal laws and regulations. Failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions. In addition, changes to such laws and regulations could adversely impact our business and results of operations if we are not able to adequately mitigate the impact of such changes. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators as well as litigation from private plaintiffs.

The CFPB, in particular, has broad authority with respect to our loan servicing and collection business. It has authority to write regulations under federal consumer financial protection laws and to directly or indirectly enforce those laws and examine us for compliance. The CFPB also has examination and enforcement authority with respect to various federal consumer financial laws for some providers of consumer financial products and services, including the Company. In December 2013, the CFPB issued a final rule, effective March 2014, defining larger participants in the student loan servicing market that will be subject to supervision and examination by the CFPB, a category that also includes us. In October, 2012, the CFPB issued a final rule, effective in January, 2013, defining larger participants in the debt collection market that will be subject to supervision and examination by the CFPB, a category that includes us but which would not apply to the SLM BankCo after the Spin-Off. However, in November, 2013, the CFPB issued an Advance Notice of Proposed Rulemaking for rules to govern debt collection practices under the Fair Debt Collection Practices Act, including a request for comments on whether it should issue rules covering the conduct of creditors collecting their own debts and if the CFPB issues such rules, they may apply to SLM BankCo after the Spin-Off.

The CFPB 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. The CFPB has authority to prevent unfair, deceptive or abusive acts or practices and to ensure that all consumers have access to fair, transparent and competitive markets for consumer financial products and services. The review of products and practices to prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB. The ultimate impact of this heightened scrutiny as well as any new rules promulgated by the CFPB is uncertain, but it has resulted in, and could continue to result in, changes to pricing, practices, products and procedures. It could also result in increased costs related to servicing and collection activities, regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

In furtherance of its regulatory and supervisory powers, the CFPB has the authority to impose monetary penalties for violations of applicable federal consumer financial laws, require remediation of practices and pursue administrative proceedings or litigation for violations of applicable federal consumer financial laws (including the CFPB's own rules). The CFPB has the authority to issue cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations implemented under Title X of the Dodd-Frank Act, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions to remedy violations of state law. If

the CFPB or one or more state attorneys general or state regulators believe that we have violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have a material adverse effect on us or our business.

Loans serviced under the FFELP are subject to the HEA and related regulations. Our servicing operations are designed and monitored to comply with the HEA, related regulations and program guidance; however, ED could determine that we are not in compliance for a variety of reasons, including that we misinterpreted ED guidance or incorrectly applied the HEA and its related regulations or policies. Failure to comply could result in fines, the loss of the insurance and related federal guarantees on affected FFELP Loans, expenses required to cure servicing deficiencies, suspension or termination of our right to participate as a FFELP servicer, negative publicity and potential legal claims. The imposition of significant fines, the loss of the insurance and related federal guarantees on a material number of FFELP Loans, the incurrence of additional expenses and/or the loss of our ability to participate as a FFELP servicer could individually or in the aggregate have a material, negative impact on our business, financial condition or results of operations.

Sallie Mae Bank is subject to state and FDIC regulation, oversight and regular examination, including by the CFPB. The FDIC and state regulators have the authority to impose fines, penalties or other limitations on Sallie Mae Bank's operations should they conclude that its operations are not compliant with applicable laws and regulations. For additional information on regulatory matters relating to Sallie Mae Bank and SMI, as its servicer, see Item 3. Legal Proceedings Regulatory Matters.

We may be required to make further changes to the business practices and products of Sallie Mae Bank and our other affiliates, which may lead to additional costs that must be incurred to comply with the terms of any order.

We have made and, following the Spin-Off will continue to make, changes to Sallie Mae Bank's oversight of significant activities performed outside Sallie Mae Bank by affiliates and to its business practices in order to comply with all applicable laws and regulations and the terms of any cease and desist orders. With respect to many of the weaknesses attributed to Sallie Mae Bank under the 2008 cease and desist order issued jointly by the FDIC and the UDFI for weaknesses in its compliance function, the Spin-Off is expected to ameliorate this condition due to our proposed separation into two, independent publicly-traded companies. However, depending on the outcome of currently pending actions by the FDIC, UDFI, the Department of Justice (the DOJ) and CFPB, we or Sallie Mae Bank could be required to, or otherwise determine to, make further changes to the business practices and products of Sallie Mae Bank, its other affiliates and third-party provider relationships following the Spin-Off to respond to regulatory concerns. Such changes to the business practices and products of Sallie Mae Bank or our other affiliates in response to current or future regulatory concerns and enforcement, or other action by the above referenced or other regulators, which may include civil money penalties and require restitution to customers, could materially and adversely impact our business, financial condition and results of operations.

Changes in law, regulation or regulatory policy involving student loans could have a material impact on our profitability, results of operations, financial condition, cash flows or future prospects.

Our businesses are subject to numerous state and federal laws and regulations and changes to such laws and regulations could adversely impact our business and results of operations if we are not able to adequately mitigate the impact of such changes.

Our FFELP Loan business has been affected extensively by changes in law, most notably by the legislation Congress passed in 2010 to eliminate new FFELP Loans. Changes in the laws, regulations and policies governing federal loan servicing or the terms and conditions of existing FFELP Loans could have an adverse effect on our results of operations, financial condition, cash flows and business prospects.

Our Private Education Loan business may also be impacted by changes in law, regulations or regulatory policy. For example, the CFPB's 2012 Report on the Private Education Loan marketplace provided a number of

recommendations, including reconsideration by Congress of the federal Bankruptcy Code's treatment of Private Education Loans and subjecting additional credit products to the disclosure and consumer protection framework applicable to Private Education Loans. The CFPB's 2013 Report recommended Congress consider making reforms to the disclosures and guidelines that apply to payment application, records retention and other aspects of student loan servicing to mirror changes previously made for the credit card and mortgage businesses. In the future, Congress or the Administration may act on these recommendations or choose to take actions beyond or unrelated to the CFPB's recommendations to further regulate the Private Education Loan market or dictate the terms and conditions applicable to Private Education Loans. Additionally, even in the absence of Congress or the Administration pursuing the CFPB's recommendations, the CFPB may use its regulatory authority and enforcement actions to make substantial changes on its own to the Private Education Loan market and we believe that the CFPB has shown through its actions that it is willing to do so. The taking of any such actions may adversely impact the profitability and growth of our business and/or significantly alter the costs and manner in which we choose to conduct this business.

