SLM CORP
Form 10-Q
November 06, 2008

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008 or

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

Commission File Number: 001-13251

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

Delaware	**52-2013874**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia	**20190**
(Address of principal executive offices)	*(Zip Code)*

(703) 810-3000
(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding at October 31, 2008**
Voting common stock, $.20 par value	467,284,469 shares

GLOSSARY

Listed below are definitions of key terms that are used throughout this document. See also Appendix A FEDERAL FAMILY EDUCATION LOAN PROGRAM, included in SLM Corporation s (the Company s) 2007 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on February 29, 2008, for a further discussion of FFELP and CCRAA.

2008 Asset-Backed Financing Facilities Financing facilities entered into during the first quarter of 2008: (i) a $26.0 billion FFELP student loan asset-backed commercial paper (ABCP) conduit facility; (ii) a $5.9 billion Private Education Loan ABCP conduit facility (collectively, the 2008 ABCP Facilities); and (iii) a $2.0 billion secured FFELP loan facility (the 2008 Asset-Backed Loan Facility). The 2008 Asset-Backed Financing Facilities replaced the $30.0 billion Interim ABCP Facility (defined below) and $6.0 billion ABCP facility in the first quarter of 2008. Effective as of August 25, 2008, the Company reduced the commitments under its Private Education Loan ABCP conduit facility by approximately $2.2 billion to $3.7 billion. On September 30, 2008, the Company reduced the commitments under its FFELP ABCP Facilities by $4.1 billion to $21.9 billion. There were no changes to interest rates, maturity or other terms of the facilities made in connection with the reductions.

CCRAA The College Cost Reduction and Access Act of 2007.

Consolidation Loan Rebate Fee All holders of FFELP Consolidation Loans are required to pay to the U.S. Department of Education (ED) an annual 105 basis point Consolidation Loan Rebate Fee on all outstanding principal and accrued interest balances of FFELP Consolidation Loans purchased or originated after October 1, 1993, except for loans for which consolidation applications were received between October 1, 1998 and January 31, 1999, where the Consolidation Loan Rebate Fee is 62 basis points.

Constant Prepayment Rate (CPR) A variable in life-of-loan estimates that measures the rate at which loans in the portfolio prepay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance.

Core Earnings In accordance with the rules and regulations of the SEC, the Company prepares financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition to evaluating the Company s GAAP-based financial information, management evaluates the Company s business segments on a basis that, as allowed under the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, differs from GAAP. The Company refers to management s basis of evaluating its segment results as Core Earnings presentations for each business segment and refers to these performance measures in its presentations with credit rating agencies and lenders. While Core Earnings results are not a substitute for reported results under GAAP, the Company relies on Core Earnings performance measures in operating each business segment because it believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Core Earnings performance measures are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by the Company s chief operating decision makers. Core Earnings performance measures are used in developing the Company s financial plans, tracking results, and establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company s core business activities. Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income. Accordingly, the Company s Core Earnings presentation does not represent another comprehensive basis of accounting.

See Note 14, Segment Reporting, to the consolidated financial statements and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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BUSINESS SEGMENTS Limitations of Core Earnings and Pre-tax Differences between Core Earnings and GAA by Business Segment for further discussion of the differences between Core Earnings and GAAP, as well as reconciliations between Core Earnings and GAAP.

In prior filings with the SEC of SLM Corporation s Annual Report on Form 10-K and quarterly reports on Form 10-Q, Core Earnings has been labeled as Core net income or Managed net income in certain instances.

ED The U.S. Department of Education.

Embedded Floor Income Embedded Floor Income is Floor Income (see definition below) that is earned on off-balance sheet student loans that are in securitization trusts sponsored by the Company. At the time of the securitization, the value of Embedded Fixed-Rate Floor Income is included in the initial valuation of the Residual Interest (see definition below) and the gain or loss on sale of the student loans. Embedded Floor Income is also included in the quarterly fair value adjustments of the Residual Interest.

FDLP The William D. Ford Federal Direct Student Loan Program.

FFELP The Federal Family Education Loan Program, formerly the Guaranteed Student Loan Program.

FFELP Consolidation Loans Under the FFELP, borrowers with multiple eligible student loans may consolidate them into a single student loan with one lender at a fixed-rate for the life of the loan. The new loan is considered a FFELP Consolidation Loan. Typically a borrower may consolidate his student loans only once unless the borrower has another eligible loan to consolidate with the existing FFELP Consolidation Loan. The borrower rate on a FFELP Consolidation Loan is fixed for the term of the loan and is set by the weighted average interest rate of the loans being consolidated, rounded up to the nearest 1/8th of a percent, not to exceed 8.25 percent. In low interest rate environments, FFELP Consolidation Loans provide an attractive refinancing opportunity to certain borrowers because they allow borrowers to consolidate variable rate loans into a long-term fixed-rate loan. Holders of FFELP Consolidation Loans are eligible to earn interest under the Special Allowance Payment (SAP) formula (see definition below). In April 2008, the Company suspended its participation in the FFELP Consolidation Loan program.

FFELP Stafford and Other Student Loans Education loans to students or parents of students that are guaranteed or reinsured under FFELP. The loans are primarily Stafford loans but also include PLUS and HEAL loans.

Fixed-Rate Floor Income The Company refers to Floor Income (see definition below) associated with student loans with borrower rates that are fixed to term (primarily FFELP Consolidation Loans and Stafford Loans originated on or after July 1, 2006) as Fixed-Rate Floor Income.

Floor Income FFELP loans 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 the SAP formula (see definition below). The Company generally finances its student loan portfolio with floating rate debt whose interest is matched closely to the floating nature of the applicable SAP formula. If interest rates decline to a level at which the borrower rate exceeds the SAP formula rate, the Company continues to earn interest on the loan at the fixed borrower rate while the floating rate interest on our debt continues to decline. In these interest rate environments, the Company refers to the additional spread it earns between the fixed borrower rate and the SAP formula rate as Floor Income. Depending on the type of student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, the Company may earn Floor Income to the next reset date. In accordance with legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all FFELP loans disbursed on or after April 1, 2006.

The following example shows the mechanics of Floor Income for a typical fixed-rate FFELP Consolidation Loan (with a commercial paper-based SAP spread of 2.64 percent):

Fixed Borrower Rate	7.25%
SAP Spread over Commercial Paper Rate	(2.64)%
Floor Strike Rate[1]	4.61%

[1] The interest rate at which the underlying index (Treasury bill or commercial paper) plus the fixed SAP spread equals the fixed borrower rate. Floor Income is earned anytime the interest rate of the underlying index declines below this rate.

Based on this example, if the quarterly average commercial paper rate is over 4.61 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 4.61 percent, the SAP formula will produce a rate below the fixed borrower rate of 7.25 percent and the loan holder earns at the borrower rate of 7.25 percent.

Graphic Depiction of Floor Income:

Floor Income Contracts The Company enters into contracts with counterparties under which, in exchange for an upfront fee representing the present value of the Floor Income that the Company expects to earn on a notional amount of underlying student loans being economically hedged, the Company will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, the Company agrees to pay the counterparty the difference, if positive, between the fixed borrower rate less the SAP (see definition below) spread and the average of the applicable interest rate index on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contract. The contracts generally do not extend over the life of the underlying student loans. This contract effectively locks in the amount of Floor Income the Company will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and each quarter the Company must record the change in fair value of these contracts through income.

