SLM CORP
Form 10-Q
July 24, 2014

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
or
c 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 (State or other jurisdiction of incorporation or organization)	52-2013874 (I.R.S. Employer Identification No.)
300 Continental Drive, Newark, Delaware (Address of principal executive offices)	19713 (Zip Code)

(302) 283-8000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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 June 30, 2014
Common Stock, $0.20 par value	422,936,478 shares

SLM CORPORATION

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

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$1,524,176	$2,182,865
Available-for-sale investments at fair value (cost of $150,117 and $106,977, respectively)	149,399	102,105
Loans held for investment (net of allowance for losses of $60,527 and $68,081, respectively)	8,793,971	7,931,377
Other interest-earning assets	45,417	4,355
Accrued interest receivable	453,461	356,283
Premises and equipment, net	77,833	74,188
Acquired intangible assets, net	4,241	6,515
Tax indemnification receivable	270,198	—
Other assets	60,643	48,976
Total assets	$11,379,339	$10,706,664
Liabilities		
Deposits	$8,890,209	$9,001,550
Income taxes payable, net	323,467	162,205
Upromise related liabilities	301,160	307,518
Other liabilities	126,239	69,248
Total liabilities	9,641,075	9,540,521
Commitments and contingencies		
Equity		
Preferred stock, par value $0.20 per share, 20 million shares authorized		
Series A: 3.3 million and 0 shares issued, respectively, at stated value of $50 per share	165,000	—
Series B: 4 million and 0 shares issued, respectively, at stated value of $100 per share	400,000	—
Common stock, par value $0.20 per share, 1.125 billion shares authorized: 423 million and 0 shares issued, respectively	84,659	—
Additional paid-in capital	1,071,916	—
Navient's subsidiary investment	—	1,164,495
Accumulated other comprehensive (loss) income (net of tax (benefit) expense of ($354) and ($1,849), respectively)	(365)	(3,024)
Retained earnings	20,167	—
Total SLM Corporation stockholders' equity before treasury stock	1,741,377	1,161,471
Less: Common stock held in treasury at cost: 359 million and 0 shares, respectively	(3,113)	—
Noncontrolling interest	—	4,672
Total equity	1,738,264	1,166,143
Total liabilities and equity	$11,379,339	$10,706,664

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Loans	$162,238	$122,212	$322,273	$253,781
Investments	2,236	5,638	3,204	11,624
Cash and cash equivalents	1,099	1,038	1,965	1,770
Total interest income	165,573	128,888	327,442	267,175
Interest expense:				
Deposits	21,034	21,439	43,624	44,008
Other interest expense	—	32	41	49
Total interest expense	21,034	21,471	43,665	44,057
Net interest income	144,539	107,417	283,777	223,118
Less: provisions for loan losses	1,014	(1,015)	40,173	19,677
Net interest income after provisions for loan losses	143,525	108,432	243,604	203,441
Noninterest income:				
Gains on sales of loans to affiliates, net	1,928	73,441	35,816	148,663
(Losses) gains on derivatives and hedging activities, net	(9,458)	(52)	(10,222)	558
Other	15,229	8,665	23,365	16,465
Total noninterest income	7,699	82,054	48,959	165,686
Expenses:				
Compensation and benefits	31,667	26,821	61,334	56,585
Other operating expenses	28,812	39,772	62,744	70,602
Total operating expenses	60,479	66,593	124,078	127,187
Acquired intangible asset impairment and amortization expense	1,156	714	2,995	1,428
Restructuring and other reorganization expenses	13,520	84	13,749	107
Total expenses	75,155	67,391	140,822	128,722
Income before income tax expense	76,069	123,095	151,741	240,405
Income tax expense	31,941	46,973	60,599	91,738
Net income	44,128	76,122	91,142	148,667
Less: net loss attributable to noncontrolling interest	—	(347)	(434)	(686)
Net income attributable to SLM Corporation	44,128	76,469	91,576	149,353
Preferred stock dividends	3,228	—	3,228	—
Net income attributable to SLM Corporation common stock	$40,900	$76,469	$88,348	$149,353
Basic earnings per common share attributable to SLM Corporation	$0.10	$0.17	$0.21	$0.34
Average common shares outstanding	422,805	439,972	424,751	445,309
Diluted earnings per common share attributable to SLM Corporation	$0.09	$0.17	$0.20	$0.33
Average common and common equivalent shares outstanding	430,750	448,064	432,689	453,231

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$44,128	$76,122	$91,142	$148,667
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	2,749	(15,625)	4,155	37,769
Total unrealized gains (losses) on investments	2,749	(15,625)	4,155	37,769
Income tax (expense) benefit	(962)	5,955	(1,496)	(14,327)
Other comprehensive income (loss), net of tax benefit (expense)	1,787	(9,670)	2,659	23,442
Comprehensive income	45,915	66,452	93,801	172,109
Less: comprehensive loss attributable to noncontrolling interest	—	(347)	(434)	(686)
Total comprehensive income attributable to SLM Corporation	$45,915	$66,799	$94,235	$172,795

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Total SLM Corporation Equity	Non-controlling interest	Total Equity
Balance at March 31, 2013	$1,056,783	$ 47,460	$1,104,243	$ 5,685	$1,109,928
Net income (loss)	76,469	—	76,469	(347)	76,122
Other comprehensive loss, net of tax	—	(9,670)	(9,670)	—	(9,670)
Total comprehensive income (loss)	—	—	66,799	(347)	66,452
Net transfers from affiliate	29,570	—	29,570	—	29,570
Balance at June 30, 2013	$1,162,822	$ 37,790	$1,200,612	$ 5,338	$1,205,950

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)(Unaudited)

		Common Stock Shares								
	Preferred Stock Shares	Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Navient's Subsidiary Investment	Accumulated Other Comprehens Income (Loss)	Re Ea
Balance at March 31, 2014	—	—	—	—	$—	$—	$—	$1,229,187	$(2,152)	$–
Net income	—	—	—	—	—	—	—	20,725	—	23
Other comprehen-sive income, net of tax	—	—	—	—	—	—	—	—	1,787	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Net transfers from affiliate	—	—	—	—	—	—	—	462,165	—	—
Separation adjustments related to Spin-Off of Navient Corporation	7,300,000	422,790,320	—	422,790,320	565,000	84,558	1,062,519	(1,712,077)	—	—
Sale of non-controlling interest	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A ($.87 per share)	—	—	—	—	—	—	—	—	—	(1,
Preferred Stock, series B ($.49 per share)	—	—	—	—	—	—	—	—	—	(1,
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	8	—	—	(8
Issuance of common shares	—	504,929	—	504,929	—	101	2,344	—	—	—
Stock-based compensation	—	—	—	—	—	—	7,045	—	—	—

expense										
Shares repurchased related to employee stock-based compensation plans	—	—	(358,771)	(358,771)	—	—	—	—	—	—
Balance at June 30, 2014	7,300,000	423,295,249	(358,771)	422,936,478	$565,000	$84,659	$1,071,916	$—	$(365)	$2

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Total SLM Corporation Equity	Non-controlling interest	Total Equity
Balance at December 31, 2012	$1,068,928	$ 14,348	$1,083,276	$ 6,024	$1,089,300
Net income (loss)	149,353		149,353	(686)	148,667
Other comprehensive income, net of tax	—	23,442	23,442	—	23,442
Total comprehensive (loss)	—	—	172,795	(686)	172,109
Net transfers to affiliate	(55,459)	—	(55,459)	—	(55,459)
Balance at June 30, 2013	$1,162,822	$ 37,790	$1,200,612	$ 5,338	$1,205,950

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)(Unaudited)

	Preferred Stock Shares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Re Ea
Balance at December 31, 2013	—	—	—	—	$—	$—	$—	$1,164,495	$(3,024)	$—
Net income (loss)	—	—	—	—	—	—	—	68,173	—	23,
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	2,659	—
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—
Net transfers from affiliate	—	—	—	—	—	—	—	479,409	—	—
Separation adjustments related to Spin-Off of Navient Corporation	7,300,000	422,790,320	—	422,790,320	565,000	84,558	1,062,519	(1,712,077)	—	—
Sale of non-controlling interest	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A ($.87 per share)	—	—	—	—	—	—	—	—	—	(1,9
Preferred Stock, series B ($.49 per share)	—	—	—	—	—	—	—	—	—	(1,3
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	8	—	—	(8
Issuance of common shares	—	504,929	—	504,929	—	101	2,344	—	—	—

Stock-based compensation expense	—	—	—	—	—	—	7,045	—	—	—
Shares repurchased related to employee stock-based compensation plans	—	—	(358,771)	(358,771)	—	—	—	—	—	—
Balance at June 30, 2014	7,300,000	423,295,249	(358,771)	422,936,478	$565,000	$84,659	$1,071,916	$—	$(365)	$2