In addition, the Dodd-Frank Act contains comprehensive provisions that govern the practices and oversight of financial institutions (including large non-bank financial institutions) and other participants in the financial markets. It imposes significant regulations on almost every aspect of the U.S. financial services industry, including enhanced supervisory authority over our business. Many of the Dodd-Frank Act's provisions have become effective but remain subject to interpretation and formal implementation by regulatory authorities through final rulemaking. As a result of the Dodd-Frank Act, the CFPB and other financial regulators have introduced and continue to introduce new regulations and guidance, even as they impose enforcement actions against financial institutions and financial service providers which often contain additional cautions and guidance which must be taken into consideration. Due to the uncertainty engendered by these new regulations, guidance and actions, coupled with the likelihood of additional changes or additions to the statutes, regulations and practices applicable to our business, we are not able to estimate the ultimate impact of changes in law on its financial results, business operations or strategies. We believe that the cost of responding to and complying with these evolving laws and regulations, as well as any guidance from enforcement actions, will continue to increase, as will the risk of penalties and fines from any enforcement actions that may be imposed on its businesses. Our profitability, results of operations, financial condition, cash flows or future business prospects could be materially and adversely affected as a result.

The Dodd-Frank Act authorizes state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act's general prohibition against unfair, deceptive or abusive practices. Most states also have statutes that prohibit unfair and deceptive practices. To the extent states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB under the Dodd-Frank Act, or states increase their examination, supervision and enforcement activities, our compliance costs could increase and reduce our ability to offer the same products and services to consumers nationwide and we may be subject to a higher risk of state enforcement actions.

The FSOC could designate us as a systemically important non-bank financial company to be supervised by the FRB. Designation as a so-called SIFI would impose significant additional statutorily defined monitoring and compliance regimes on our business and could significantly increase the levels of risk-based capital and highly liquid assets we are required to hold. Required implementation of some or all of the measures currently proposed by the FRB to be applicable to SIFIs would have a material impact on our business, results of operations and financial condition.

As directed by the Dodd-Frank Act, on April 3, 2012, FSOC approved the final rule and interpretive guidance regarding the designation of non-bank financial companies as SIFIs (the SIFI Rules). If designated as a SIFI, a non-bank financial company will be supervised by the FRB and be subject to enhanced prudential supervision and regulatory standards. While the separation of our businesses will reduce the complexity of both organizations and may reduce our risk of designation as a SIFI under the SIFI Rules, no assurance can be given that such a designation will not occur.

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 Sallie Mae 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 Sallie Mae 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. Sallie Mae Bank will also be subject to increased leverage capital requirements as its leverage ratio, Tier 1 capital to average total consolidated assets (minus amounts deducted from Tier 1 capital), must be at least 4 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 Sallie Mae Bank to reflect the higher Basel III capital ratios. If Sallie Mae 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.

Our ability to continue to grow our businesses related to contracting with state and federal governments is partly reliant on our ability to remain compliant with the laws and regulations applicable to those contracts.

We are subject to a variety of laws and regulations related to our government contracting businesses, including our contracts with ED. In addition, these government contracts are subject to termination rights, audits and investigations. If we were found in noncompliance with the contract provisions or applicable laws or regulations, or the government exercised its termination or other rights for that or other reasons, our reputation could be negatively affected, and our ability to compete for new contracts could be diminished. If this were to occur, the future prospects, revenues and results of operations of this portion of our business could be negatively affected.

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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table lists the principal facilities owned by us as of December 31, 2013:

Location	Function	Business Segment(s)	Approximate Square Feet
Fishers, IN	Loan Servicing and Data Center	Consumer Lending; Business Services; FFELP Loans	450,000
Newark, DE	Headquarters	Consumer Lending; Business Services; FFELP Loans; Other	160,000
Wilkes-Barre, PA	Loan Servicing Center	Consumer Lending; Business Services; FFELP Loans	133,000
Indianapolis, IN	Loan Servicing Center	Business Services	100,000
Big Flats, NY	GRC and Pioneer Credit Recovery		
	Collection Center	Business Services	60,000
Arcade, NY ⁽¹⁾	Pioneer Credit Recovery		
	Collection Center	Business Services	46,000
Perry, NY	Pioneer Credit Recovery		
	Collection Center	Business Services	45,000

⁽¹⁾ In 2005, we entered into a ten-year lease with the Wyoming County Industrial Development Authority. This property reverts back to us in March 2015. The following table lists the principal facilities leased by us as of December 31, 2013:

Location	Function	Business Segment(s)	Approximate Square Feet
Reston, VA	Administrative Offices	Consumer Lending; Business Services; FFELP Loans; Other	90,000
Newark, DE	Sallie Mae Operations Center	Consumer Lending; Business Services; Other	86,000
Newton, MA	Upromise	Business Services	78,000
Cincinnati, OH	GRC Headquarters and Collection Center	Business Services	59,000
Muncie, IN	Collection Center	Consumer Lending; Business Services	54,000
Moorestown, NJ	Pioneer Credit Recovery	Business Services	
	Collection Center		30,000
Kansas City, MO	Upromise	Business Services	21,000
Salt Lake City, UT	Sallie Mae Bank	Consumer Lending	11,000

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 in owned space at 300 Continental Drive, Newark, Delaware, 19713.

Item 3. 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. Most of these matters are claims against our servicing and collection subsidiaries by borrowers and debtors alleging the violation of state or federal laws in connection with servicing or collection activities on their student loans and other debts. In addition, our collection subsidiaries are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that those subsidiaries have violated a federal or state law in the process of collecting their accounts.

In the ordinary course of our 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 informational or regulatory in nature 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 to be responsive to any such requests.

We are continuing to experience significant year-over-year increases in not only the numbers of requests and investigative demands from various regulators, states attorney generals and administrative agencies, but also in the depth and breadth of information being requested. The main drivers of the increase in regulatory inquiries in 2013 are CFPB and states attorney generals investigative demands related to our business and those of others with whom we conduct business. These increases in the number of inquiries and the volume of related information demands are increasing the costs and resources we must dedicate to timely respond to these requests and may, depending on their outcome, result in payments of additional amounts of restitution, fines and penalties in addition to those described below.