Front-End Borrower Benefits Financial incentives offered to borrowers at origination. Front-End Borrower Benefits primarily represent the Company s payment on behalf of borrowers for required FFELP fees, including the federal origination fee and federal default fee. The Company accounts for these Front-End Borrower Benefits as loan premiums amortized over the estimated life of the loans as an adjustment to the loan s yield.

Gross Floor Income Floor Income earned before payments on Floor Income Contracts.

Guarantors State agencies or non-profit companies that guarantee (or insure) FFELP loans made by eligible lenders under The Higher Education Act of 1965 (HEA), as amended.

Interim ABCP Facility An aggregate of $30 billion asset-backed commercial paper conduit facilities that the Company entered into on April 30, 2007 in connection with the April 16, 2007 announcement of a proposed acquisition of the Company by J.C. Flowers & Co., Bank of America, N.A., and JPMorgan Chase, N.A., which was terminated on January 25, 2008.

Lender Partners Lender Partners are lenders who originate loans under forward purchase commitments under which the Company owns the loans from inception or, in most cases, acquires the loans soon after origination.

Managed Basis The Company generally analyzes the performance of its student loan portfolio on a Managed Basis. The Company views both on-balance sheet student loans and off-balance sheet student loans owned by the securitization trusts as a single portfolio, and the related on-balance sheet financings are combined with off-balance sheet debt. When the term Managed is capitalized in this document, it is referring to Managed Basis.

Private Education Loans Education loans to students or parents of students that are not guaranteed under the FFELP. Private Education Loans include loans for higher education (undergraduate and graduate degrees) and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. The Company s higher education Private Education Loans are not dischargeable in bankruptcy, except in certain limited circumstances. Repayment for alternative education generally begins immediately.

In the context of the Company s Private Education Loan business, the Company uses the term non-traditional loans to describe education loans made to certain borrowers that have or are expected to have a high default rate as a result of a number of factors, including having a lower tier credit rating, low program completion and graduation rates or, where the borrower is expected to graduate, a low expected income relative to the borrower s cost of attendance.

Preferred Channel Originations Preferred Channel Originations are comprised of: 1) loans that are originated by internally marketed Sallie Mae brands, and 2) student loans that are originated by Lender Partners (defined above).

Repayment Borrower Benefits Financial incentives offered to borrowers based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of Repayment Borrower Benefits is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits and the amount of the financial benefit offered to the borrower. The Company occasionally changes Repayment Borrower Benefits programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the Repayment Borrower Benefits discount when made.

Residual Interest When the Company securitizes student loans, it retains the right to receive cash flows from the student loans sold to trusts that it sponsors in excess of amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The Residual Interest, which may also include reserve and other cash accounts, is the present value of these future expected cash flows, which includes the present value of any Embedded Fixed-Rate Floor Income described above. The Company values the Residual Interest at the time of sale of the student loans to the trust and as of the end of each subsequent quarter.

Retained Interest The Retained Interest includes the Residual Interest (defined above) and servicing rights (as the Company retains the servicing responsibilities) for our securitization transactions accounted for as sales.

Risk Sharing When a FFELP loan first disbursed on and after July 1, 2006 defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan is at risk for the remaining amount not guaranteed as a Risk Sharing loss on the loan. FFELP loans originated after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower s death, disability or bankruptcy. FFELP loans serviced by a servicer that has Exceptional Performer designation from ED were subject to one-percent Risk Sharing for claims filed on or after July 1, 2006 and before October 1, 2007. The CCRAA reduces default insurance to 95 percent of the unpaid principal and accrued interest for loans first disbursed on or after October 1, 2012.

Special Allowance Payment (SAP) FFELP loans disbursed prior to April 1, 2006 (with the exception of certain PLUS and SLS loans discussed below) generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan s repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to the Company. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. The Company refers to the fixed spread to the underlying index as the SAP spread. For loans disbursed after April 1, 2006, FFELP loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) must be refunded to ED.

Variable rate PLUS Loans and SLS Loans earn SAP only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. For PLUS loans disbursed on or after January 1, 2000, this limitation on SAP was repealed effective April 1, 2006.

A schedule of SAP rates is set forth on page A-5 of the Company s 2007 Annual Report on Form 10-K.

Variable Rate Floor Income For FFELP Stafford loans whose borrower interest rate resets annually on July 1, the Company may earn Floor Income or Embedded Floor Income (see definitions above) based on a calculation of the difference between the borrower rate and the then current interest rate. The Company refers to this as Variable Rate Floor Income because Floor Income is earned only through the next reset date.

Wholesale Consolidation Loans During 2006, the Company implemented a loan acquisition strategy under which it began purchasing a significant amount of FFELP Consolidation Loans, primarily via the spot market, which augmented its in-house FFELP Consolidation Loan origination process. Wholesale Consolidation Loans are considered incremental volume to the Company s core acquisition channels, which are focused on the retail marketplace with an emphasis on the Company s brand strategy. In 2008, the Company ceased acquiring Wholesale Consolidation Loans.

SLM CORPORATION

FORM 10-Q
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September 30, 2008

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars and shares in thousands, except per share amounts)

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $75,290 and $47,518, respectively)	$ 48,924,938	$ 35,726,062
FFELP Consolidation Loans (net of allowance for losses of $47,965 and $41,211, respectively)	72,565,628	73,609,187
Private Education Loans (net of allowance for losses of $1,012,838 and $885,931, respectively)	19,837,425	14,817,725
Other loans (net of allowance for losses of $53,189 and $43,558, respectively)	769,923	1,173,666
Investments		
Available-for-sale	535,397	2,871,340
Other	582,332	93,040
Total investments	1,117,729	2,964,380
Cash and cash equivalents	3,895,854	7,582,031
Restricted cash and investments	3,897,417	4,600,106
Retained Interest in off-balance sheet securitized loans	2,323,419	3,044,038
Goodwill and acquired intangible assets, net	1,259,541	1,300,689
Other assets	10,399,220	10,747,107
Total assets	$ 164,991,094	$ 155,564,991
Liabilities		
ED Participation and Purchase Program facility	$ 3,554,618	$
Bank deposits	744,086	254,029
Other short-term borrowings	33,968,849	35,693,378
Total short-term borrowings	38,267,553	35,947,407
Long-term borrowings	118,069,878	111,098,144
Other liabilities	3,297,998	3,284,545
Total liabilities	159,635,429	150,330,096
Commitments and contingencies		

Minority interest in subsidiaries	8,541	11,360
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000
Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock; 1,150 and 1,000 shares, respectively, issued at liquidation preference of $1,000 per share	1,149,770	1,000,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,420 and 532,493 shares issued, respectively	106,884	106,499
Additional paid-in capital	4,665,614	4,590,174
Accumulated other comprehensive income (net of tax of $26,766 and $124,468, respectively)	46,687	236,364
Retained earnings	669,509	557,204
Stockholders equity before treasury stock	7,203,464	7,055,241
Common stock held in treasury at cost: 66,952 and 65,951 shares, respectively	1,856,340	1,831,706
Total stockholders equity	5,347,124	5,223,535
Total liabilities and stockholders equity	$ 164,991,094	$ 155,564,991