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2014	2013
Operating activities		
Net income	$91,142	$148,667
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	40,173	19,677
Tax provision	60,599	91,738
Amortization of FDIC fees	—	1,046
Amortization of brokered deposit placement fee	5,222	4,879
Amortization of deferred loan origination costs and fees, net	847	616
Net amortization (accretion) of discount on investments	236	(4,342)
Depreciation of premises and equipment	1,642	1,694
Amortization and impairment of acquired intangibles	2,995	1,428
Stock-based compensation expense	8,468	9,229
Interest rate swap	8,025	(452)
Gains on sale of loans to affiliates, net	(35,816)	(148,663)
Changes in operating assets and liabilities:		
Net decrease in loans held for sale	6,183	2,521
Origination of loans held for sale	(6,183)	(2,521)
Increase in accrued interest receivable	(175,919)	(119,723)
Increase in other interest-earning assets	(41,062)	(1,107)
(Increase) decrease in other assets	(18,946)	(17,888)
Increase (decrease) in income tax payable	(199,782)	(10,315)
Decrease in accrued interest payable	(2,931)	(1,498)
Increase in payable due to Navient	11,109	5,892
Increase (decrease) in other liabilities	12,140	(41,204)
Total adjustments	(323,000)	(208,993)
Total net cash provided by (used in) operating activities	(231,858)	(60,326)
Investing activities		
Loans acquired and originated	(32,796)	(185,190)
Net proceeds from sales of loans held for investment	755,746	1,825,406
Net increase in loans held for investment	(1,512,009)	(1,465,830)
Purchases of available-for-sale securities	(47,087)	(15,966)
Proceeds from sales and maturities of available-for-sale securities	3,712	10,996
Total net cash (used in) provided by investing activities	(832,434)	169,416
Financing activities		
Net (decrease) in brokered certificates of deposit	(841,965)	(521,740)
Net (decrease) increase in NOW account deposits	(18,214)	2,179
Net increase in High Yield Savings Deposits	647,864	414
Net increase in Retail Certificates of Deposit	5,143	13,335
Net increase in MMDA deposits	133,510	484,357
	(5,633)	(110,486)

Net decrease in deposits with entity that is a subsidiary of Navient		
Special cash contribution from Navient	472,718	—
Net capital contributions (to) from entity that is a subsidiary of Navient	15,408	76,262
Preferred stock dividends paid	(3,228)	—
Dividend paid to entity that is a subsidiary of Navient	—	(120,000)
Net cash provided by (used in) financing activities	405,603	(175,679)
Net decrease in cash and cash equivalents	(658,689)	(66,589)
Cash and cash equivalents at beginning of period	2,182,865	1,599,082

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Cash and cash equivalents at end of period	$1,524,176	$1,532,493
Cash disbursements made for:		
Interest	$42,819	$39,866
Income taxes paid	$199,782	$10,315

See accompanying notes to consolidated financial statements.

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

1. Significant Accounting Policies

Basis of Presentation
The financial reporting and accounting policies of SLM Corporation (“Sallie Mae,” “SLM,” the “Company,” “we” or “us”) conform to generally accepted accounting principles in the United States of America (“GAAP”). In conjunction with the Spin-Off (as herein after defined), our consolidated financial statements are comprised of financial information relating to Sallie Mae Bank (the “Bank”), Upromise, Inc. ("Upromise") and the Private Education Loan origination functions. We use “Private Education Loans” to mean education loans to students or their families that are non-federal loans and loans not insured or guaranteed under the previously existing Federal Family Education Loan Program (“FFELP”). Also included in our financial statements are certain general corporate overhead expenses allocated to the Company.
On April 30, 2014, we completed our plan to legally separate into two distinct publicly traded entities - an education loan management, servicing and asset recovery business, Navient Corporation (“Navient”), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the “Spin-Off”) was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business. As a result of a holding company merger under Section 251(g) of the Delaware General Corporation Law (“DGCL”), which is referred to herein as the “SLM Merger,” all of the shares of then existing SLM Corporation’s common stock were converted, on a 1-to-1 basis, into shares of common stock of New BLC Corporation, a newly formed company that was a subsidiary of pre-Spin-Off SLM Corporation (“pre-Spin-Off SLM”), and, pursuant to the SLM Merger, New BLC Corporation replaced then existing SLM Corporation as the publicly-traded registrant and changed its name to SLM Corporation. As part of the internal corporate reorganization, the assets and liabilities associated with the education loan management, servicing and asset recovery business were transferred to Navient, and those assets and liabilities associated with the consumer banking business remained with or were transferred to the newly constituted SLM Corporation. The separation and distribution were accounted for on a substantially tax-free basis.
The timing and steps necessary to complete the Spin-Off and comply with the Securities and Exchange Commission ("SEC") reporting requirements, including the replacement of pre-Spin-Off SLM Corporation with our current publicly-traded registrant, have resulted in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 19, 2014, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the SEC on May 12, 2014, providing business results and financial information for the periods reported therein on the basis of the consolidated businesses of pre-Spin-Off SLM. While information contained in those prior reports may provide meaningful historical context for the Company’s business, this Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 is our first periodic report made on the basis of the post-Spin-Off business of the Company.
At the time of the Spin-Off transaction, we had a targeted starting equity balance of $1,710 million. To achieve the targeted equity balance we retained $565 million of preferred stock and approximately $473 million of cash to offset the obligation attributable to the principal of the Series A Preferred Stock and the Series B Preferred Stock.
These carve-out financial statements are presented on a basis of accounting that reflects a change in reporting entity and have been adjusted for the effects of the Spin-Off. These carve-out financial statements and selected financial information represent only those operations, assets, liabilities and equity that form Sallie Mae on a stand-alone basis. Because the Spin-Off occurred on April 30, 2014, these financial statements represent the carved out financial results for the first four months of 2014 and actual results for the two months ended June 30, 2014. All prior period amounts represent carved-out amounts.
Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions.

Allowance for Private Education Loan Losses

We maintain an allowance for loan losses at an amount sufficient to absorb probable losses incurred in our portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio.

We analyze our portfolio to determine the effects that the various stages of delinquency and forbearance have on borrower default behavior and ultimate charge-off activity. We estimate the allowance for loan losses for our loan portfolio using a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a

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

loan receivable may progress through the various delinquency stages and ultimately charge off. We may also take into account the current and future economic environment and other qualitative factors when calculating the allowance for loan losses.
The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. Our default estimates are based on a loss confirmation period (loss confirmation period represents the expected period between a loss event and when management considers the debt to be uncollectible), taking into consideration account management practices that affect the timing of a loss, such as the usage of forbearance.
Prior to the Spin-Off, the Bank exercised its right and sold substantially all of the Private Education Loans it originated that became delinquent or were granted forbearance to one or more of its then affiliates. Because of this arrangement, the Bank did not hold many loans in forbearance. As a result, the Bank had very little historical forbearance activity and very few delinquencies.
In connection with the Spin-Off, the agreement under which the Bank previously made these sales was amended so that the Bank now only has the right to require Navient to purchase loans only where (a) the borrower has a lending relationship with both the Bank and Navient (“Split Loans”) and (b) the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At June 30, 2014, we held approximately $1.3 billion of Split Loans.
Pre-Spin-Off SLM’s default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus exclusively on loans 60 to 120 days delinquent. This change has the effect of accelerating the recognition of losses due to the shorter charge-off period (120 days). In addition, we changed our loss confirmation period from two years to one year to reflect the shorter charge-off policy and our revised servicing practices. These two changes resulted in a $14 million net reduction in our allowance for loan losses because we are now only reserving for one year of losses as compared with two years under the prior policy, which more than offset the impact of the shorter charge-off period.
The one-year estimate underlying the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, or account management assumptions or practices were to change, this could materially affect the estimate of the allowance for loan losses, the timing of when losses are recognized, and the related provision for loan losses on our consolidated statements of income.

Separately, for our troubled debt restructurings ("TDR") portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan’s basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan’s original effective interest rate. Our TDR portfolio is comprised mostly of loans with interest rate reductions and forbearance usage greater than three months.
Income Taxes
In connection with the Spin-Off, the Company will be the taxpayer legally responsible for $283 million of deferred taxes payable (installment payments due quarterly through 2018) in connection with gains recognized by pre-Spin-Off SLM on debt repurchases in prior years. As part of the tax sharing agreement between the Company and Navient, Navient has agreed to fully pay us for these deferred taxes due. An indemnification receivable of $264 million was recorded, which represents the fair value of the future payments under the agreement based a discounted cash flow model. We will accrue interest income on the indemnification receivable using the interest method.

The Company also recorded a liability related to uncertain tax positions of $27 million for which we are indemnified by Navient. If there is an adjustment to the indemnified uncertain tax liability, an offsetting adjustment to the indemnification receivable will be recorded as pre-tax adjustment to the income statement.

As of the date of the Spin-Off on April 30, 2014, we recorded a liability of $310 million ($283 million related to deferred taxes and $27 million related to uncertain tax positions) and an indemnification receivable of $291 million ($310 million less the $19 million discount). As of June 30, 2014, the liability balance is $303 million ($283 million related to deferred taxes and $20 million related to uncertain tax positions) and the indemnification receivable balance is $270 million ($250 million related to deferred taxes and $20 million related to uncertain tax positions).