Regulatory Matters

At the time of this filing, Sallie Mae Bank remains subject to a cease and desist order originally issued in August 2008 by the FDIC and the UDFI. In July 2013, the FDIC notified us that it plans to replace the existing cease and desist order on Sallie Mae Bank with a new formal enforcement action against Sallie Mae Bank that would more specifically address certain cited violations of Section 5 of the FTC Act, including practices relating to payment allocation practices and the disclosures and assessments of certain late fees, as well as alleged violations under the SCRA. In November 2013, the FDIC notified us that the new formal enforcement action would be against Sallie Mae Bank and an additional enforcement action would be against SMI, in its capacity as a servicer of education loans for other financial institutions, and would include civil money penalties and restitution. Sallie Mae Bank has been notified by the UDFI that it does not intend to join the FDIC in issuing any new enforcement action. In September 2013 and December 2013, SMI also received Civil Investigative Demands from the CFPB as part of its separate investigation regarding allegations relating to SMI's payment allocation practices and the disclosures and assessment of late fees.

With respect to alleged civil violations of the SCRA, Sallie Mae Bank and SMI are also separately negotiating a comprehensive settlement, remediation and restitution plan with the DOJ, in its capacity as the agency having primary authority for enforcement of such matters.

We have made and continue to make changes to Sallie Mae Bank's oversight of significant activities performed outside Sallie Mae Bank by affiliates and to our business practices in order to comply with all applicable laws and regulations and the terms of any cease and desist orders, including in connection with our pursuit of a strategic plan to separate our existing organization into two publicly-traded companies. We are cooperating fully with the FDIC, DOJ and CFPB in response to their investigations and requests for information and are in active discussions with each with respect to any potential actions to be taken against us. We could be required to, or otherwise determine to, make further changes to the business practices and products of Sallie Mae Bank and our other affiliates to respond to regulatory concerns.

As of December 31, 2013, we reserved \$70 million for estimated amounts and costs that are probable of being incurred for expected compliance remediation efforts with respect to the FDIC and DOJ matters described above.

OIG Investigation

The Office of the Inspector General (the "OIG") of the ED commenced an audit regarding Special Allowance Payments on September 10, 2007. On September 25, 2013, we received the final audit determination of Federal Student Aid (the "Final Audit Determination") on the final audit report issued by the OIG on August 3, 2009 related to our billing practices for Special Allowance Payments. The Final Audit Determination concurred with the final audit report issued by the OIG and instructed us to make adjustment to our government billing to reflect the policy determination. We have the right to appeal the Final Audit Determination to the Administrative Actions and Appeals Service Group of the ED, and we have until March 24, 2014 to do so. We continue to believe that our practices were proper, considering then existing ED guidance and lack of applicable regulations on the method of billing Special Allowance Payments. It is not possible at this time to estimate a range of potential exposure, if any, for amounts that may be payable by us in connection therewith.

Investor Litigation

On January 28, 2014, a stockholder filed a putative class action complaint in the Court of Chancery of the State of Delaware against the Company and our Board of Directors. The complaint is captioned William McCrady v. SLM Corporation et. al., C.A. No. 9285-VCL. Plaintiff purports to bring the complaint on behalf of a class of the holders of our Series B Preferred Stock in connection with our plan to separate our existing business into two public companies, SLM BankCo, which will retain our consumer banking business, and NewCo, which will retain our education loan management business. The complaint generally alleges, among other things, that our Board of Directors breached its fiduciary duties to the Series B Preferred stockholders and an implied covenant of good faith and fair dealing in structuring the proposed Spin-Off, given that the holders of Series B Preferred Stock will not receive an interest in NewCo and, according to Plaintiff, the Spin-Off will fundamentally and inequitably alter the Series B Preferred stockholders' original investment. The complaint seeks declaratory relief and unspecified compensatory and recissory damages, as well as costs and Plaintiff's attorneys fees. We believe that the lawsuit is entirely without merit and intend to defend it vigorously.

Item 4. Mine Safety Disclosures

N/A

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the NASDAQ under the symbol SLM since December 12, 2011. Previously, our common stock was listed and traded on the New York Stock Exchange. As of January 31, 2014, there were 428,698,212 shares of our common stock outstanding and 421 holders of record. The following table sets forth the high and low sales prices for our common stock for each full quarterly period within the two most recent fiscal years.

Common Stock Prices

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2013	High	\$ 20.50	\$ 26.17	\$ 25.49	\$ 26.81
	Low	16.57	19.32	22.69	23.93
2012	High	\$ 16.89	\$ 15.96	\$ 16.94	\$ 17.99
	Low	13.11	12.85	15.07	15.75

We paid quarterly cash dividends on our common stock of \$0.125 per share for the four quarters of 2012 and \$0.150 per share for the four quarters of 2013. Following completion of the Spin-Off, SLM BankCo does not anticipate continuing to pay dividends on its common stock.

Issuer Purchases of Equity Securities

The following table provides information relating to our purchase of shares of our common stock in the three months ended December 31, 2013.

		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⁾
(In millions, except per share data)					
Period:					
October 1	October 31, 2013	.1	\$ 25.47		\$ 400
November 1	November 30, 2013	4.0	26.06	3.4	311
December 1	December 31, 2013	4.3	26.13	4.3	200
Total fourth quarter		8.4	\$ 26.09	7.7	

(1) The total number of shares purchased includes: (i) shares purchased under the stock repurchase program discussed below and (ii) 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) In July 2013, our Board of Directors authorized us to purchase up to \$400 million of shares of our common stock.

Stock Performance

The following graph compares the yearly change in our cumulative total shareholder return on our common stock to that of Standard & Poor's 500 Stock Index and Standard & Poor's Financials Index. The graph assumes a base investment of \$100 at December 31, 2008 and reinvestment of dividends through December 31, 2013.