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	$ 516,116	$ 545,618	$ 1,478,190	$ 1,507,680
FFELP Consolidation Loans	830,566	1,145,473	2,436,886	3,247,573
Private Education Loans	445,572	392,737	1,298,417	1,060,509
Other loans	19,874	25,990	64,573	80,416
Cash and investments	57,154	211,303	251,491	466,731
Total interest income	1,869,282	2,321,121	5,529,557	6,362,909
Total interest expense	1,394,533	1,879,811	4,375,896	5,109,130
Net interest income	474,749	441,310	1,153,661	1,253,779
Less: provisions for loan losses	186,909	142,600	467,235	441,130
Net interest income after provisions for loan losses	287,840	298,710	686,426	812,649
Other income:				
Gains on student loan securitizations				367,300
Servicing and securitization revenue	64,990	28,883	174,262	413,808
Losses on sales of loans and securities, net	(43,899)	(25,163)	(122,148)	(67,051)
Gains (losses) on derivative and hedging activities, net	(241,757)	(487,478)	(152,510)	(22,881)
Contingency fee revenue	89,418	76,306	258,514	243,865
Collections revenue (loss)	(170,692)	52,788	(87,088)	195,442
Guarantor servicing fees	36,848	45,935	95,164	115,449
Other	93,096	106,684	295,357	292,121
Total other income (loss)	(171,996)	(202,045)	461,551	1,538,053
Expenses:				
Salaries and benefits	157,408	185,741	504,925	563,723
Other operating expenses	209,744	170,158	571,563	547,150
Restructuring expenses	10,508		77,926	
Total expenses	377,660	355,899	1,154,414	1,110,873
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(261,816)	(259,234)	(6,437)	1,239,829
Income tax expense (benefit)	(103,819)	84,449	(13,233)	499,187

Income (loss) before minority interest in net earnings of subsidiaries		(157,997)		(343,683)		6,796		740,642
Minority interest in net earnings of subsidiaries		544		77		3,405		1,778
Net income (loss)		(158,541)		(343,760)		3,391		738,864
Preferred stock dividends		27,474		9,274		83,890		27,523
Net income (loss) attributable to common stock	$	(186,015)	$	(353,034)	$	(80,499)	$	711,341
Basic earnings (loss) per common share	$	(.40)	$	(.85)	$	(.17)	$	1.73
Average common shares outstanding		466,646		412,944		466,625		411,958
Diluted earnings (loss) per common share	$	(.40)	$	(.85)	$	(.17)	$	1.69
Average common and common equivalent shares outstanding		466,646		412,944		466,625		420,305
Dividends per common share	$		$		$		$	.25

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

rred ck es	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
),000	436,095,303	(23,477,044)	412,618,259	$ 565,000	$ 87,219	$ 2,721,554	$ 265,388	$ 2,790,674
								(343,760
							(12,914)	
							(7,208)	
							86	
								(2,875
								(6,236
								(1
	3,565,038		3,565,038		713	86,182		
						163		(163
						31,105		
						8,744		
		(2,067,201)	(2,067,201)					

,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639
,000	534,010,178	(66,444,785)	467,565,393	$ 1,715,000	$ 106,802	$ 4,637,731	$ 61,994	$ 855,527
								(158,541)
							(4,686)	
							(10,338)	
							(283)	
								(2,875)
								(3,592)
								(20,843)
								(3)
	409,499	525	410,024		80	11,654		
						164		(164)
(230)				(230)	2	228		
						(3,342)		
						19,179		
		(507,731)	(507,731)					
,770	534,419,677	(66,951,991)	467,467,686	$ 1,714,770	$ 106,884	$ 4,665,614	$ 46,687	$ 669,509

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

red k es	Common Stock Shares Issued	 Treasury	 Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
,000	433,112,982	(22,496,170)	410,616,812	$ 565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718
								738,864
							(103,014)	
							(309)	
							(436)	
								(102,658
								(8,625
								(18,414
								(1
	6,547,359	35,364	6,582,723		1,309	180,376		
						484		(484
						46,579		
						55,098		
								(5,761

		(3,083,439)	(3,083,439)					
,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639
,000	532,493,081	(65,951,394)	466,541,687	$ 1,565,000	$ 106,499	$ 4,590,174	$ 236,364	$ 557,204
								3,391
							(26,199)	
							31,932	
							(755)	
								(8,625
								(12,489
								(62,289
								(1,851
	1,926,596	3,667	1,930,263		383	30,358		
,000				150,000		(4,168)		(487
(230)				(230)	2	228		
						(13,358)		
						62,380		
							(194,655)	194,655

		(1,004,264)	(1,004,264)					
,770	534,419,677	(66,951,991)	467,467,686	$ 1,714,770	$ 106,884	$ 4,665,614	$ 46,687	$ 669,509

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Nine Months Ended September 30, 2008 (Unaudited)	Nine Months Ended September 30, 2007 (Unaudited)
Operating activities		
Net income	$ 3,391	$ 738,864
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gains on student loan securitizations		(367,300)
Losses on sales of loans and securities, net	122,148	67,051
Stock-based compensation cost	69,937	65,193
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	125,457	(129,078)
Unrealized (gains)/losses on derivative and hedging activities equity forwards		73,467
Provisions for loan losses	467,235	441,130
Minority interest, net	(2,176)	(1,239)
Mortgage loans originated for sale	(50,105)	(528,241)
Proceeds and repayments from sales of mortgage loans originated for sale	53,927	585,853
Decrease (increase) in purchased paper mortgage loans	200,098	(402,397)
Student loans originated for sale	(4,102,691)	
Decrease in restricted cash-other	61,131	127
(Increase) in accrued interest receivable	(240,906)	(1,018,465)
(Decrease) increase in accrued interest payable	(192,335)	157,082
Adjustment for non-cash loss/(income) related to Retained Interest	361,141	142,225
Decrease in other assets, goodwill and acquired intangible assets, net	357,982	132,579
(Decrease) increase in other liabilities	(149,966)	649,274
Total adjustments	(2,919,123)	(132,739)
Net cash (used in) provided by operating activities	(2,915,732)	606,125
Investing activities		
Student loans acquired	(20,527,609)	(31,057,701)
Loans purchased from securitized trusts	(1,201,058)	(4,034,061)
Reduction of student loans:		
Installment payments	7,997,789	8,622,254
Proceeds from securitization of student loans treated as sales		1,976,599
Proceeds from sales of student loans	25,844	777,982
Other loans originated	(1,097,231)	(2,967,425)
Repayments of other loans originated for investment	1,470,040	3,007,256
Other investing activities, net	(67,006)	(204,634)