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

Recently Issued Accounting Pronouncements
On May 28, 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance when it becomes effective. The new standard is effective on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

2. Investments

The amortized cost and fair value of securities available for sale are as follows:

	As of June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$150,117	$1,736	$(2,454)	$149,399
Available for sale securities	$150,117	$1,736	$(2,454)	$149,399

	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$106,977	$706	$(5,578)	$102,105
Available for sale securities	$106,977	$706	$(5,578)	$102,105

Our investment portfolio is comprised of mortgage-backed securities issued by Ginnie Mae and Fannie Mae, with amortized cost of $74,563, $68,435 and $7,119, respectively, at June 30, 2014. We own these securities to meet our requirements under the Community Reinvestment Act. As of June 30, 2014, there were 13 of 47 separate mortgage-backed securities with unrealized losses in our investment portfolio. As of December 31, 2013, there were 20 of 33 separate mortgage-backed securities with unrealized losses in our investment portfolio. As of June 30, 2014, 7 of the 13 securities in a net loss position were issued under Ginnie Mae programs that carry a full faith and credit guarantee from the U.S. Government. The remaining securities in a net loss position carry a principal and interest guarantee by Fannie Mae. We have the ability and the intent to hold these securities for a period of time sufficient for the market price to recover to at least the adjusted amortized cost of the security.
The expected payments on mortgage-backed securities may not coincide with their contractual maturities because borrowers have the right to prepay certain obligations. Accordingly, these securities are not included in a maturities distribution.
The mortgage-backed securities have been pledged to the Federal Reserve Bank (“FRB”) as collateral against any advances and accrued interest under the Primary Credit program or any other program sponsored by the FRB. We had

$138,458 and $103,049 par value of mortgage-backed securities pledged to this borrowing facility at June 30, 2014 and December 31, 2013, respectively, as discussed further in Note 6, “Borrowed Funds.”

As of June 30, 2014, the amortized cost and fair value of securities, by contractual maturities, were as follows:

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

Year of Maturity	Amortized Cost	Estimated Fair Value
2038	$767	$837
2039	13,186	14,111
2042	29,173	27,515
2043	76,126	75,974
2044	30,865	30,962
Total	$150,117	$149,399

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

3. Loans Held for Investment

Loans Held for Investment consist of Private Education Loans and FFELP Loans.

Our Private Education Loans are made largely to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' resources. Private Education Loans bear the full credit risk of the customer. We manage this additional risk through historical risk-performance underwriting strategies and the addition of qualified cosigners. Private Education Loans generally carry a variable rate indexed to LIBOR. We provide incentives for customers to include a cosigner on the loan, and the vast majority of loans in our portfolio are cosigned. We also encourage customers to make payments while in school.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. 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.

Loans held for investment are summarized as follows:

	June 30, 2014	December 31, 2013
Private Education Loans	$7,482,794	$6,563,342
Unearned discounts	7,746	5,063
Allowance for loan losses	(54,315)	(61,763)
Total Private Education Loans, net	7,436,225	6,506,642
FFELP Loans	1,360,107	1,426,972
Unamortized acquisition costs, net	3,851	4,081
Allowance for loan losses	(6,212)	(6,318)
Total FFELP Loans, net	1,357,746	1,424,735
Loans held for investment, net	$8,793,971	$7,931,377

The estimated weighted average life of Private Education Loans in our portfolio was approximately 6.6 years and 7.0 years at June 30, 2014 and December 31, 2013, respectively.

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

The average balance and the respective weighted average interest rates are summarized as follows:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Average Balance	Weighted Average Interest Rate		Average Balance	Weighted Average Interest Rate	
Private Education Loans	$7,350,825	8.23	%	$5,533,745	8.2	%
FFELP Loans	1,374,291	3.33		1,087,954	3.32	
Total portfolio	$8,725,116			$6,621,699		

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Average Balance	Weighted Average Interest Rate		Average Balance	Weighted Average Interest Rate	
Private Education Loans	$7,382,565	8.19	%	$5,863,633	8.13	%
FFELP Loans	1,387,358	3.27		1,064,303	3.3	
Total portfolio	$8,769,923			$6,927,936		

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

4. Allowance for Loan Losses

Our provisions for Private Education Loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, in the held-for-investment loan portfolios. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. See Note 1, "Significant Accounting Policies - Allowance for Private Education Loan Losses" for a more detailed discussion.

Allowance for Loan Losses Metrics

	Allowance for Loan Losses Three Months Ended June 30, 2014		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$6,181	$ 71,453	$77,634
Total provision	685	329	1,014
Charge-offs[1]	(654)	—	(654)
Student loan sales[2]	—	(17,467)	(17,467)
Ending Balance	$6,212	$ 54,315	$60,527
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 1,037	$1,037
Ending balance: collectively evaluated for impairment	$6,212	$ 53,278	$59,490
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 4,508	$4,508
Ending balance: collectively evaluated for impairment	$1,360,107	$ 7,478,286	$8,838,393
Charge-offs as a percentage of average loans in repayment (annualized)	0.07 %	— %	
Allowance as a percentage of the ending total loan balance	0.46 %	0.73 %	
Allowance as a percentage of the ending loans in repayment	0.66 %	1.23 %	
Allowance coverage of charge-offs (annualized)	2.40	—	
Ending total loans, gross	$1,360,107	$ 7,482,794	
Average loans in repayment	$973,894	$ 4,322,356	
Ending loans in repayment	$947,972	$ 4,425,573	

[1] Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
[2] Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

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

	Allowance for Loan Losses Three Months Ended June 30, 2013		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$4,199	$ 65,381	$69,580
Total provision	951	(1,966)	(1,015)
Charge-offs[1]	(534)	—	(534)
Student loan sales[2]	—	(12,546)	(12,546)
Ending Balance	$4,616	$ 50,869	$55,485
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$4,616	$ 50,869	$55,485
Loans:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$1,162,476	$ 5,383,128	$6,545,604
Charge-offs as a percentage of average loans in repayment (annualized)	0.06%	—%	
Allowance as a percentage of the ending total loan balance	0.40%	0.94%	
Allowance as a percentage of the ending loans in repayment	0.56%	1.65%	
Allowance coverage of charge-offs (annualized)	2.16	—	
Ending total loans, gross	$1,162,476	$ 5,383,128	
Average loans in repayment	$825,038	$ 3,243,513	
Ending loans in repayment	$824,523	$ 3,081,929	

[1] Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
[2] Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

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

	Allowance for Loan Losses Six Months Ended June 30, 2014		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$6,318	$ 61,763	$68,081
Total provision	1,191	38,982	40,173
Charge-offs[1]	(1,297)	—	(1,297)
Student loan sales[2]	—	(46,430)	(46,430)
Ending Balance	$6,212	$ 54,315	$60,527
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 1,037	$1,037
Ending balance: collectively evaluated for impairment	$6,212	$ 53,278	$59,490
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 4,508	$4,508
Ending balance: collectively evaluated for impairment	$1,360,107	$ 7,478,286	$8,838,393
Charge-offs as a percentage of average loans in repayment (annualized)	0.13 %	— %	
Allowance as a percentage of the ending total loan balance	0.46 %	0.73 %	
Allowance as a percentage of the ending loans in repayment	0.66 %	1.23 %	
Allowance coverage of charge-offs (annualized)	2.40	—	
Ending total loans, gross	$1,360,107	$ 7,482,794	
Average loans in repayment	$994,290	$ 4,354,878	
Ending loans in repayment	$947,972	$ 4,425,573	

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
(2) Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

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

	Allowance for Loan Losses Six Months Ended June 30, 2013		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$3,971	$ 65,218	$69,189
Total provision	1,399	18,278	19,677
Charge-offs[1]	(754)	—	(754)
Student loan sales[2]	—	(32,627)	(32,627)
Ending Balance	$4,616	$ 50,869	$55,485
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$4,616	$ 50,869	$55,485
Loans:			
Ending balance: individually evaluated for impairment	$—	$ —	$—
Ending balance: collectively evaluated for impairment	$1,162,476	$ 5,383,128	$6,545,604
Charge-offs as a percentage of average loans in repayment (annualized)	0.09 %	— %	
Allowance as a percentage of the ending total loan balance	0.40 %	0.94 %	
Allowance as a percentage of the ending loans in repayment	0.56 %	1.65 %	
Allowance coverage of charge-offs (annualized)	3.00	—	
Ending total loans, gross	$1,162,476	$ 5,383,128	
Average loans in repayment	$825,038	$ 3,670,291	
Ending loans in repayment	$824,523	$ 3,081,929	

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.
(2) Represents fair value write-downs on delinquent loans sold prior to the Spin-Off to an entity that is now a subsidiary of Navient, recorded at the time of sale.

All of our loans are collectively assessed for impairment except for loans classified as TDR's. Prior to the Spin-Off transaction that occurred on April 30, 2014, we did not have TDR loans because the loans were generally sold in the same month that the terms were restructured. Subsequent to May 1, 2014, we have individually assessed $4.5 million of Private Education Loans as TDRs. When these loans are determined to be impaired, we provide for an allowance for losses sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows discounted at the loan's original effective interest rate.
Within the Private Education Loan portfolio, loans greater than 90 days past due are considered to be nonperforming. FFELP Loans are at least 97 percent guaranteed as to their principal and accrued interest by the federal government in the event of default, and therefore, we do not deem FFELP Loans as nonperforming from a credit risk standpoint at any point in their life cycle prior to claim payment, and continue to accrue interest through the date of claim.