Five Year Cumulative Total Stockholder Return

Company/Index	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
SLM Corporation	\$ 100.0	\$ 126.6	\$ 141.5	\$ 153.8	\$ 203.0	\$ 319.6
S&P 500 Financials	100.0	117.2	131.4	109.0	140.3	190.2
S&P Index	100.0	126.5	145.5	148.6	172.3	228.1

Source: Bloomberg Total Return Analysis

Item 6. Selected Financial Data.**Selected Financial Data 2009-2013****(Dollars in millions, except per share amounts)**

The following table sets forth our selected financial and other operating information prepared in accordance with GAAP. The selected financial data in the table is derived from our consolidated financial statements. The data should be read in conjunction with the consolidated financial statements, related notes, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	2013	2012	2011	2010	2009
Operating Data:					
Net interest income	\$ 3,167	\$ 3,208	\$ 3,529	\$ 3,479	\$ 1,723
Net income (loss) attributable to SLM Corporation:					
Continuing operations, net of tax	\$ 1,312	\$ 941	\$ 598	\$ 729	\$ 531
Discontinued operations, net of tax	106	(2)	35	(199)	(207)
Net income (loss) attributable to SLM Corporation	\$ 1,418	\$ 939	\$ 633	\$ 530	\$ 324
Basic earnings (loss) per common share attributable to SLM Corporation:					
Continuing operations	\$ 2.94	\$ 1.93	\$ 1.12	\$ 1.35	\$.82
Discontinued operations	.24		.07	(.41)	(.44)
Total	\$ 3.18	\$ 1.93	\$ 1.19	\$.94	\$.38
Diluted earnings (loss) per common share attributable to SLM Corporation:					
Continuing operations	\$ 2.89	\$ 1.90	\$ 1.11	\$ 1.35	\$.82
Discontinued operations	.23		.07	(.41)	(.44)
Total	\$ 3.12	\$ 1.90	\$ 1.18	\$.94	\$.38
Dividends per common share attributable to SLM Corporation common shareholders					
	\$.60	\$.50	\$.30	\$	\$
Return on common stockholders' equity	29%	21%	14%	13%	5%
Net interest margin	1.98	1.78	1.85	1.82	1.05
Return on assets	.89	.52	.33	.28	.20
Dividend payout ratio	.19	.26	.25		
Average equity/average assets	3.28	2.69	2.54	2.47	2.96
Balance Sheet Data:					
Student loans, net	\$ 142,100	\$ 162,546	\$ 174,420	\$ 184,305	\$ 143,807
Total assets	159,543	181,260	193,345	205,307	169,985
Total borrowings	150,443	172,257	183,966	197,159	161,443
Total SLM Corporation stockholders' equity	5,637	5,060	5,243	5,012	5,279
Book value per common share	11.82	9.92	9.20	8.44	8.05
Other Data:					
Off-balance sheet securitized student loans, net	\$	\$	\$	\$	\$ 32,638

* Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries of SLM Corporation are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of the end of the year covered by this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis also contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in Forward-Looking and Cautionary Statements and Item 1A. Risk Factors in this Annual Report on Form 10-K.

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

Overview

The following discussion and analysis presents a review of our business and operations as of and for the year ended December 31, 2013.

In May 2013, we announced plans to separate our consumer banking and education loan management operations into two separate businesses and complete the Spin-Off in the first half of 2014. See Item 1. Business for a further discussion of the Spin-Off.

We monitor and assess our ongoing operations and results based on the following four reportable segments: (1) Consumer Lending; (2) Business Services; (3) FFELP Loans; and (4) Other.

Consumer Lending Segment

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' own financial resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, primarily late fees.

Business Services Segment

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio. We also provide servicing, loan default aversion and defaulted loan collection services for loans on behalf of Guarantors of FFELP Loans and other institutions, including ED. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

FFELP Loans Segment

Our FFELP Loans segment consists of our FFELP Loan portfolio and underlying debt and capital funding these loans. Even though FFELP Loans are no longer originated we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP Loan portfolio amortizes.

Other

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from certain smaller wind-down and discontinued operations within this segment.

Key Financial Measures

Our operating results are primarily driven by net interest income from our student loan portfolios (which include financing costs), provision for loan losses, the revenues and expenses generated by our service businesses, and gains and losses on subsidiary sales, loan sales and debt repurchases. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures are listed below.

Net Interest Income

The most significant portion of our earnings is generated by the spread earned between the interest income we receive on assets in our student loan portfolios and the interest expense on debt funding these loans. We report these earnings as net interest income. Net interest income in our Consumer Lending and FFELP Loans segments are driven by significantly different factors.

Consumer Lending Segment

Net interest income in this segment is determined by the balance of Private Education Loans outstanding and Private Education Loan asset yields less our cost of funds. The asset yield is determined by interest rates we establish based upon the credit of the customer and the level of price competition in the Private Education Loan market. As of December 31, 2013, we had \$37.5 billion of Private Education Loans outstanding. In 2013, we originated \$3.8 billion of Private Education Loans, up 14 percent from \$3.3 billion in the prior year. The majority of our Private Education Loans earn variable rate interest and are funded primarily with variable rate liabilities. The Consumer Lending segment's Core Earnings net interest margin was 4.16 percent in 2013 compared with 4.13 percent in 2012. Our cost of funds can be influenced by a number of factors, including the quality of the loans in our portfolio, our corporate credit rating, general economic conditions, investor demand for Private Education Loan asset-backed securities (ABS) and corporate unsecured debt and competition in the deposit market. At December 31, 2013, 49 percent of our Private Education Loan portfolio was funded to term with non-recourse, long-term securitization debt.

FFELP Loans Segment

Net interest income will be the primary source of cash flow generated by this segment over the next 20 years as this portfolio amortizes. Interest earned on our FFELP Loans is indexed to one-month LIBOR rates and our cost of funds is primarily indexed to three-month LIBOR, creating the possibility of basis and repricing risk related to these assets. As of December 31, 2013, we had \$104.6 billion of FFELP Loans outstanding. The FFELP Loans segment's Core Earnings net interest margin was 0.88 percent in 2013 compared with 0.84 percent in 2012.

The major source of variability in net interest income is expected to be Floor Income we earn on certain FFELP Loans. Pursuant to the terms of the FFELP, certain FFELP Loans continue to earn interest at the stated fixed rate of interest as underlying debt costs decrease. We refer to this additional spread income as Floor Income. Floor Income can be volatile. We frequently hedge this volatility by selling Floor Income Contracts which lock in the value of the Floor Income over the term of the contract.