Purchases of available-for-sale securities	(93,787,195)	(65,822,245)
Proceeds from sales of available-for-sale securities		73,199
Proceeds from maturities of available-for-sale securities	95,830,890	64,214,984
Purchases of other securities	(500,255)	(330,050)
Proceeds from maturities of held-to-maturity securities and other securities	12,502	434,771
Decrease (increase) in restricted cash on-balance sheet trusts	629,001	(1,696,092)
Return of investment from Retained Interest	352,633	199,345
Purchase of subsidiaries, net of cash acquired	(37,868)	
Net cash used in investing activities	(10,899,523)	(26,805,818)
Financing activities		
Borrowings collateralized by loans in trust issued	17,986,955	18,953,651
Borrowings collateralized by loans in trust repaid	(4,819,485)	(4,295,630)
Asset-backed financing facilities net activity	(1,733,537)	20,391,717
ED Participation Program facility	3,554,618	
Other short-term borrowings issued	2,001,875	378,146
Other short-term borrowings repaid	(1,067,281)	(2,194,028)
Other long-term borrowings issued	2,437,226	1,567,602
Other long-term borrowings repaid	(8,495,343)	(3,078,229)
Other financing activities, net	195,843	(81,754)
Excess tax benefit from the exercise of stock-based awards	281	29,535
Common stock issued	5,983	159,832
Net settlements on equity forward contracts		(184,793)
Common stock repurchased		(142,927)
Common dividends paid		(102,658)
Preferred stock issued	145,345	
Preferred dividends paid	(83,403)	(27,039)
Net cash provided by financing activities	10,129,077	31,373,425
Net (decrease) increase in cash and cash equivalents	(3,686,178)	5,173,732
Cash and cash equivalents at beginning of period	7,582,031	2,621,222
Cash and cash equivalents at end of period	$ 3,895,853	$ 7,794,954
Cash disbursements made for:		
Interest	$ 4,366,839	$ 4,966,249
Income taxes	$ 697,146	$ 704,206

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 is unaudited)
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1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results for the year ending December 31, 2008. The consolidated balance sheet at December 31, 2007, as presented, was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the period ended December 31, 2007. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2007 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2007 to be consistent with classifications adopted for 2008.

Restructuring Activities

The Company is restructuring its business in response to the impact of the College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets. One-time, involuntary benefit arrangements, disposal costs (including contract termination costs and other exit costs), as well as certain other costs that are incremental and incurred as a direct result of the Company s restructuring plans, are accounted for in accordance with the Financial Accounting Standards Board s (FASB s) Statement of Financial Accounting Standards (SFAS) No. 146, Accounting f Costs Associated with Exit or Disposal Activities, and are classified as restructuring expenses in the accompanying consolidated statements of income.

In conjunction with its restructuring plans, the Company has entered into one-time benefit arrangements with employees, primarily senior executives, who have been involuntarily terminated. The Company recognizes a liability when all of the following conditions have been met and the benefit arrangement has been communicated to the employees:

Management, having the authority to approve the action, commits to a plan of termination;

The plan of termination identifies the number of employees to be terminated, their job classifications or functions and their locations and the expected completion date;

The plan of termination establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination, in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; and

Actions required to complete the plan of termination indicate that it is unlikely that significant changes to the plan of termination will be made or that the plan of termination will be withdrawn.

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1. Significant Accounting Policies (Continued)

Severance costs under such one-time termination benefit arrangements may include all or some combination of severance pay, medical and dental benefits, outplacement services, and certain other costs.

Contract termination costs are expensed at the earlier of (1) the contract termination date or (2) the cease use date under the contract. Other exit costs are expensed as incurred and classified as restructuring expenses if (1) the cost is incremental to and incurred as a direct result of planned restructuring activities, and (2) the cost is not associated with or incurred to generate revenues subsequent to the Company s consummation of the related restructuring activities.

In addition to one-time involuntary benefit arrangements, the Company sponsors the SLM Corporation Employee Severance Plan, which provides severance benefits in the event of termination of the Company s and its subsidiaries full-time employees (with the exception of certain specified levels of management and employees of the Company s Asset Performance Group (APG) subsidiaries) and part-time employees who work at least 24 hours per week. The Company also sponsors the DMO Employee Severance Plan, which provides severance benefits to certain specified levels of full-time management and full-time employees in the Company s APG subsidiaries. The Employee Severance Plan and the DMO Employee Severance Plan (collectively, the Severance Plan) establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon termination of employment due to Involuntary Termination or a Job Abolishment, as defined in the Severance Plan. The benefits payable under the Severance Plan relate to past service and they accumulate and vest. Accordingly, the Company recognizes severance costs to be paid pursuant to the Severance Plan in accordance with SFAS No. 112, Employer s Accounting for Post Employment Benefits, when payment of such benefits is probable and reasonably estimable. Such benefits including severance pay calculated based on the Severance Plan, medical and dental benefits, outplacement services and continuation pay, have been incurred during the nine months ended September 30, 2008 and the fourth quarter of 2007 as a direct result of the Company s restructuring initiatives. Accordingly, such costs are classified as restructuring expenses in the accompanying consolidated statements of income.

Student Loans Classified as Held-for-Sale

Under the Ensuring Continued Access to Student Loans Act of 2008, ED has implemented the Loan Purchase Commitment Program (Purchase Program). Under the Purchase Program, ED will purchase eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under ED s Loan Participation and Purchase Program (Participation Program), ED will provide interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders will be charged at a rate of commercial paper plus 0.50 percent on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Purchase Program prior to its expiration on September 30, 2009.

The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. The Company currently has the ability and intent to sell such loans to ED under the Purchase Program due to the current environment in the capital markets. Held-for-sale loans are carried at the lower of cost or market with no premium amortization or provision for loan losses. At September 30, 2008, the Company had $4.1 billion of FFELP Stafford loans classified as held-for-sale. These loans are included in the FFELP Stafford and Other Student Loans line on the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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1. Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value within GAAP, and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not change which types of instruments are carried at fair value, but rather establishes the framework for measuring fair value. The adoption of SFAS No. 157 on January 1, 2008 did not have a material impact on the Company s financial statements.

On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157, which defers the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This FSP will delay the implementation of SFAS No. 157 for the Company s accounting of goodwill, acquired intangibles, and other nonfinancial assets and liabilities that are measured at the lower of cost or market until January 1, 2009.

In light of the recent economic turmoil occurring in the U.S., the FASB released FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, on October 10, 2008. This FSP clarified, among other things, that quotes and other market inputs need not be solely used to determine fair value if they do not relate to an active market. The FSP points out that when relevant observable market information is not available, an approach that incorporates management s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable (such as a discounted cash flow analysis). Regardless of the valuation technique applied, entities must include appropriate risk adjustments that market participants would make, including adjustments for nonperformance risk (credit risk) and liquidity risk.