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

Key Credit Quality Indicators
FFELP Loans are at least 97 percent insured and guaranteed as to their principal and accrued interest in the event of default; therefore, there is no key credit quality indicator that will have a material impact to our financial results. Included within our FFELP portfolio June 30, 2014 are $853 million of FFELP rehabilitation loans. These loans have previously defaulted but have subsequently been brought current according to a loan rehabilitation agreement. The credit performance on rehabilitation loans is worse than the remainder of our FFELP portfolio. At June 30, 2014 and December 31, 2013, 62.7 percent and 62.9 percent of our FFELP portfolio consisted of rehabilitation loans.
For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the loan designation. The following table highlights the gross principal balance of our Private Education Loan portfolio stratified by key credit quality indicators.

	Private Education Loans Credit Quality Indicators					
	June 30, 2014			December 31, 2013		
Credit Quality Indicators:	Balance[1]	% of Balance		Balance[1]	% of Balance	
Cosigners:						
With cosigner	$6,715,407	90	%	$5,898,751	90	%
Without cosigner	767,387	10		664,591	10	
Total	$7,482,794	100	%	$6,563,342	100	%
FICO at Origination:						
Less than 670	$510,193	7	%	$461,412	7	%
670-699	1,108,321	15		1,364,286	21	
700-749	2,357,153	31		1,649,192	25	
Greater than or equal to 750	3,507,127	47		3,088,452	47	
Total	$7,482,794	100	%	$6,563,342	100	%
Seasoning[2]:						
1-12 payments	$2,465,454	33	%	$1,840,538	28	%
13-24 payments	1,063,082	14		1,085,393	17	
25-36 payments	512,958	7		669,685	10	
37-48 payments	384,450	5		362,124	6	
More than 48 payments	39,593	1		30,891	—	
Not yet in repayment	3,017,257	40		2,574,711	39	
Total	$7,482,794	100	%	$6,563,342	100	%

(1) Balance represents gross Private Education Loans.
(2) Number of months in active repayment for which a scheduled payment was due.

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

The following tables provide information regarding the loan status and aging of past due loans.

	Private Education Loan Delinquencies			
	June 30, 2014		December 31, 2013	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$3,017,257		$2,574,711	
Loans in forbearance[2]	39,964		16,314	
Loans in repayment and percentage of each status:				
Loans current	4,396,772	99.3 %	3,933,143	99.0 %
Loans delinquent 31-60 days[3]	21,381	0.5	28,854	0.7
Loans delinquent 61-90 days[3]	5,987	0.1	10,280	0.3
Loans delinquent greater than 90 days[3]	1,433	0.1	40	—
Total private education loans in repayment	4,425,573	100.0 %	3,972,317	100.0 %
Total private education loans, gross	7,482,794		6,563,342	
Private education loans unamortized discount	7,746		5,063	
Total private education loans	7,490,540		6,568,405	
Private education loans allowance for losses	(54,315)		(61,763)	
Private education loans, net	$7,436,225		$6,506,642	
Percentage of private education loans in repayment		59.1 %		60.5 %
Delinquencies as a percentage of private education loans in repayment		0.7 %		1.0 %
Loans in forbearance as a percentage of loans in repayment and forbearance		0.9 %		0.4 %

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the loans (e.g., residency periods for medical students or a grace period for bar exam preparation).

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

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

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

Accrued Interest Receivable

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

	Private Education Loan Accrued Interest Receivable		
	Total Interest Receivable	Greater than 90 days Past Due	Allowance for Uncollectible Interest
June 30, 2014	$434,847	$69	$3,633
December 31, 2013	$333,857	$1	$4,076

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

5. Deposits

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

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

Interest Bearing

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

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

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

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

As of June 30, 2014 and December 31, 2013, there were $258,463 and $159,637 of deposits exceeding Federal Deposit Insurance Corporation ("FDIC") insurance limits. Accrued interest on deposits was $10,167 and $13,097 at June 30, 2014 and December 31, 2013, respectively.

Money market deposits with affiliates

Our Upromise subsidiary maintains a money market deposit at the Bank which totaled $287,780 and $293,040 at June 30, 2014 and December 31, 2013, respectively, which was interest bearing. Interest expense incurred on these deposits during the three months ended June 30, 2014 and 2013 totaled $66 and $85, respectively and for the six months ended June 30, 2014 and 2013 totaled $117 and $192, respectively. The Company also maintains a money market deposit at the Bank which totaled $368,025 at June 30, 2014 and $0 at December 31, 2013.

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

NonInterest Bearing

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

	June 30, 2014	December 31, 2013
Money market	$42,455	$55,036
Deposits - noninterest bearing	$42,455	$55,036

6. Borrowed Funds

The Bank maintains discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $100,000 at June 30, 2014. The interest rate charged to the Bank on these lines of credit is priced at Fed Funds plus a spread at the time of borrowing, and is payable daily. The Bank did not utilize these lines of credit in the six months ended June 30, 2014 and 2013.
The Bank established an account at the FRB to meet eligibility requirements for access to the Primary Credit borrowing facility at the FRB's Discount Window ("Window"). All borrowings at the Window must be fully collateralized. We pledged asset-backed and mortgage-backed securities, as well as FFELP consolidation and Private Education Loans to the FRB as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At June 30, 2014 and December 31, 2013, the lendable value of our collateral at the FRB totaled $1,397,526 and $900,217, respectively. The interest rate charged to us is the discount rate set by the FRB. We did not utilize this facility in the six months ended June 30, 2014 and 2013.

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

7. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact
The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2014 and December 31, 2013, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2014 and 2013.

	Location	June 30, 2014	December 31, 2013
Fair Values:			
Interest rate swaps (receive - fixed/pay - variable)[1]	Other liabilities	$(1,036)	$—
Interest rate swaps (receive - fixed/pay - variable)	Other assets	—	612
Interest rate swaps (receive - variable/pay - fixed)	Other liabilities	(8,423)	—
Total fair value		$(9,459)	$612
Notional Amounts:			
Interest rate swaps (receive - fixed/pay - variable)[1]		$2,811,060	$2,664,755
Interest rate swaps (receive - variable/pay - fixed)		1,076,779	—
Total notional		$3,887,839	$2,664,755

	Location	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Earnings impact:					
Interest reclassification	Other noninterest income	$(2,427)	333	(1,967)	627
Hedge ineffectiveness	Other noninterest income	(7,031)	(385)	(8,255)	(69)
Realized gains	Interest expense	4,573	7,504	10,246	15,508
Total earnings impact		$(4,885)	$7,452	$24	$16,066

(1) Interest rate swaps are hedged against certificates of deposit.
(2) "Other" includes embedded derivatives bifurcated from investment securities.

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

Cash Collateral
Cash collateral held related to derivative exposure between the Company and its derivatives counterparties was $2,500 and $5,190 at June 30, 2014 and December 31, 2013, respectively. Collateral held is recorded in "Other Liabilities." Cash collateral pledged related to derivative exposure between the Company and its derivatives counterparties was $39,569 and $40 at June 30, 2014 and December 31, 2013, respectively.

8. Stockholders' Equity

Preferred Stock
In connection with the Spin-Off, the Company, by reason of a statutory merger, succeeded pre-Spin-Off SLM as the issuer of the Series A Preferred Stock and the Series B Preferred Stock. At June 30, 2014, we had outstanding 3.3 million shares of 6.97 percent Cumulative Redeemable Preferred Stock, Series A (the "Series A Preferred Stock") and 4.0 million shares of Floating-Rate Non-Cumulative Preferred Stock, Series B (the "Series B Preferred Stock"). Neither series has a maturity date but can be redeemed at our option. Redemption would include any accrued and unpaid dividends up to the redemption date. The shares have no preemptive or conversion rights and are not convertible into or exchangeable for any of our other securities or property. Dividends on both series are not mandatory and are paid quarterly, when, as, and if declared by the Board of Directors. Holders of Series A Preferred Stock are entitled to receive cumulative, quarterly cash dividends at the annual rate of $3.485 per share. Holders of Series B Preferred Stock are entitled to receive quarterly dividends based on 3-month LIBOR plus 170 basis points per annum in arrears. Upon liquidation or dissolution of the Company, holders of the Series A and Series B Preferred Stock are entitled to receive $50 and $100 per share, respectively, plus an amount equal to accrued and unpaid dividends for the then current quarterly dividend period, if any, pro rata, and before any distribution of assets are made to holders of our common stock.

Common Stock
Our shareholders have authorized the issuance of 1.125 billion shares of common stock (par value of $.20). At June 30, 2014, 423 million shares were issued and outstanding and 34 million shares were unissued but encumbered for outstanding stock options, restricted stock units and dividend equivalent units for employee compensation and remaining authority for stock-based compensation plans.
Post Spin-Off, we do not intend to initiate a publicly announced share repurchase program as a means to return capital to shareholders. We only expect to repurchase common stock acquired in connection with taxes withheld in connection with award exercises and vesting under our employee stock based compensation plans. The following table summarizes our common share repurchases and issuances associated with these programs.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Shares and per share amounts in actuals)	2014	2013	2014	2013
Shares repurchased related to employee stock-based compensation plans[1]	358,771	3,040,788	358,771	5,365,363
Average purchase price per share	$8.62	$22.35	$8.62	$20.51
Common shares issued[2]	504,929	4,115,424	504,929	8,273,219

(1) Comprises 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.
(2) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on June 30, 2014 was $8.31.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
8. Stockholders' Equity (Continued)

Investment with entities that are now subsidiaries of Navient

Prior to the Spin-Off transaction, there were transactions between us and affiliates of pre-Spin-Off SLM that are now subsidiaries of Navient. As part of the carve-out, these expenses were included in our results even though the actual payments for the expenses were paid by the aforementioned affiliates. As such, amounts equal to these payments have been treated as equity contributions in the table below. Certain payments made by us to these affiliates prior to the Spin-Off transaction were treated as dividends.