At December 31, 2013, 84 percent of our FFELP Loan portfolio was funded to term with non-recourse, long-term securitization debt.

Provisions for Loan Losses

Management estimates and maintains an allowance for loan losses at a level sufficient to cover charge-offs expected over the next two years, plus an additional allowance to cover life-of-loan expected losses for loans classified as a troubled debt restructuring (TDR). The provision for loan losses increases the related allowance

for loan losses. Generally, the allowance for loan losses rises when charge-offs are expected to increase and falls when charge-offs are expected to decline. Our loss exposure and resulting provision for losses is small for FFELP Loans because we generally bear a maximum of three percent loss exposure on them. We bear the full credit exposure on our Private Education Loans. Our provision for losses in our FFELP Loans segment was \$52 million in 2013 compared with \$72 million in 2012. Losses in our Consumer Lending segment are 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. Our provision for loan losses in our Consumer Lending segment was \$787 million in 2013 compared with \$1.0 billion in 2012.

Charge-Offs and Delinquencies

When we conclude a loan is uncollectible, the unrecoverable portion of the loan is charged against the allowance for loan losses in the applicable segment. Charge-off data provides relevant information with respect to the performance of our loan portfolios. Management focuses on delinquencies as well as the progression of loans from early to late stage delinquency. The Consumer Lending segment's charge-off rate was 2.8 percent of loans in repayment in 2013 compared with 3.4 percent of loans in repayment in 2012. Delinquencies are a very important indicator of the potential future credit performance. Private Education Loan delinquencies as a percentage of Private Education Loans in repayment decreased from 9.3 percent at December 31, 2012 to 8.3 percent at December 31, 2013.

Servicing and Contingency Revenues

We earn servicing revenues from servicing student loans. We earn contingency revenue related to default aversion and contingency collection work we perform primarily on federal loans. The fees we recognize are primarily driven by our success in collecting or rehabilitating defaulted loans, the number of transactions processed and the underlying volume of loans we are servicing on behalf of others.

Other Income / (Loss)

In managing our loan portfolios and funding sources, we periodically engage in sales of loans and the repurchase of our outstanding debt. In each case, depending on market conditions, we may incur gains or losses from these transactions that affect our results from operations.

We also sold our Campus Solutions business and our 529 college-savings plan administration business in 2013 in connection with better aligning our core business. The results of both of these businesses are reported in discontinued operations for all periods presented.

Operating Expenses

The operating expenses reported for our Consumer Lending and Business Services segments are those that are directly attributable to the generation of revenues by those segments. The operating expenses for the FFELP Loans segment primarily represent an intercompany servicing charge from the Business Services segment and do not reflect our actual underlying costs incurred to service the loans. We have included corporate overhead expenses and certain information technology costs (together referred to as "Overhead") in our Other segment rather than allocate those expenses by segment. Overhead expenses include executive management, the Board of Directors, accounting, finance, legal, human resources, stock-based compensation expense and certain information technology and infrastructure costs.

Core Earnings

We report financial results on a GAAP basis and also present certain "Core Earnings" performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these "Core Earnings" measures to monitor our business performance. "Core Earnings" is the basis in which we prepare our

segment disclosures as required by GAAP under ASC 280 Segment Reporting (see Note 15 Segment Reporting). For a full explanation of the contents and limitations of Core Earnings, see the section titled Core Earnings Definition and Limitations of this Item 7.

2013 Summary of Results

Our 2013 accomplishments are discussed below.

GAAP 2013 net income was \$1.42 billion (\$3.12 diluted earnings per share), versus net income of \$939 million (\$1.90 diluted earnings per share) in the prior year. The changes in GAAP net income are driven by the same Core Earnings items discussed below as well as changes in mark-to-market unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in Core Earnings results. In 2013 and 2012, GAAP results included gains of \$243 million and losses of \$194 million, respectively, resulting from derivative accounting treatment which is excluded from Core Earnings results.

Core Earnings for 2013 were \$1.29 billion compared with \$1.06 billion in 2012. Core Earnings increased due to a \$302 million increase in gains on sales of loans and investments, a \$241 million lower provision for loan loss, a \$109 million after-tax increase in gains from the sale of subsidiaries and a \$75 million increase in servicing and contingency revenue. This was partially offset by a \$106 million decrease in net interest income, a \$145 million increase in operating expenses, a \$97 million decrease in debt repurchase gains and a \$61 million increase in restructuring and other reorganization expenses.

During 2013, we issued \$3.75 billion of unsecured debt, and issued \$6.5 billion of FFELP ABS and \$3.1 billion of Private Education Loan ABS. We also repurchased \$1.3 billion of debt and realized Core Earnings gains of \$48 million in 2013, compared with repurchases of \$711 million and gains of \$145 million in 2012. In addition, we repurchased \$600 million of common stock in 2013 compared with \$900 million repurchased in 2012.

2013 Management Objectives

In 2013, we set out five major goals to create shareholder value. They were: (1) prudently grow Consumer Lending segment assets and revenues; (2) maximize cash flows from FFELP Loans; (3) reduce operating expenses while improving efficiency and customer experience; (4) maintain our financial strength; and (5) expand the capabilities of Sallie Mae Bank.

The following describes our performance relative to each of our 2013 goals.

Prudently Grow Consumer Lending Segment Assets and Revenues

We continued to pursue managed growth in our Private Education Loan portfolio in 2013, with \$3.8 billion in new originations for the year compared with \$3.3 billion in 2012, a 14 percent increase. The average FICO score of our 2013 originations was 745 and approximately 90 percent of the originated loans were cosigned. We continued to help our customers manage their borrowings and succeed in its payoff, which resulted in lower charge-offs and provision for loan losses. The charge-off rate was 2.8 percent in 2013, the lowest rate since 2007, and down from 3.4 percent in 2012, an 18 percent decrease. The provision for Private Education Loan losses decreased \$221 million from 2012, a 22 percent decrease.

Maximize Cash Flows from FFELP Loans

In 2013, management set out to explore alternative transactions and structures that could increase our ability to maximize the value of our ownership interests in FFELP securitization trusts and allow us to diversify our holdings while maintaining servicing fee income. In 2013, we sold our ownership interest in five of our FFELP Loan securitization trusts (\$12.5 billion of securitization trust assets and \$12.1 billion of related liabilities) which generated a \$312 million gain on sale. During 2013 we also purchased \$736 million of FFELP Loans.