The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value (on an instrument by instrument basis). Most recognized financial assets and liabilities are eligible items for the measurement option established by the statement. There are a few exceptions, including an investment in a subsidiary or an interest in a variable interest entity that is required to be consolidated, certain obligations related to post-employment benefits, assets or liabilities recognized under leases, various deposits, and financial instruments classified as shareholder s equity. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date. The Company adopted SFAS No. 159 on January 1, 2008, and elected the fair value option on all of its

Residual Interests effective January 1, 2008. The Company chose this election in order to simplify the accounting for Residual Interests by including all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income or under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, with changes in fair value recorded through income. At transition, the Company recorded a pre-tax gain to retained earnings as a cumulative-effect

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1. Significant Accounting Policies (Continued)

adjustment totaling $301 million ($195 million net of tax). This amount was in accumulated other comprehensive income as of December 31, 2007, and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through the income statement. The Company has not elected the fair value option for any other financial instruments at this time.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the entire acquisition-date fair value of assets acquired and liabilities assumed in both full and partial acquisitions; changes the recognition of assets acquired and liabilities assumed related to contingencies; changes the recognition and measurement of contingent consideration; requires expensing of most transaction and restructuring costs; and requires additional disclosures to enable the users of the financial statements to evaluate and understand the nature and financial effect of the business combination.
SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the reporting period beginning on or after December 15, 2008, which for the Company is January 1, 2009. Early adoption is not permitted.

Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51. SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to its current presentation as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests.
SFAS No. 160 applies prospectively for reporting periods beginning on or after December 15, 2008, which for the Company is January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. Adoption of this standard will not be material to the Company.

Disclosures about Derivative Investments and Hedging Activities an Amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Investments and Hedging Activities an Amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for the Company is January 1, 2009.

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1. Significant Accounting Policies (Continued)

Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued an FSP on Accounting Principles Board Opinion (APB) No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB No. 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP APB No. 14-1, which is applied retrospectively, is effective for the Company beginning January 1, 2009. The Company is evaluating the impact of this FSP on its accounting for its contingently convertible note issued in May 2003 and subsequently called in July 2007.

Accounting for Hedging Activities An Amendment of FASB Statement No. 133

In June 2008, the FASB issued an exposure draft to amend the accounting for hedging activities in SFAS No. 133. This proposed Statement is intended to simplify accounting for hedging activities, improve the financial reporting of hedging activities, resolve major practice issues related to hedge accounting that have arisen under SFAS No. 133, and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. While the amendment as currently written may simplify the Company s accounting model for hedging activities under SFAS No. 133, the Company does not expect it to significantly impact its results of operations. The full impact of this amendment, effective January 1, 2010, as currently written, cannot be evaluated until the final statement is issued, which is expected to occur sometime in 2009.

Qualifying Special Purpose Entities (QSPEs) and Changes in the FIN No. 46 Consolidation Model

In September 2008 the FASB issued two separate but related exposure drafts for comment in connection with amendments to (1) SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, which would impact the accounting for QSPEs and (2) FASB s Financial Interpretation (FIN) No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51.

Based on the Company s preliminary review of these exposure drafts, it is likely that these changes will lead in general to the consolidation of certain QSPEs and variable interest entities (VIEs) that are currently not consolidated. Assuming no changes to the Company s current business model, the Company would most likely consolidate its securitization trusts that are currently off-balance sheet on January 1, 2010, based on these exposure drafts as currently written. These proposed new accounting rules would also be applied to new transactions entered into from January 1, 2010 forward. However, the impact to the Company s accounting for its QSPEs and VIEs cannot be determined until the FASB issues the final amendments to SFAS No. 140 and FIN No. 46R.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses

The Company s provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred losses, net of recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. The Company believes that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

The following tables summarize the total loan provisions for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Private Education Loans	$ 135,813	$ 99,687	$ 374,262	$ 380,093
FFELP Stafford and Other Student Loans	40,407	37,533	75,805	49,293
Mortgage and consumer loans	10,689	5,380	17,168	11,744
Total provisions for loan losses	$ 186,909	$ 142,600	$ 467,235	$ 441,130

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance at beginning of period	$ 970,150	$ 427,904	$ 885,931	$ 308,346
Provision for Private Education Loan losses	135,813	99,687	374,262	380,093
Charge-offs	(110,168)	(82,176)	(298,920)	(251,860)
Recoveries	8,650	8,685	26,984	23,301
Net charge-offs	(101,518)	(73,491)	(271,936)	(228,559)
Reclassification of interest reserve[1]	8,393		24,581	
Balance before securitization of Private Education Loans	1,012,838	454,100	1,012,838	459,880
Reduction for securitization of Private Education Loans				(5,780)
Balance at end of period	$ 1,012,838	$ 454,100	$ 1,012,838	$ 454,100
Net charge-offs as a percentage of average loans in repayment (annualized)	4.64%	5.12%	4.58%	5.69%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.08%	4.61%	3.97%	5.18%
Allowance as a percentage of the ending total loan balance	4.74%	3.21%	4.74%	3.21%
Allowance as a percentage of ending loans in repayment	11.23%	7.70%	11.23%	7.70%
Allowance coverage of net charge-offs (annualized)	2.51	1.56	2.79	1.49

Ending total loans, gross	$ 21,364,238	$ 14,562,297	$ 21,364,238	$ 14,562,297
Average loans in repayment	$ 8,703,525	$ 5,696,049	$ 7,933,067	$ 5,373,462
Ending loans in repayment	$ 9,015,795	$ 5,895,619	$ 9,015,795	$ 5,895,619

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance. Prior to 2008, the interest reserve was reversed in interest income and then provided for through provision within the allowance for loan loss. This amount was $5 million and $13 million, for the three and nine months ended September 30, 2007, respectively. This change in presentation results in no impact to net income.

Due to the seasoning of the Private Education Loan portfolio, shifts in its mix, and certain economic and operational factors, the Company expected and has seen charge-off rates increase from the historically low levels experienced prior to 2007. In the fourth quarter of 2007, the Company recorded provision expense of $503 million related to the Private Education Loan portfolio. This significant increase in provision expense in the fourth quarter of 2007 compared to prior and current quarters primarily relates to the non-traditional portion of the Company s Private Education Loan portfolio, which the Company had been expanding over the past few years. The Company terminated these non-traditional loan programs because the performance of these loans turned out to be materially different from original expectations and from the Company s Private Education Loan programs. The non-traditional portfolio is particularly impacted by the weakening

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

U.S. economy and an underlying borrower s ability to repay. As a result, the Company recorded additional provision in the fourth quarter of 2007, and this is the primary reason that the allowance as a percentage of the ending total loan balance and as a percentage of ending loans in repayment is significantly higher at September 30, 2008 versus September 30, 2007.

Provision expense increased from $100 million in the third quarter of 2007 to $136 million in the third quarter of 2008. This is a result of an increase in delinquencies between quarters, which is primarily a result of the continued weakening of the U.S. economy as well as the seasonal nature of student loans. Delinquencies as a percentage of Private Education Loans in repayment increased from 12.0 percent as of September 30, 2007 to 12.4 percent as of September 30, 2008. Private Education Loans in forbearance as a percentage of loans in repayment and forbearance increased from 10.6 percent as of September 30, 2007 to 10.7 percent at September 30, 2008.

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of September 30, 2008, December 31, 2007, and September 30, 2007.