Net transfers (to)/from the entity that is now a subsidiary of Navient are included within Navient's subsidiary investment on the consolidated statements of changes in equity. The components of the net transfers (to)/from the entity that is now a subsidiary of Navient are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Capital contributions:				
Loan origination activities	$7,184	$33,367	$32,452	$58,629
Loan sales	—	—	45	25
Corporate overhead activities	3,461	15,731	21,216	33,115
Other	491,936	617	492,368	734
Total capital contributions	502,581	49,715	546,081	92,503
Dividend	—	—	—	(120,000)
Corporate push-down	(761)	(1,641)	4,977	5,627
Net change in income tax accounts	—	—	15,659	—
Net change in receivable/payable	(39,655)	(18,615)	(87,277)	(34,154)
Other	—	111	(31)	565
Total net transfers from/(to) the entity that is now a subsidiary of Navient	$462,165	$29,570	$479,409	$(55,459)

Capital Contributions

During the three and six months ended June 30, 2014 and 2013, pre-Spin-Off SLM contributed capital to the Company by funding loan origination activities, providing corporate overhead functions and other activities.

Capital contributed for loan origination activities reflects the fact that loan origination functions were conducted by a subsidiary of pre-Spin-Off SLM (now a subsidiary of Navient). The Company did not pay for the costs incurred by pre-Spin-Off SLM in connection with these functions. The costs eligible to be capitalized are recorded on the respective balance sheets and the costs not eligible for capitalization have been recognized as expenses in the respective statements of income.

Certain general corporate overhead expenses of the Company were incurred and paid for by pre-Spin-Off SLM.

Corporate Push-Down

The consolidated balance sheets include certain assets and liabilities that have historically been held at pre-Spin-Off SLM but which are specifically identifiable or otherwise allocable to the Company. The cash and cash equivalents held by pre-Spin-Off SLM at the corporate level were not allocated to the Company for any of the periods presented.

Receivable/Payable with Affiliate

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
8. Stockholders' Equity (Continued)

Pre-Spin-Off, all significant intercompany payable/receivable balances between the Company and pre-Spin-Off SLM are considered to be effectively settled for cash in the combined financial statements at the time the transaction is recorded.

9. Earnings per Common Share

Basic earnings per common share ("EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. The determination of the weighted-average shares and diluted potential common shares for pre-Spin-Off periods are based on the activity at pre-Spin-Off SLM. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

	Three Months ended June 30,		Six months ended June 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Numerator:				
Net income attributable to SLM Corporation	$44,128	$76,469	$91,576	$149,353
Preferred stock dividends	3,228	—	3,228	—
Net income attributable to SLM Corporation common stock	$40,900	$76,469	$88,348	$149,353
Denominator:				
Weighted average shares used to compute basic EPS	422,805	439,972	424,751	445,309
Effect of dilutive securities:				
Dilutive effect of stock options, restricted stock and restricted stock units (1)	7,945	8,092	7,938	7,922
Dilutive potential common shares(2)	7,945	8,092	7,938	7,922
Weighted average shares used to compute diluted EPS	430,750	448,064	432,689	453,231
Basic earnings per common share attributable to SLM Corporation:	$0.10	$0.17	$0.21	$0.34
Diluted earnings per common share attributable to SLM Corporation:	$0.09	$0.17	$0.20	$0.33

(1) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, non-vested deferred compensation and restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

(2) For the three months ended June 30, 2014 and 2013, securities covering approximately 4 million and 4 million shares, respectively were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2014 and 2013, securities covering approximately 3 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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

10. Fair Value Measurements

We use estimates of fair value in applying various accounting standards for our financial statements.

We categorize our fair value estimates based on a hierarchal framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. For additional information regarding our policies for determining fair value and the hierarchical framework, see Note 1, "Significant Accounting Policies - Fair Value Measurement" in our historical carved out audited financial statements filed with the SEC on Form 8-K on May 6, 2014, for a full discussion.

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis.

	Fair Value Measurements on a Recurring Basis							
	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Mortgage-backed securities	$—	$149,399	$—	$149,399	$—	$102,105	$—	$102,105
Derivative instruments	—	—	—	—	—	612	—	612
Total	$—	$149,399	$—	$149,399	$—	$102,717	$—	$102,717

	Fair Value Measurements on a Recurring Basis							
	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities								
Derivative instruments	$—	$(9,459)	$—	$(9,459)	$—	$—	$—	$—
Total	$—	$(9,459)	$—	$(9,459)	$—	$—	$—	$—

The following table summarizes the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis for the three and six months ended June 30, 2013. There were no financial instruments categorized as level 3 at June 30, 2014.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Balance, beginning of period	$589,103	$532,155
Total gains/(losses) (realized and unrealized):		

Included in earnings	(12,461)	42,026
Included in other comprehensive income	—	—
Included in earnings - accretion of discount	2,141	4,602
Proceeds from sale	—	—
Transfers in and/or out of level 3	—	—
Balance, end of period	$578,783	$578,783
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$(12,461)	$42,026

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
10. Fair Value Measurements (Continued)

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

	June 30, 2014			December 31, 2013		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
Loans held for investment, net	$9,394,480	$8,793,971	$600,509	$8,439,068	$7,931,377	$507,691
Cash and cash equivalents	1,524,176	1,524,176	—	2,182,865	2,182,865	—
Available-for-sale investments	149,399	149,399	—	102,105	102,105	—
Accrued interest receivable	453,461	453,461	—	356,283	356,283	—
Derivative instruments	—	—	—	612	612	—
Total earning assets	11,521,516	10,921,007	600,509	$11,080,933	$10,573,242	$507,691
Interest-bearing liabilities						
Money-market, savings and NOW accounts	4,757,164	4,757,164	—	$4,029,881	$4,029,881	$—
Certificates of deposit	4,148,223	4,133,045	(15,178)	4,984,114	4,971,669	(12,445)
Accrued interest payable	10,167	10,167	—	13,097	13,097	—
Derivative instruments	9,459	9,459	—	—	—	—
Total interest-bearing liabilities	$8,925,013	$8,909,835	(15,178)	$9,027,092	$9,014,647	(12,445)
Excess of net asset fair value over carrying value			$585,331			$495,246

The methods and assumptions used to estimate the fair value of each class of financial instruments are as follows:

Cash and cash equivalents

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. These are level 1 valuations.

Investments

Investments are classified as available-for-sale and are carried at fair value in the financial statements. Investments in mortgage-backed securities are valued using observable market prices of similar assets. As such, these are level 2 valuations.

Loans held for investment

Our FFELP Loans, Private Education Loans, and other loans are accounted for at net realizable value, or at the lower of cost or market if the loan is held-for-sale. For both FFELP and Private Education Loans, fair value was determined by modeling expected loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to determine fair value are prepayment speeds, default rates, cost of funds, required return on equity, and expected Repayment Borrower Benefits to be earned. Repayment Borrower Benefits are financial incentives offered to borrowers based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. We regularly calibrate these models to take into account relevant transactions in the marketplace. Significant inputs into the model are not observable. As such, these are level 3 valuations.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
10. Fair Value Measurements (Continued)

Money market, savings accounts and NOW accounts
The fair value of money market, savings, and NOW accounts equal the amounts payable on demand at the balance sheet date and are reported at their carrying value. These are level 1 valuations.
Certificates of deposit
The fair value of certificates of deposit are estimated using discounted cash flows based on rates currently offered for deposits of similar remaining maturities. These are level 2 valuations.
Derivatives
All derivatives are accounted for at fair value in the financial statements. The fair value of derivative financial instruments was determined by a standard derivative pricing and option model using the stated terms of the contracts and observable market inputs. It is our policy to compare the derivative fair values to those received from our counterparties in order to validate the model's outputs. Any significant differences are identified and resolved appropriately.
When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. When the counterparty has exposure to us under derivative contracts with the Company, we fully collateralize the exposure (subject to certain thresholds).
Interest rate swaps are valued using a standard derivative cash flow model with a LIBOR swap yield curve which is an observable input from an active market. These derivatives are level 2 fair value estimates in the hierarchy.
The carrying value of borrowings designated as the hedged item in a fair value hedge is adjusted for changes in fair value due to changes in the benchmark interest rate (one-month LIBOR). These valuations are determined through standard pricing models using the stated terms of the borrowings and observable yield curves.