Reduce Operating Expenses While Improving Efficiency and Customer Experience

For 2013, we set out to reduce unit costs, and balance our Private Education Loan growth and the challenge of increased regulatory oversight. We also planned and accomplished improving efficiency and customer experience by replacing certain of our legacy systems and making enhancements to our self-service platform and call centers (including improved call segmentation that routes an in-bound customer call directly to the appropriate agent who can answer the customer's inquiry). In the fourth quarter of 2013, we reserved \$70 million for expected compliance remediation efforts relating to pending regulatory inquiries. Excluding this compliance remediation expense, full-year 2013 operating expenses were \$972 million compared with \$897 million for 2012. The \$75 million increase was primarily the result of increases in third-party servicing and collection activities (which resulted in \$108 million of additional revenue), continued investments in technology and increased Private Education Loan marketing activities (which resulted in a 14 percent increase in originations volume).

Although total operating expenses, excluding the \$70 million compliance remediation expense, were \$75 million higher from the prior year, the majority of the increase related to generating higher fee income and loan originations as discussed above. An example of becoming more efficient can be seen in our Consumer Lending segment; direct operating expenses as a percentage of revenues (revenues calculated as net interest income after provision plus total other income) were 31 percent and 38 percent in the years ended December 31, 2013 and 2012, respectively.

Maintain Our Financial Strength

It was management's objective for 2013 to continue paying dividends and repurchasing common shares through our share repurchase program while ending 2013 with capital and reserve positions as strong as those with which we ended 2012. In February 2013, we announced an increase in our quarterly common stock dividend to \$0.15 per share, resulting in full-year common stock dividends paid of \$264 million or \$0.60 per share. In 2013, we authorized a total of \$800 million for common stock repurchases. We repurchased an aggregate of 27 million shares for \$600 million in 2013. At December 31, 2013, there was \$200 million remaining authorization for additional common stock repurchases under our current stock repurchase program. We did this while achieving diluted Core Earnings per share of \$2.83 and maintaining our strong balance sheet and capital positions.

In addition, on June 10, 2013, we closed on a new \$6.8 billion credit facility that matures in June 2014, to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the ED Conduit Program.

On July 17, 2013, we closed on a \$1.1 billion asset-backed borrowing facility that matures on August 15, 2015. The facility was used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, which occurred on August 15, 2013.

Expand Sallie Mae Bank Capabilities

Sallie Mae Bank continued to fund our Private Education Loan originations in 2013. We continued to evolve the operational and enterprise risk oversight program at Sallie Mae Bank in preparation for expected growth and designation as a large bank, which will entail enhanced regulatory scrutiny. In addition, we voluntarily made similar changes at the holding company level. See Item 1. Business for additional information about Sallie Mae Bank's regulatory environment once it becomes a large bank.

2014 Outlook and Management Objectives

In May 2013, we announced plans to separate our consumer banking and education loan management operations into two separate businesses and complete the Spin-Off in the first half of 2014. Our primary objective for 2014 is successfully completing this transaction. We continue to believe a first half 2014 separation to be achievable. See Item 1. Business for a further discussion of the Spin-Off. Upon a successful separation, NewCo and SLM BankCo will each put in place their 2014 Management Objectives. We expect those objectives to be similar, as appropriate, to the 2013 Management Objectives that were established.

Results of Operations

We present the results of operations first on a consolidated basis in accordance with GAAP. As discussed earlier, we have four business segments: Consumer Lending, Business Services, FFELP Loans and Other. Since these segments operate in distinct business environments, the discussion following the Consolidated Earnings Summary is presented on a segment basis and is shown on a Core Earnings basis. See Item 1. Business Business Segments for further discussion on the components of each segment.

GAAP Consolidated Statements of Income

(Dollars in millions, except per share amounts)	Years Ended December 31,			Increase (Decrease)			
	2013	2012	2011	2013 vs. 2012		2012 vs. 2011	
				\$	%	\$	%
Interest income							
FFELP Loans	\$ 2,822	\$ 3,251	\$ 3,461	\$ (429)	(13)%	\$ (210)	(6)%
Private Education Loans	2,527	2,481	2,429	46	2	52	2
Other loans	11	16	21	(5)	(31)	(5)	(24)
Cash and investments	17	21	19	(4)	(19)	2	11
Total interest income	5,377	5,769	5,930	(392)	(7)	(161)	(3)
Total interest expense	2,210	2,561	2,401	(351)	(14)	160	7
Net interest income	3,167	3,208	3,529	(41)	(1)	(321)	(9)
Less: provisions for loan losses	839	1,080	1,295	(241)	(22)	(215)	(17)
Net interest income after provisions for loan losses	2,328	2,128	2,234	200	9	(106)	(5)
Other income (loss):							
Gains (losses) on sales of loans and investments	302		(35)	302	100	35	(100)
Losses on derivative and hedging activities, net	(268)	(628)	(959)	360	(57)	331	(35)
Servicing revenue	290	279	283	11	4	(4)	(1)
Contingency revenue	420	356	333	64	18	23	7
Gains on debt repurchases	42	145	38	(103)	(71)	107	282
Other income	100	92	69	8	9	23	33
Total other income (loss)	886	244	(271)	642	263	515	190
Expenses:							
Operating expenses	1,042	897	1,005	145	16	(108)	(11)
Goodwill and acquired intangible assets impairment and amortization expense	13	27	21	(14)	(52)	6	29
Restructuring and other reorganization expenses	72	11	12	61	555	(1)	(8)
Total expenses	1,127	935	1,038	192	21	(103)	(10)
Income from continuing operations, before income tax expense	2,087	1,437	925	650	45	512	55
Income tax expense	776	498	328	278	56	170	52
Net income from continuing operations	1,311	939	597	372	40	342	57
Income (loss) from discontinued operations, net of tax expense (benefit)	106	(2)	35	108	5,400	(37)	(106)
Net income	1,417	937	632	480	51	305	48
Less: net loss attributable to noncontrolling interest	(1)	(2)	(1)	1	(50)	(1)	100
Net income attributable to SLM Corporation	1,418	939	633	479	51	306	48
Preferred stock dividends	20	20	18			2	11
Net income attributable to SLM Corporation common stock	\$ 1,398	\$ 919	\$ 615	\$ 479	52%	\$ 304	49%
Basic earnings per common share attributable to SLM Corporation:							
Continuing operations	\$ 2.94	\$ 1.93	\$ 1.12	\$ 1.01	52%	\$.81	72%
Discontinued operations	.24		.07	.24	100	(.07)	(100)
Total	\$ 3.18	\$ 1.93	\$ 1.19	\$ 1.25	65%	\$.74	62%