	Private Education Loan Delinquencies					
	September 30, 2008		December 31, 2007		September 30, 2007	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 11,263		$ 8,151		$ 7,966	
Loans in forbearance[2]	1,085		974		701	
Loans in repayment and percentage of each status:						
Loans current	7,902	87.6%	6,236	88.5%	5,186	88.0%
Loans delinquent 31-60 days[3]	393	4.4	306	4.3	275	4.7
Loans delinquent 61-90 days[3]	249	2.8	176	2.5	156	2.6
Loans delinquent greater than 90 days[3]	472	5.2	329	4.7	279	4.7
Total Private Education Loans in repayment	9,016	100%	7,047	100%	5,896	100%
Total Private Education Loans, gross	21,364		16,172		14,563	
Private Education Loan unamortized discount	(514)		(468)		(433)	

Total Private Education Loans	20,850	15,704	14,130
Private Education Loan allowance for losses	(1,013)	(886)	(454)
Private Education Loans, net	$ 19,837	$ 14,818	$ 13,676
Percentage of Private Education Loans in repayment	42.2%	43.6%	40.5%
Delinquencies as a percentage of Private Education Loans in repayment	12.4%	11.5%	12.0%
Loans in forbearance as a percentage of loans in repayment and forbearance	10.7%	12.1%	10.6%

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors consistent with the established loan program servicing procedures and policies.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Balance at beginning of period	$ 97,693	$ 24,083	$ 88,729	$ 20,315
Provisions for student loan losses	40,407	37,533	75,805	49,293
Net charge-offs	(15,932)	(4,264)	(42,643)	(12,885)
Increase for student loan sales and securitization activity	1,087	112	1,364	741
Balance at end of period	$ 123,255	$ 57,464	$ 123,255	$ 57,464

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of September 30, 2008, 45 percent of the on-balance sheet FFELP loan portfolio was subject to three-percent Risk Sharing, 54 percent was subject to two-percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing. At September 30, 2007, the Company s FFELP loans were serviced under the Exceptional Performer designation from ED which limited the portfolio to only one-percent Risk Sharing. The Exceptional Performer designation was eliminated by the CCRAA effective October 1, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of September 30, 2008, December 31, 2007 and September 30, 2007.

	FFELP Loan Delinquencies					
	September 30, 2008		December 31, 2007		September 30, 2007	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 40,056		$ 31,200		$ 31,541	
Loans in forbearance[2]	12,035		10,675		9,916	
Loans in repayment and percentage of each status:						
Loans current	56,874	84.8%	55,128	84.4%	52,303	84.5%
Loans delinquent 31-60 days[3]	3,707	5.5	3,650	5.6	3,074	5.0
Loans delinquent 61-90 days[3]	1,683	2.5	1,841	2.8	1,548	2.5
Loans delinquent greater than 90 days[3]	4,810	7.2	4,671	7.2	4,969	8.0
Total FFELP loans in repayment	67,074	100%	65,290	100%	61,894	100%
Total FFELP loans, gross	119,165		107,165		103,351	
FFELP loan unamortized premium	2,449		2,259		2,186	
Total FFELP loans	121,614		109,424		105,537	
FFELP loan allowance for losses	(123)		(89)		(58)	
FFELP loans, net	$ 121,491		$ 109,335		$ 105,479	
Percentage of FFELP loans in repayment		56.3%		60.9%		59.9%
Delinquencies as a percentage of FFELP loans in repayment		15.2%		15.6%		15.5%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		15.2%		14.1%		13.8%

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

3. Goodwill and Acquired Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, pursuant to which goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually or more frequently if an event indicates that the asset(s) might be impaired, employing standard industry appraisal methodologies, principally the discounted cash flow method. Such assets are impaired when the estimated fair value is less than the current carrying value. Intangible assets with finite lives are amortized over their estimated useful lives. Such assets are amortized in proportion to the estimated economic benefit depending on the asset class. Finite lived intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs that indicates the asset(s) may be impaired.

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3. Goodwill and Acquired Intangible Assets (Continued)

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of September 30, 2008 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	13 years	$ 332	$ (163)	$ 169
Software and technology	7 years	93	(85)	8
Non-compete agreements	2 years	11	(10)	1
Total		436	(258)	178
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	91		91
Total acquired intangible assets		$ 527	$ (258)	$ 269

(Dollars in millions)	Average Amortization Period	As of December 31, 2007 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	13 years	$ 366	$ (160)	$ 206
Software and technology	7 years	95	(77)	18
Non-compete agreements	2 years	12	(10)	2
Total		473	(247)	226
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	110		110
Total acquired intangible assets		$ 583	$ (247)	$ 336

The Company recorded amortization of acquired intangibles totaling $14 million and $19 million for the three months ended September 30, 2008 and 2007, respectively, and $44 million and $50 million for the nine months ended September 30, 2008 and 2007, respectively. As discussed in Note 14, Segment Reporting, the Company decided to wind down its purchased paper businesses. As a result, in the third quarter of 2008, the Company recorded an aggregate amount of $36 million of impairment of acquired intangible assets, of which $28 million related to the impairment of two trade names and $8 million related to certain banking customer relationships. In the first quarter of 2007, the Company recognized acquired intangible asset impairments of $9 million in connection with certain tax exempt bonds previously acquired through the purchase of certain subsidiaries. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

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3. Goodwill and Acquired Intangible Assets (Continued)

A summary of changes in the Company s goodwill by reportable segment (see Note 14, Segment Reporting) is as follows:

(Dollars in millions)	December 31, 2007	Adjustments	September 30, 2008
Lending	$ 388	$	$ 388
APG	377	24	401
Corporate and Other	200	2	202
Total	$ 965	$ 26	$ 991

On January 3, 2008, the Company acquired an additional 12 percent interest in AFS Holdings, LLC (AFS) for a purchase price of approximately $38 million, increasing the Company s total purchase price to approximately $324 million including cash consideration and certain acquisition costs for its 100 percent controlling interest. The acquisition was accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company s purchase price allocation associated with the January 2008 acquisition resulted in goodwill of approximately $19 million, which increased the aggregate goodwill associated with the Company s acquisition of AFS to $226 million. The remaining fair value of AFS s assets and liabilities at each respective acquisition date was primarily allocated to purchased loan portfolios and other identifiable intangible assets.

In light of the general downturn in the economy, the tightening of the credit markets, the Company s market capitalization and the Company s decision to wind down its purchased paper businesses, the Company assessed goodwill for potential impairment during the third quarter of 2008. Based primarily on market comparables and a discounted cash flow analyses, the estimated fair value of the Company s reporting units exceed their current carrying values, and no goodwill impairment was recorded.

4. Student Loan Securitization

Securitization Activity

The Company securitizes its student loan assets and for transactions qualifying as sales, retains a Residual Interest and servicing rights (as the Company retains the servicing responsibilities), all of which are referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The investors in the securitization trusts have no recourse to the Company s other assets should there be a failure of the trusts to pay principal or interest to investors when due.