11. Stock Based Compensation Plans and Arrangements

In connection with the Spin-Off of Navient, we made certain adjustments to the exercise price and number of our stock-based compensation awards with the intention of preserving the intrinsic value of the outstanding awards held by Sallie Mae officers and employees prior to the Spin-Off. In general, holders of awards granted prior to 2014 received both Sallie Mae and Navient equity awards, and holders of awards granted in 2014 received solely equity awards of their post-Spin-Off employer. Stock options, restricted stock, restricted stock units, performance stock units and dividend equivalent units were adjusted into equity in the new companies by a specific conversion ratio per company, which was based upon the volume weighted average prices for each company at the time of the Spin-Off, in an effort to keep the value of the equity awards constant. These adjustments were accounted for as modifications to the original awards. In general, the Sallie Mae and Navient awards will be subject to substantially the same terms and conditions as the original pre-Spin-Off SLM awards. A comparison of the fair value of the modified awards with the fair value of the original awards immediately before the modification resulted in approximately $64 of incremental expense related to fully-vested stock option awards and was expensed immediately and $630 of incremental compensation expense related to unvested restricted stock and restricted stock units which will be recorded over the remaining vesting period of the equity awards.

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

12. Arrangements with Navient Corporation

In connection with the Spin-Off, the Company entered into a separation and distribution agreement with Navient (the "Separation and Distribution Agreement"). In connection therewith, the Company also entered into various other ancillary agreements with Navient to effect the Spin-Off and provide a framework for its relationship with Navient thereafter, 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. The majority of these agreements are transitional in nature with most having terms of two years or less from the date of the Spin-Off.

We continue to have significant exposures to risks related to Navient's loan servicing operations and its creditworthiness. If we are unable to obtain services, complete the transition of our origination and loan servicing operations as planned, or obtain indemnification payments from Navient, we could experience higher than expected costs and operating expenses and our results of operations and financial condition could be materially and adversely affected.

We briefly summarize below some of the most significant agreements and relationships we continue to have with Navient. For additional information regarding the Separation and Distribution Agreement and the other ancillary agreements, see our Current Report on Form 8-K filed on May 2, 2014.

Separation and Distribution Agreement

The Separation and Distribution Agreement addresses, among other things, the following ongoing activities:

- the obligation of each party to indemnify the other against liabilities retained or assumed by that party pursuant to the Separation and the Distribution Agreement and in connection with claims of third parties;

- the allocation among the parties of rights and obligations under insurance policies;

- the agreement of the Company and Navient (i) not to engage in certain competitive business activities for a period of five years, (ii) as to the effect of the non-competition provisions on post-spin merger and acquisition activities of the parties and (iii) regarding "first look" opportunities; and

- the creation of a governance structure, including a separation oversight committee, by which matters related to the separation and other transactions contemplated by the Separation and Distribution Agreement will be monitored and managed.

Transition Services

During a transition period, Navient and its affiliates will provide the Bank with significant servicing capabilities with respect to Private Education Loans held by the Company and its subsidiaries. Beyond this transition period, it is currently anticipated that Navient will continue to service Private Education Loans owned by the Company or its subsidiaries with respect to individual borrowers who also have Private Education Loans which are owned by Navient, in order to optimize the customer's experience. In addition, Navient will continue to service and collect the Bank's portfolio of FFELP Loans indefinitely.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
12. Arrangements with Navient Corporation (Continued)

Indemnification Obligations

Navient has also agreed to be responsible, and indemnify us, for all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to the Spin-Off other than those specifically excluded in the Separation and Distribution Agreement. Some significant examples of the types of indemnification obligations Navient has under the Separation and Distribution Agreement and related ancillary agreements include:

- Pursuant to a tax sharing agreement, Navient has agreed to indemnify us for $283 million in deferred taxes that the Company will be legally responsible for but that relate to gains recognized by the Company's predecessor on debt repurchases made prior to the Spin-Off. In addition, Navient has agreed to indemnify us for tax assessments incurred related to identified uncertain tax positions taken prior to the date of the Spin-off transaction.

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

- At the time of this filing, the Bank remains subject to a Consent Order, Order to Pay Restitution and Order to Pay Civil Money Penalty dated May 13, 2014 issued by the FDIC (the "2014 FDIC Order"). The 2014 FDIC Order replaces a prior cease and desist order jointly issued in August 2008 by the FDIC and the Utah Department of Financial Institutions ("UDFI") which was terminated on July 15, 2014. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the Department of Justice regarding disclosures and assessments of certain late fees, as well as compliance with the Servicemembers Civil Relief Act ("SCRA"). Under the FDIC's 2014 Order, the Bank agreed to pay $3.3 million in fines and oversee the refund of up to $30 million in late fees assessed on loans owned or originated by the Bank since its inception in November 2005. Navient is responsible for funding all liabilities, restitution and compensation under orders such as these, other than fines directly levied against the Bank.

Long-Term Arrangements

The Loan Servicing and Administration Agreement governs the terms by which Navient provides servicing, administration and collection services for the Bank's portfolio of FFELP Loans and Private Education Loans, as well as servicing history information with respect to private education loans previously serviced by Navient and access to certain promissory notes in Navient's possession. The loan servicing and administration agreement has a fixed term with a renewal option in favor of the Bank.

The Data Sharing Agreement states the Bank will continue to have the right to obtain from Navient certain post-Spin-Off performance data relating to Private Education Loans owned or serviced by Navient to support and facilitate ongoing underwriting, originations, forecasting, performance and reserve analyses.

The Tax Sharing Agreement governs the respective rights, responsibilities and obligations of the Company and Navient after the Spin-Off relating to taxes, including with respect to the payment of taxes, the preparation and filing of tax returns and the conduct of tax contests. Under this agreement, each party is generally liable for taxes attributable to its business. The agreement also addresses the allocation of tax liabilities that are incurred as a result of the Spin-Off and related transactions. Additionally, the agreement restricts the parties from taking certain actions that could prevent the Spin-Off from qualifying for the tax treatment.

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SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
12. Arrangements with Navient Corporation (Continued)

Amended Loan participation and purchase agreement

Prior to the Spin-Off, the Bank sold substantially all of its Private Education Loans to several former affiliates, now subsidiaries of Navient (collectively, the "Purchasers"), pursuant to this agreement. This agreement predates the Spin-Off but has been significantly amended and reduced in scope in connection with the Spin-Off. Post-Spin-Off, the Bank retains only the right to require the Purchasers to purchase loans for which the borrower also has a separate lending relationship with Navient ("Split Loans") when the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than 6 months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At June 30, 2014, we held approximately $1.3 billion of Split Loans.

During the three and six months ended June 30, 2014, the Bank separately sold loans to the Purchasers in the amount of $94,179 and $765,998, respectively, in principal and $1,770 and $25,797, respectively, in accrued interest income. During the three and six months ended June 30, 2013, the Bank sold loans to the Purchasers in the amount of $822,906 and $1,709,457, respectively, in principal and $19,386 and $39,196, respectively, in accrued interest income.

Subsequent to March 31, 2012, all loans were sold to the Purchasers at fair value. The gain resulting from loans sold was $1,928 and $73,441 in the three months ended June 30, 2014 and 2013, respectively, and $35,816 and $148,664 in the six months ended June 30, 2014 and 2013, respectively. Total write-downs to fair value for loans sold with a fair value lower than par totaled $17,467 and $12,546 in the three months ended June 30, 2014 and 2013, respectively, and $46,430 and $32,628 in the six months ended June 30, 2014 and 2013, respectively.

13. Regulatory Capital

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

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

	Actual		Well Capitalized Regulatory Requirements	
	Amount	Ratio	Amount	Ratio

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

Dividends

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

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

14. Commitments, Contingencies and Guarantees

Regulatory Matters

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

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

Contingencies

In the ordinary course of business, we and our subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage may be asserted against us and our subsidiaries.

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the ordinary course of business. In addition, it is common for the Company, our subsidiaries and affiliates to receive information and document requests and investigative demands from state attorneys general, legislative committees, and administrative agencies. These requests may be for informational or regulatory purposes and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. Our practice has been and continues to be to cooperate with these bodies and be responsive to any such requests.

In view of the inherent difficulty of predicting the outcome of litigation, regulatory and investigative actions, we cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties, if any, related to each pending matter may be.

We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.

Based on current knowledge, management does not believe there are loss contingencies, if any, arising from pending investigations, litigation or regulatory matters that could have a material adverse effect on our consolidated financial position, liquidity, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information is current as of July 23, 2014 (unless otherwise noted) and should be read in connection with SLM Corporation's Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K"), and the audited carve out financial statements filed on Form 8-K on May 6, 2014, and subsequent reports filed with the Securities and Exchange Commission (the "SEC"). Definitions for capitalized terms in this presentation not defined herein can be found in the 2013 Form 10-K (filed with the SEC on February 19, 2014).

This report contains forward-looking statements and information based on management's current expectations as of the date of this presentation. Statements that are not historical facts, including statements about the Company's beliefs 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014; 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 the Company is a party; credit risk associated with the Company's exposure to third parties, including counterparties to the Company's 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). The Company could also be affected by, among other things: changes in its funding costs and availability; failures of its operating systems or infrastructure, including those of third-party vendors; failure to implement the recently executed separation of the Company into two separate publicly traded companies, including failure to transition its origination and servicing operations as planned, increased costs in connection with being a stand-alone company, and failure to achieve the expected benefits of the separation; damage to its reputation; 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; changes in banking rules and regulations, including increased capital requirements; increased competition from banks and other consumer lenders; the creditworthiness of its customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of its earning assets vs. its funding arrangements; and changes in general economic conditions. The preparation of the Company's 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 report are qualified by these cautionary statements and are made only as of the date of this report. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in its expectations.