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Diluted earnings per common share attributable to SLM Corporation:

Continuing operations	\$ 2.89	\$ 1.90	\$ 1.11	\$.99	52%	\$.79	71%
Discontinued operations	.23		.07	.23	100	(.07)	(100)
Total	\$ 3.12	\$ 1.90	\$ 1.18	\$ 1.22	64%	\$.72	61%
Dividends per common share	\$.60	\$.50	\$.30	\$.10	20%	\$.20	67%

Consolidated Earnings Summary GAAP-basis

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

For the years ended December 31, 2013 and 2012, net income was \$1.4 billion, or \$3.12 diluted earnings per common share, and \$939 million, or \$1.90 diluted earnings per common share, respectively. The increase in net income was primarily due to a \$360 million decrease in net losses on derivative and hedging activities, a \$302 million increase in gains on sales of loans and investments, a \$241 million decrease in provisions for loan losses, and a \$108 million after-tax increase in income from discontinued operations, which were partially offset by \$103 million of lower gains on debt repurchases, higher operating expenses of \$145 million and higher restructuring and other reorganization expenses of \$61 million.

The primary contributors to each of the identified drivers of changes in net income for 2013 compared with 2012 are as follows:

Net interest income decreased by \$41 million in the current year compared with the prior year primarily due to a reduction in FFELP net interest income from a \$20 billion decline in average FFELP Loans outstanding in part due to the sale of Residual Interests in FFELP Loan securitization trusts in the first half of 2013. There were approximately \$12 billion of FFELP Loans in these trusts.

Provisions for loan losses decreased by \$241 million primarily as a result of the overall improvement in Private Education Loans credit quality, delinquency and charge-off trends leading to decreases in expected future charge-offs.

Gains on sales of loans and investments increased by \$302 million as a result of \$312 million in gains on the sales of the Residual Interests in FFELP Loan securitization trusts in 2013. See the section titled Business Segment Earnings Summary Core Earnings Basis FFELP Loans Segment for further discussion.

Losses on derivative and hedging activities, net, resulted in a net loss of \$268 million in 2013 compared with a net loss of \$628 million in 2012. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Servicing and contingency revenue increased \$75 million from the prior year primarily from an increase in the number of accounts serviced and in collection volumes in 2013.

Gains on debt repurchases decreased \$103 million. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Operating expenses increased \$145 million primarily as a result of increases in our third-party servicing and collection activities, increased Private Education Loan marketing activities, continued investments in technology and an increase in compliance remediation expense. In the fourth quarter of 2013, we reserved \$70 million for estimated compliance remediation efforts relating to pending regulatory inquiries. For additional information regarding these remediation efforts, see Item 3. Legal Proceedings Regulatory Matters.

Restructuring and other reorganization expenses were \$72 million compared with \$11 million in the prior year. For 2013, these consisted of \$43 million primarily related to third-party costs incurred in connection with our previously announced plan to separate our existing organization into two, separate, publicly traded companies and \$29 million related to severance costs. The \$11 million of expenses in 2012 related to restructuring expenses.

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The effective tax rates for 2013 and 2012 were 37 percent and 35 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of state law changes recorded in the year-ago period.

Income from discontinued operations increased \$108 million primarily as a result of the sale of our Campus Solutions business in the second quarter of 2013 and our 529 college-savings plan administration business in the fourth quarter of 2013, which resulted in after-tax gains of \$38 million and \$65 million, respectively.

We repurchased 27 million shares and 58 million shares of our common stock during 2013 and 2012, respectively, as part of our common share repurchase program. Primarily as a result of these repurchases, our average outstanding diluted shares decreased by 34 million common shares in 2013.

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

For the years ended December 31, 2012 and 2011, net income was \$939 million, or \$1.90 diluted earnings per common share, and \$633 million, or \$1.18 diluted earnings per common share, respectively. The increase in net income was primarily due to a \$331 million decrease in net losses on derivative and hedging activities, a \$215 million decrease in provisions for loan losses, a \$108 million decrease in operating expenses and a \$107 million increase in gains on debt repurchases, which more than offset the \$321 million decline in net interest income.

The primary contributors to each of the identified drivers of changes in net income for 2012 compared with 2011 are as follows:

Net interest income declined by \$321 million primarily due to an \$11 billion reduction in average FFELP Loans outstanding, higher cost of funds, which were partly due to refinancing debt into longer term liabilities, as well as the impact from the acceleration of \$50 million of non-cash loan premium amortization in the second-quarter 2012 related to the Special Direct Consolidation Loan (SDCL) initiative (see the section titled FFELP Loans Segment for further discussion). The decline in FFELP Loans outstanding was driven by normal loan amortization as well as loans that were consolidated under the SDCL initiative.

Provisions for loan losses decreased by \$215 million primarily as a result of overall improvements in the credit quality and delinquency trends of the Private Education Loan portfolio. In second-quarter 2012, we increased our focus on encouraging our customers to enter repayment plans in lieu of additional forbearance usage to better help customers manage their overall payment obligations. As expected, this change resulted in an increase in charge-offs in fourth-quarter 2012, followed by a decline in 2013 charge-offs. See the section titled Consumer Lending Segment Private Education Loan Provision for Loan Losses and Charge-offs for a further discussion of this change and impact.

We did not incur any losses on sales of loans and investments in 2012. In 2011, we recorded \$26 million of impairment on certain investments in aircraft leveraged leases and a \$9 million mark-to-market loss related to classifying our entire \$12 million portfolio of non-U.S. dollar-denominated student loans as held-for-sale.