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4. Student Loan Securitization (Continued)

The following table summarizes the Company s securitization activity for the three and nine months ended September 30, 2008 and 2007. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended September 30,							
	2008				2007			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans								
Total securitizations sales			$	%			$	%
Securitization financings:								
FFELP Stafford/PLUS Loans(1)	3	6,721						
FFELP Consolidation Loans(1)					1	2,493		
Total securitizations financings	3	6,721			1	2,493		
Total securitizations	3	$ 6,721			1	$ 2,493		

	Nine Months Ended September 30,							
	2008				2007			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
Securitizations sales:								

FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans					1	2,000	367	18.4
Total securitizations sales			$	%	1	2,000	$ 367	18.4%
Securitization financings:								
FFELP Stafford/PLUS Loans(1)	9	18,546			2	7,004		
FFELP Consolidation Loans(1)					3	11,480		
Total securitizations financings	9	18,546			5	18,484		
Total securitizations	9	$ 18,546			6	$ 20,484		

(1) In certain securitizations there are terms within the deal structure that result in such securitizations not qualifying for sale treatment and accordingly, they are accounted for on-balance sheet as VIEs. Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements after the initial settlement of the securitization, which do not relate to the reissuance of third party beneficial interests or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

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4. Student Loan Securitization (Continued)

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three and nine months ended September 30, 2008 and 2007 were as follows:

	Three Months Ended September 30,					
	2008			2007		
Prepayment Speed (annual rate)	**FFELP Stafford and PLUS**[1]	**FFELP Consolidation Loans**[1]	**Private Education Loans**[1]	**FFELP Stafford and PLUS**[1]	**FFELP Consolidation Loans**[1]	**Private Education Loans**[1]
Interim status						
Repayment status						
Life of loan repayment status						
Weighted average life						
Expected credit losses (% of principal securitized)						
Residual cash flows discounted at (weighted average)						

(1) No securitizations qualified for sale treatment in the period.

	Nine Months Ended September 30,					
	2008			2007		
Prepayment Speed (annual rate)	**FFELP Stafford and PLUS**[1]	**FFELP Consolidation Loans**[1]	**Private Education Loans**[1]	**FFELP Stafford and PLUS**[1]	**FFELP Consolidation Loans**[1]	**Private Education Loans**
Interim status						0%
Repayment status						4-7%
Life of loan repayment status						6%
Weighted average life						9.4 yrs.

Expected credit losses (% of principal securitized)	4.69%
Residual cash flows discounted at (weighted average)	12.5%

(1) No securitizations qualified for sale treatment in the period.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests, included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of September 30, 2008, June 30, 2008 and December 31, 2007.

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4. Student Loan Securitization (Continued)

	As of September 30, 2008			
(Dollars in millions)	FFELP Stafford and PLUS	Consolidation Loan Trusts(1)	Private Education Loan Trusts	Total
Fair value of Residual Interests(2)	$ 309	$ 612	$ 1,402	$ 2,323
Underlying securitized loan balance(3)	7,600	15,252	13,648	36,500
Weighted average life	3.0 yrs.	8.2 yrs.	6.6 yrs.	
Prepayment speed (annual rate)(4)				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.23%	5.59%	
Residual cash flows discount rate	12.7%	11.3%	18.3%	

	As of June 30, 2008			
(Dollars in millions)	FFELP Stafford and PLUS	Consolidation Loan Trusts(1)	Private Education Loan Trusts	Total
Fair value of Residual Interests(2)	$ 410	$ 619	$ 1,516	$ 2,545
Underlying securitized loan balance(3)	8,383	15,586	13,773	37,742
Weighted average life	2.8 yrs.	7.3 yrs.	6.6 yrs.	
Prepayment speed (annual rate)(4)				
Interim status	0%	N/A	0%	
Repayment status	0-30%	3-8%	1-30%	
Life of loan repayment status	17%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal)	.10%	.20%	5.36%	
Residual cash flows discount rate	12.0%	10.0%	16.4%	

(Dollars in millions)	As of December 31, 2007 FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 390	$ 730	$ 1,924	$ 3,044
Underlying securitized loan balance[3]	9,338	15,968	14,199	39,505
Weighted average life	2.7 yrs	7.4 yrs.	7.0 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A		0%
Repayment status	0-37%	3-8%	1-30%	
Life of loan repayment status	21%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.21%	5.28%	
Residual cash flows discount rate	12.0%	9.8%	12.9%	

(1) Includes $333 million, $295 million, and $283 million related to the fair value of the Embedded Floor Income as of September 30, 2008, June 30, 2008, and December 31, 2007, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the pay down of the underlying loans.

(2) At December 31, 2007, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $301 million that related to the Retained Interests. There were no such gains at June 30, 2008 and September 30, 2008.

(3) In addition to student loans in off-balance sheet trusts, the Company had $80.8 billion, $75.2 billion, and $65.5 billion of securitized student loans outstanding (face amount) as of September 30, 2008, June 30, 2008, and December 31, 2007, respectively, in on-balance sheet securitization trusts.

(4) The Company uses CPR curves for Residual Interest valuations that are based on seasoning (the number of months since entering repayment). Under this methodology, a different CPR is applied to each year of a loan s seasoning. Repayment status CPR used is based on the number of months since first entering repayment (seasoning). Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

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4. Student Loan Securitization (Continued)

As previously discussed, the Company adopted SFAS No. 159 on January 1, 2008, and has elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company chose this election in order to record all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income, except if impaired in which case changes in fair value were recorded through income, or under SFAS No. 155 with all changes in fair value recorded through income. Changes in the fair value of Residual Interests from January 1, 2008 forward are recorded in the servicing and securitization revenue line item of the consolidated income statement.

As of September 30, 2008, the Company changed the following significant assumptions compared to those used as of June 30, 2008, to determine the fair value of the Residual Interests:

Prepayment speed assumptions were decreased for all three asset types primarily as a result of a significant reduction in prepayment activity experienced in the third quarter of 2008 which is expected to continue into the foreseeable future. The decrease in prepayment speeds is primarily due to a reduction in third party consolidation activity as a result of the CCRAA (for FFELP only) and the current U.S. economic and credit environment. This resulted in a $99 million unrealized mark-to-market gain.

Life of loan default rate assumptions for Private Education loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $30 million unrealized mark-to-market loss.

Cost of funds assumptions related to the underlying auction rate securities bonds ($2.3 billion face amount of bonds) within FFELP loan ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts were increased to take into account the expectations these auction rate securities will continue to reset at higher rates for an extended period of time. This resulted in an $18 million unrealized mark-to-market loss.

The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate, for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market as of September 30, 2008. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium by 200 basis points and 140 basis points for Private Education and FFELP, respectively to better take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Residual Interests. This resulted in $160 million unrealized mark-to-market loss.

The Company recorded a net unrealized mark-to-market loss related to the Residual Interests of $361 million during the nine months ended September 30, 2008. The mark-to-market loss was primarily related to the increase in the discount rate assumption related to the Private Education Loan Residual Interest. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the Private Education Residual risk premium by 550 basis points (from December 31, 2007) to take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Private Education Loan Residual Interests in light of the current economic and credit uncertainty that exists in the market. The increase in the Private Education Loan Residual discount rate accounted for $353 million of the net unrealized mark-to-market loss for the nine months ended September 30, 2008.

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4. Student Loan Securitization (Continued)

The Company recorded impairments to the Retained Interests of $137 million for the nine months ended September 30, 2007. The impairment charges were primarily the result of FFELP loans prepaying faster than projected through loan consolidations, and an increase in prepayments and acceleration of defaults related to Private Education Loans. In addition, the Company recorded an unrealized mark-to-market loss under SFAS No. 155 of $5 million for the nine months ended September 30, 2007.