The Company reports financial results on a GAAP basis and also provides certain core earnings performance measures. The difference between the Company's "Core Earnings" and GAAP results for the periods presented were the unrealized, mark-to-market gains/losses on derivative contracts (excluding current period accruals on the derivative instruments), net of tax. These are recognized in GAAP but not in "Core Earnings" results. The Company provides "Core Earnings" measures because this is what management uses when making management decisions regarding the Company's performance and the allocation of corporate resources. The Company's "Core Earnings" are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. For additional information, see "Key Financial Measures - 'Core Earnings' " in this Form 10-Q for the quarter ended June 30, 2014 for a further discussion and a complete reconciliation between GAAP net income and "Core Earnings."

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2013 to be consistent with classifications adopted for 2014, and had no effect on net income, total assets, or total liabilities.

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.

Selected Financial Information and Ratios

(In millions, except per share data)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Net income attributable to SLM Corporation	$44	$76	$91	$149
Diluted earnings per common share attributable to SLM Corporation	$0.09	$0.17	$0.20	$0.33
Weighted average shares used to compute diluted earnings per share	431	448	433	453
Return on assets	1.55 %	3.31 %	1.69 %	3.23 %
Operating efficiency ratio[1]	35 %	32 %	33 %	29 %
Other Operating Statistics				
Ending Private Education Loans, net	$7,436	$5,335	$7,436	$5,335
Ending FFELP Loans, net	1,358	1,160	1,358	1,160
Ending total education loans, net	$8,794	$6,495	$8,794	$6,495
Average education loans	$8,725	$6,622	$8,770	$6,928

(1) Our efficiency ratio is calculated as operating expense, excluding restructuring costs, divided by total interest income and other income. See also "Key Financial Measures - Operating Expenses."

Overview

References in this Quarterly Report on Form 10-Q to "we," "us," "our," "Sallie Mae" and the "Company," refer to SLM Corporation and its subsidiaries, immediately after the Spin-Off (as hereinafter defined) except as otherwise indicated or unless the context otherwise requires. 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").

Initiation of Post-Spin-Off Periodic Reporting by SLM Corporation

On April 30, 2014, we completed our plan to legally separate into two distinct publicly-traded entities - an education loan management, servicing and asset recovery business, Navient Corporation ("Navient"), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the "Spin-Off") was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business. As a result of a holding company merger under Section 251(g) of the Delaware General Corporation Law ("DGCL"), which is referred to herein as the "SLM Merger," all of the shares of then existing SLM Corporation's common stock were converted, on a 1-to-1 basis, into shares of common stock of New BLC Corporation, a newly formed company that was a subsidiary of pre-Spin-Off SLM Corporation ("pre-Spin-Off SLM"), and, pursuant to the SLM Merger, New BLC Corporation replaced then existing SLM Corporation as the publicly-traded registrant and changed its name to SLM Corporation. As part of the internal corporate reorganization, the assets and liabilities associated with the education loan management, servicing and asset recovery business were transferred to Navient, and those assets and liabilities associated with the consumer banking business remained with or were transferred to the newly constituted SLM Corporation.

The timing and steps necessary to complete the Spin-Off and comply with SEC reporting requirements, including the replacement of pre-Spin-Off SLM Corporation with our current publicly-traded registrant, have resulted in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 19, 2014, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 12, 2014, providing business results and financial information for the periods reported therein on the basis of the consolidated businesses of pre-Spin-Off SLM. While information contained in those prior reports may provide meaningful historical context for the Company’s business, this Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 is our first periodic report made on the basis of the post-Spin-Off business of the Company.

Restated Historical Carved Out Financial Information

Shortly after the Spin-Off, on May 6, 2014 we filed a Current Report on Form 8-K containing carved out audited consolidated financial statements on a stand-alone basis of the Company and its subsidiaries for each of the three years ended December 31, 2013, 2012 and 2011 (the "Carved Out Financial Information (Audited)." This information was prepared in accordance with GAAP and related carve-out conventions. Comparisons of year-over-year results prior to the Spin-Off date for quarterly and year-to-date in this Quarterly Report on Form 10-Q are made with reference to information derived in a manner consistent with the financial information contained in the Carved Out Financial Information (Audited).

The Carved Out Financial Information (Audited) (i) is comprised of historical financial information relating to the Bank, Upromise and the Private Education Loan origination functions, (ii) includes certain general corporate overhead expenses allocated to the Company, and (iii) has been adjusted as if the education loan management, servicing and asset recovery business (i.e. Navient) had never been part of the Company (to reflect the change in reporting entity that results from the Spin-Off). For a more detailed description of the assumptions applied and limitations of the Carved Out Financial Information (Audited), see "the Company's Current Report on Form 8-K filed with the SEC on May 6, 2014."

Likewise, historical, unaudited financial information included in this Quarterly Report on Form 10-Q for the months of January through April of 2014 has been prepared in accordance with GAAP and these related carve-out conventions.

Post-Spin-Off Changes in Private Education Loan Policies and Practices

Prior to the Spin-Off, the Bank sold loans that were delinquent more than 90 days to an entity that is now a subsidiary of Navient. This practice was followed because the Bank's charge off policy required charging off loans at 120 days delinquent while pre-Spin-Off SLM's policy was to charge off loans at 212 days delinquent. Post-Spin-Off, we (a) have changed SLM's policy of charging off loans when they are delinquent for 212 days to conform to the Bank's existing charge off policy and (b) will, nonetheless, continue to sell to Navient loans that (i) are delinquent more than 90 days and (ii) are contained in a portfolio of our Private Education Loans for which the borrowers on those loans also have Private Education Loans which are owned by Navient ("Split Loans"). Currently, our portfolio of Split Loans amounts to approximately $1.3 billion. Delinquent loans from this portfolio are sold at a discount to par which has historically been reflected in the Bank's provision and reduced the allowance for loan losses in equal amounts.

Pre-Spin-Off SLM's default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus more on loans 60 to 120 days delinquent. We have little experience in executing our default aversion strategies on such compressed collection timeframes. Through June 30, 2014, our delinquency cure rates have exceeded our expectations.

For the reasons described above, many of our historical credit indicators and period-over-period trends are not indicative of future performance and future performance may be somewhat affected by ongoing sales of Split Loans to Navient. Because we now retain more delinquent loans, we believe it could take up to two years before of our credit performance indicators provide meaningful period-over-period comparisons.

Post-Spin-Off Businesses

We continue to originate Private Education Loans through the Bank by offering products on campus through financial aid offices and through direct marketing to students and their families. We fund Private Education Loan originations through the retail and brokered deposits of the Bank, and may obtain additional funding through sales and securitizations of Private Education Loans.

The Bank is our Utah industrial bank subsidiary which is regulated by the Utah Department of Financial Institutions ("UDFI") and the Federal Deposit Insurance Corporation ("FDIC"). At June 30, 2014, the Bank had total assets of $11.1 billion, including $7.4 billion in Private Education Loans and $1.4 billion of FFELP Loans. As of the same date, the Bank had total deposits of $9.5 billion representing 91 percent of interest earning assets, composed of $3.0 billion of retail deposits, $5.1 billion of brokered deposits and $1.5 billion of other deposits.

Once our post-Spin-Off transition activities are complete, we will also provide ongoing Private Education Loan servicing and collection on loans we originate and hold, as well as those we sell to third parties. We will also continue to offer various products to help families save for college - including our free Upromise service that provides financial rewards on everyday purchases - and to protect their college investment through tuition, rental and life insurance services.

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 our prices are competitive with similar federal education loan products. We earn net interest income on our Private Education Loan portfolio (after provision for loan losses). Operating expenses associated with interest income include costs incurred to acquire and to service our loans.

In 2009, we introduced the Smart Option private education loan product emphasizing in-school payment features to minimize total finance charges. The product features three primary 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 first six months of 2014. The third repayment option is the more traditional deferred private education loan product where customers do not begin making payments until after graduation. Customers are provided an incentive to make payments while they are in school by a lower interest rate on the Interest Only and Fixed Pay options.

For borrowers in financial difficulty, 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 to help them repay their loans. These programs 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.

Private Education Loan Servicing

A subsidiary of the Bank (SMB Servicing Company, Inc.) will provide servicing and loan collection for Private Education Loans originated and held by the Bank, as well as those sold to third parties. This will occur once we complete the build-out of our own servicing platform which will have at its core the same servicing platform the Company has used for several years. The complete physical and logistical separation of our servicing and collection platforms from those of Navient is currently expected to be completed within twelve months of the Spin-Off, but could take significantly longer. During that period, servicing of our Private Education Loans will be conducted by Navient, the Bank and SMB Servicing Company, Inc. employees pursuant to various transition agreements. For further detail on these agreements, see the section titled "Post-Separation Relationships with Navient."

Over time, we expect to seek additional funding, liquidity and revenue from the sale or securitization of loan assets we originate as well as the servicing of the loan assets we sell to third parties.

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 approximately 500,000 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 June 30, 2014, more than 1,000 merchants participated by providing discounts on purchases that are returned to the customer. Since inception, Upromise members have saved approximately $850 million for college, and more than 340,000 members actively use the Upromise credit card for everyday purchases.

Sallie Mae Insurance Services

On April 29, 2014, we divested all of our ownership interest in NGI Group Holdings LLC ("NGI"). However, we will continue to partner with Next Generation Insurance Group under an extended joint marketing agreement to offer America's college students and young adults insurance programs that protect their higher education investment and address their life-stage needs, including tuition insurance, renters insurance, life insurance, and auto insurance.