Net losses on derivative and hedging activities decreased by \$331 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Gains on debt repurchases increased \$107 million. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Operating expenses decreased \$108 million primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

Net income from discontinued operations decreased \$37 million due to the sale of our Purchased Paper Non-Mortgage portfolio in 2011.

In addition, we repurchased 58 million shares and 19 million shares of our common stock during 2012 and 2011, respectively, as part of our common share repurchase program. Primarily as a result of these repurchases, our average outstanding diluted shares decreased by 40 million common shares in 2012.

Core Earnings Definition and Limitations

We prepare financial statements in accordance with GAAP. However, we also evaluate our business segments on a basis that differs from GAAP. We refer to this different basis of presentation as **Core Earnings**. We provide this **Core Earnings** basis of presentation on a consolidated basis for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our **Core Earnings** basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide **Core Earnings** disclosure in the notes to our consolidated financial statements for our business segments. For additional information, see **Note 15 Segment Reporting**.

Core Earnings are not a substitute for reported results under GAAP. We use **Core Earnings** to manage each business segment because **Core Earnings** reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that **Core Earnings** provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items for which we adjust our **Core Earnings** presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets.

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our **Core Earnings** basis of presentation does not. **Core Earnings** are subject to certain general and specific limitations that investors should carefully consider. For example, there is no comprehensive, authoritative guidance for management reporting. Our **Core Earnings** are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Accordingly, our **Core Earnings** presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our performance with that of other financial services companies based upon **Core Earnings**. **Core Earnings** results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, our Board of Directors, rating agencies, lenders and investors to assess performance.

Specific adjustments that management makes to GAAP results to derive our **Core Earnings** basis of presentation are described in detail in the section titled **Core Earnings Definition and Limitations Differences between Core Earnings and GAAP** of this Item 7.

The following tables show **Core Earnings** for each business segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP and reported in **Note 15 Segment Reporting**.

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(Dollars in millions)	Year Ended December 31, 2013									
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations ⁽¹⁾	Total Core Earnings	Reclassification	Adjustments Additions/Subtractions	Total Adjustments ⁽²⁾	Total GAAP
Interest income:										
Student loans	\$ 2,527	\$	\$ 2,313	\$	\$	\$ 4,840	\$ 816	\$ (307)	\$ 509	\$ 5,349
Other loans				11		11				11
Cash and investments	7	5	6	4	(5)	17				17
Total interest income	2,534	5	2,319	15	(5)	4,868	816	(307)	509	5,377
Total interest expense	825		1,285	51	(5)	2,156	55	(1) ⁽⁴⁾	54	2,210
Net interest income (loss)	1,709	5	1,034	(36)		2,712	761	(306)	455	3,167
Less: provisions for loan losses	787		52			839				839
Net interest income (loss) after provisions for loan losses	922	5	982	(36)		1,873	761	(306)	455	2,328
Other income (loss):										
Gains (losses) on sales of loans and investments										
			312	(10)		302				302
Servicing revenue	34	710	76		(530)	290				290
Contingency revenue		420				420				420
Gains on debt repurchases				48		48	(6)		(6)	42
Other income (loss)		34		4		38	(755)	549 ⁽⁵⁾	(206)	(168)
Total other income (loss)	34	1,164	388	42	(530)	1,098	(761)	549	(212)	886
Expenses:										
Direct operating expenses	299	400	557	80	(530)	806				806
Overhead expenses	(1)			237		236				236
Operating expenses	298	400	557	317	(530)	1,042				1,042
Goodwill and acquired intangible asset impairment and amortization expense								13	13	13
Restructuring and other reorganization expenses	6	2		64		72				72
Total expenses	304	402	557	381	(530)	1,114		13	13	1,127
Income (loss) from continuing operations, before income tax expense (benefit)										
	652	767	813	(375)		1,857		230	230	2,087
Income tax expense (benefit) ⁽³⁾	239	281	298	(138)		680		96	96	776
Net income (loss) from continuing operations	413	486	515	(237)		1,177		134	134	1,311
Income (loss) from discontinued operations, net of tax expense (benefit)										
	(1)	112		1		112		(6)	(6)	106
Net income (loss)	412	598	515	(236)		1,289		128	128	1,417
Less: net loss attributable to noncontrolling interest		(1)				(1)				(1)
Net income (loss) attributable to SLM Corporation	\$ 412	\$ 599	\$ 515	\$ (236)	\$	\$ 1,290	\$	\$ 128	\$ 128	\$ 1,418

⁽¹⁾ The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

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(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2013		Total
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	
Net interest income after provisions for loan losses	\$ 455	\$	\$ 455
Total other loss	(212)		(212)
Goodwill and acquired intangible asset impairment and amortization expense		13	13
Total Core Earnings adjustments to GAAP	\$ 243	\$ (13)	230
Income tax expense			96
Loss from discontinued operations, net of tax benefit			(6)
Net income			\$ 128

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.

(4) Represents a portion of the \$63 million of other derivative accounting adjustments.

(5) Represents the \$487 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the \$63 million of other derivative accounting adjustments.

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Year Ended December 31, 2012

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations ⁽¹⁾	Total Core Earnings	Reclassifications	Adjustments Additions/ Subtractions	Total Adjustments ⁽²⁾	Total GAAP
Interest income:										
Student loans	\$ 2,481	\$	\$ 2,744	\$	\$	\$ 5,225	\$ 858	\$ (351)	\$ 507	\$ 5,732
Other loans				16		16				16
Cash and investments	7	7	11	2	(6)	21				21
Total interest income	2,488	7	2,755	18	(6)	5,262	858	(351)	507	5,769
Total interest expense	822		1,591	37	(6)	2,444	115	2 ⁽⁴⁾	117	2,561
Net interest income (loss)	1,666	7	1,164	(19)		2,818	743	(353)	390	3,208
Less: provisions for loan losses	1,008		72			1,080				1,080
Net interest income (loss) after provisions for loan losses	658	7	1,092	(19)		1,738	743	(353)	390	2,128
Other income (loss):										
Gains (losses) on sales of loans and investments										
Servicing revenue	46	813	90		(670)	279				279
Contingency revenue		356				356				356
Gains on debt repurchases				145		145				145
Other income (loss)		33		15		48	(743)	159 ⁽⁵⁾	(584)	(536)