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of September 30, 2008, December 31, 2007 and September 30, 2007.

	September 30, 2008		December 31, 2007		September 30, 2007	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 4,259		$ 4,963		$ 6,126	
Loans in forbearance[2]	1,159		1,417		1,251	
Loans in repayment and percentage of each status:						
Loans current	7,733	93.9%	7,403	94.7%	6,524	94.5%
Loans delinquent 31-60 days[3]	217	2.6	202	2.6	192	2.8
Loans delinquent 61-90 days[3]	103	1.3	84	1.1	71	1.0
Loans delinquent greater than 90 days[3]	177	2.2	130	1.6	116	1.7
Total off-balance sheet Private Education Loans in repayment	8,230	100%	7,819	100%	6,903	100%
Total off-balance sheet Private Education Loans, gross	$ 13,648		$ 14,199		$ 14,280	

(1) Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors consistent with the established loan program servicing procedures and programs.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2008 and December 31, 2007 and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2008 and 2007. At September 30, 2008 and December 31, 2007, available-for-sale securities with fair values of $202 million and $196 million (none of which was in restricted cash and investments on the balance sheet), respectively, were pledged as collateral against these derivative instruments. Additionally, $0 million and $890 million of cash was pledged as collateral against these derivative instruments at September 30, 2008 and December 31, 2007, respectively. In addition, $1.5 billion ($50 million of which is in restricted cash and investments on the balance sheet) and $1.3 billion (none of which was in restricted cash and investments on the balance sheet) of cash was held as collateral at

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5. Derivative Financial Instruments (Continued)

September 30, 2008 and December 31, 2007, respectively, for derivative counterparties where the Company has exposure.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	Sept. 30, 2008	December 31, 2007	Sept. 30, 2008	December 31, 2007	Sept. 30, 2008	December 31, 2007	Sept. 30, 2008	December 31, 2007
Fair Values(1)								
Interest rate swaps	$ 15	$ (34)	$ 279	$ 102	$ (262)	$ 252	$ 32	$ 320
Floor/Cap contracts					(676)	(442)	(676)	(442)
Futures					(2)		(2)	
Cross currency interest rate swaps			2,422	3,640	11	3	2,433	3,643
Total	$ 15	$ (34)	$ 2,701	$ 3,742	$ (929)	$ (187)	$ 1,787	$ 3,521
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 5.1	$ 3.1	$ 14.3	$ 14.7	$ 168.5	$ 199.5	$ 187.9	$ 217.3
Floor/Cap contracts					38.1	38.9	38.1	38.9
Futures					.3	.6	.3	.6
Cross currency interest rate swaps			23.1	23.8	.1	.1	23.2	23.9
Other(2)					.7	.7	.7	.7
Total	$ 5.1	$ 3.1	$ 37.4	$ 38.5	$ 207.7	$ 239.8	$ 250.2	$ 281.4

(1) Fair values reported are exclusive of collateral held and/or pledged.

(2) Other includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. These embedded derivatives had zero fair value since bifurcation.

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5. Derivative Financial Instruments (Continued)

	Three Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Change in fair value to cash flow hedges	$ (10)	$ (7)	$	$	$	$	$ (10)	$ (7)
Amortization of effective hedges[1]								
Change in accumulated other comprehensive income, net	$ (10)	$ (7)	$	$	$	$	$ (10)	$ (7)
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$	$	$	$	$	$	$
Gains (losses) on derivative and hedging activities Realized[3]					(52)	(33)	(52)	(33)
Gains (losses) on derivative and hedging activities Unrealized[4]			42	22	(232)	(476)	(190)	(454)
Total earnings impact	$	$	$ 42	$ 22	$ (284)	$ (509)	$ (242)	$ (487)

	Nine Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Change in fair value to cash flow hedges	$ 32	$ (1)	$	$	$	$	$ 32	$ (1)
Amortization of effective hedges[1]		1						1
Change in accumulated other comprehensive income, net	$ 32	$	$	$	$	$	$ 32	$
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$ (2)	$	$	$	$	$	$ (2)
					(27)	(79)	(27)	(79)

Gains (losses) on derivative and hedging activities Realized[3]								
Gains (losses) on derivative and hedging activities Unrealized[4]			141	38	(267)	18	(126)	56
Total earnings impact	$	$ (2)	$ 141	$ 38	$ (294)	$ (61)	$ (153)	$ (25)

(1) The Company expects to amortize $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments outstanding as of September 30, 2008.

(2) For futures contracts that qualify as SFAS No. 133 hedges where the hedged transaction occurs.

(3) Includes net settlement income/expense related to trading derivatives and realized gains and losses related to derivative dispositions.

(4) The change in the fair value of cash flow and fair value hedges represents amounts related to ineffectiveness.

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6. Other Assets

The following table provides the detail of the Company s other assets at September 30, 2008 and December 31, 2007.

	September 30, 2008		December 31, 2007	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Derivatives at fair value	$ 2,392,074	23%	$ 3,744,611	35%
Accrued interest receivable	3,421,497	33	3,180,590	30
APG Purchased paper receivables and Real Estate Owned	1,345,798	13	1,758,871	16
Accounts receivable collateral posted			867,427	8
Federal, state and international net income tax asset	1,438,098	14		
Benefit-related investments	473,974	4	467,379	4
Fixed assets, net	302,288	3	315,260	3
Accounts receivable general	707,734	7	305,118	2
Other	317,758	3	107,851	2
Total	$ 10,399,221	100%	$ 10,747,107	100%

The Derivatives at fair value line in the above table represents the fair value of the Company s derivatives in a gain position by counterparty. At September 30, 2008 and December 31, 2007, these balances primarily included cross-currency interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged foreign currency-denominated debt. As of September 30, 2008 and December 31, 2007, the cumulative mark-to-market adjustment to the hedged debt was $(2.2) billion and $(3.6) billion, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

7. Stockholders Equity

The following table summarizes the Company s common share repurchases and issuances for the three and nine months ended September 30, 2008 and 2007. Equity forward activity for the three and nine months ended September 30, 2007 is also reported.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares in millions)	**2008**	**2007**	**2008**	**2007**
Common shares repurchased:				
Benefit plans[(1)]	.5	2.1	1.0	3.1
Total shares repurchased	.5	2.1	1.0	3.1
Average purchase price per share	$ 28.2	$ 48.47	$ 24.6	$ 46.35
Common shares issued	.4	3.6	1.9	6.6
Equity forward contracts:				
Outstanding at beginning of period		48.2		48.2
New contracts				
Exercises				
Outstanding at end of period		48.2		48.2
Authority remaining at end of period for repurchases	38.8	15.7	38.8	15.7

(1) Includes shares withheld from stock option exercises and vesting of restricted stock for employees tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

The closing price of the Company s common stock on September 30, 2008 was $12.34.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

7. Stockholders Equity (Continued)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale investments (which includes the Retained Interest in off-balance sheet securitized loans as of December 31, 2007 and September 30, 2007), unrealized gains and losses on derivatives, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive income as of September 30, 2008, December 31, 2007 and September 30, 2007.