Loan Sales

We intend to sell Private Education Loans to third parties through an open auction process as well as through securitization transactions. We may retain servicing of these transferred Private Education Loans at prevailing market rates for such services. Loan sales and securitization volumes will be driven by growth in the Bank's loan originations, the Bank's asset values and capital and liquidity needs. Navient may participate in open auction processes on arm's length terms. While there may be near-term Private Education Loan sales to Navient to facilitate an orderly transition after the Spin-Off, neither the Company nor Navient will have any ongoing obligation to buy or sell Private Education Loans to or from the other. See notes to consolidated financial statements, Note 12, “Arrangements with Navient Corporation,” for further discussion regarding loan purchase agreements.

Competitive Environment

We face competition for Private Education Loan origination and servicing from a group of the nation's larger banks and local credit unions. For a more detailed discussion of the Private Education Loan market in context and how we have adapted our loan products to meet the needs of our customers, see Item 1. "Business - Business Segments - Consumer Lending Segment" in our Annual Report on Form 10-K for the year ended December 31, 2013.

Post-Separation Relationships with Navient

In connection with the Spin-Off, the Company entered into a separation and distribution agreement with Navient (the "Separation and Distribution Agreement"). In connection therewith, the Company also entered into various other ancillary agreements with Navient to effect the Spin-Off and provide a framework for its relationship with Navient thereafter, 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. The majority of these agreements are transitional in nature with most having terms of two years or less from the date of the Spin-Off.

We continue to have significant exposures to risks related to Navient's loan servicing operations and its creditworthiness. If we are unable to obtain services, complete the transition of our origination and loan servicing operations as planned, or obtain indemnification payments from Navient, we could experience higher than expected costs and operating expenses and our results of operations and financial condition could be materially and adversely affected.

We briefly summarize below some of the most significant agreements and relationships we continue to have with Navient. For additional information regarding the Separation and Distribution Agreement and the other ancillary agreements, see our Current Report on Form 8-K filed on May 2, 2014 and Note 12, "Arrangements with Navient Corporation" to the consolidated financial statements.

Separation and Distribution Agreement

The Separation and Distribution Agreement addresses, among other things, the following ongoing activities:

- the obligation of each party to indemnify the other against liabilities retained or assumed by that party pursuant to the Separation and the Distribution Agreement and in connection with claims of third parties;

- the allocation among the parties of rights and obligations under insurance policies;

- the agreement of the Company and Navient (i) not to engage in certain competitive business activities for a period of five years, (ii) as to the effect of the non-competition provisions on post-spin merger and acquisition activities of the parties and (iii) regarding "first look" opportunities; and

- the creation of a governance structure, including a separation oversight committee, by which matters related to the separation and other transactions contemplated by the Separation and Distribution Agreement will be monitored and managed.

Transition Services

During a transition period, Navient and its affiliates will provide the Bank with significant servicing capabilities with respect to Private Education Loans held by the Company and its subsidiaries. Beyond this transition period, it is currently anticipated that Navient will continue to service Private Education Loans owned by the Company or its subsidiaries with respect to individual borrowers who also have Private Education Loans which are owned by Navient, in order to optimize the customer's experience. In addition, Navient will continue to service and collect the Bank's portfolio of FFELP Loans indefinitely.

Indemnification Obligations

Navient has also agreed to be responsible, and indemnify us, for all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM occurring prior to the Spin-Off other than those specifically excluded in the Separation and Distribution Agreement. Some significant examples of the types of indemnification obligations Navient has under the Separation and Distribution Agreement and related ancillary agreements include:

- Pursuant to a tax sharing agreement, Navient has agreed to indemnify us for $283 million in deferred taxes that the Company will be legally responsible for but that relate to gains recognized by the Company's predecessor on debt repurchases made prior to the Spin-Off. In addition, Navient has agreed to indemnify us for tax assessments incurred related to identified uncertain tax positions taken prior to the date of the Spin-off transaction.

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

- At the time of this filing, the Bank remains subject to a Consent Order, Order to Pay Restitution and Order to Pay Civil Money Penalty dated May 13, 2014 issued by the FDIC (the "2014 FDIC Order"). The 2014 FDIC Order replaces a prior cease and desist order jointly issued in August 2008 by the FDIC and the Utah Department of Financial Institutions ("UDFI") which was terminated on July 15, 2014. Specifically, on May 13, 2014, the Bank reached settlements with the FDIC and the Department of Justice regarding disclosures and assessments of certain late fees, as well as compliance with the Servicemembers Civil Relief Act ("SCRA"). Under the FDIC's 2014 Order, the Bank agreed to pay $3.3 million in fines and oversee the refund of up to $30 million in late fees assessed on loans owned or originated by the Bank since its inception in November 2005. Navient is responsible for funding all liabilities, restitution and compensation under orders such as these, other than fines directly levied against the Bank.

Long-Term Arrangements

The Loan Servicing and Administration Agreement governs the terms by which Navient provides servicing, administration and collection services for the Bank's portfolio of FFELP Loans and Private Education Loans, as well as servicing history information with respect to Private Education Loans previously serviced by Navient and access to certain promissory notes in Navient's possession. The loan servicing and administration agreement has a fixed term with a renewal option in favor of the Bank.

The Data Sharing Agreement states the Bank will continue to have the right to obtain from Navient certain post-Spin-Off performance data relating to Private Education Loans owned or serviced by Navient to support and facilitate ongoing underwriting, originations, forecasting, performance and reserve analyses.

The Tax Sharing Agreement governs the respective rights, responsibilities and obligations of the Company and Navient after the Spin-Off relating to taxes, including with respect to the payment of taxes, the preparation and filing of tax returns and the conduct of tax contests. Under this agreement, each party is generally liable for taxes attributable to its business. The agreement also addresses the allocation of tax liabilities that are incurred as a result of the Spin-Off and related transactions. Additionally, the agreement restricts the parties from taking certain actions that could prevent the Spin-Off from qualifying for the tax treatment.

Amended Loan participation and purchase agreement

Prior to the Spin-Off, the Bank sold substantially all of its Private Education Loans to several former affiliates, now subsidiaries of Navient (collectively, the "Purchasers"), pursuant to this agreement. This agreement predates the Spin-Off but has been significantly amended and reduced in scope in connection with the Spin-Off. Post-Spin-Off, the

Bank retains only the right to require the Purchasers to purchase loans for which the borrower also has a separate lending relationship with Navient (“Split Loans”) when the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At June 30, 2014, we held approximately $1.3 billion of Split Loans.

During the three and six months ended June 30, 2014, the Bank sold loans to the Purchasers in the amount of $94 million and $765 million respectively, in principal and $2 million and $26 million, respectively, in accrued interest income. During the three and six months ended June 30, 2013, the Bank sold loans to the Purchasers in the amount of $823 million and $1.7 billion respectively, in principal and $19 million and $39 million, respectively, in accrued interest income. Subsequent to March 31, 2012, all loans were sold to the Purchasers at fair value. The gain resulting from loans sold was $2 million and $73 million in the three months ended June 30, 2014 and 2013, respectively, and $36 million and $149 million in the six months ended June 30, 2014 and 2013, respectively. Total write-downs to fair value for loans sold with a fair value lower than par totaled $17 million and $12 million in the three months ended June 30, 2014 and 2013, respectively, and $46 million and $32,628 in the six months ended June 30, 2014 and 2013, respectively.

Key Financial Measures

Set forth below are brief summaries of our key financial measures. Our operating results are primarily driven by net interest income from our student loan portfolio (which include financing costs), provision for loan losses, gains and losses on loan sales and operating expenses. The growth of our business and the strength of our financial condition are primarily driven by our ability to achieve our annual Private Education Loan originations goals while sustaining credit quality and maintaining diversified, cost-efficient funding sources to support our originations.

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 education loan portfolios and the interest expense we pay on funds we use to originate these loans. We report these earnings as net interest income.

Net interest income is predominantly determined by the balance of Private Education and FFELP Loans. As of June 30, 2014, we had $7.4 billion and $1.4 billion of Private Education and FFELP Loans, respectively. For Private Education Loans, net interest margin is determined by interest rates we establish based upon the credit of the customer and any cosigner less our cost of funds. The majority of our Private Education Loans earn variable rate interest and are funded primarily with deposits. Our cost of funds is primarily influenced by competition in the deposit market. For the six months ended June 30, 2014, we originated $1.9 billion of Private Education Loans, up 7 percent, from the prior year period. We earned net interest income of $284 million for the six months ended June 30, 2014.

FFELP Loans carry lower risk and have a much lower net interest margin as a result of the federal government guarantee. We do not expect to acquire any more FFELP Loans so the balance of our FFELP portfolio is expected to decline due to normal amortization.

Provision for Loan Losses

Management estimates and maintains an allowance for loan losses at a level sufficient to cover charge-offs expected over the next year, plus an additional allowance to cover life-of-loan expected losses for loans classified as a troubled debt restructuring (“TDR”). The allowance for loan losses increases when we record provision expense and for recoveries and is reduced by charge-offs. Generally, the provision for loan losses and the allowance for loan losses rise when charge-offs are expected to increase and fall when charge-offs are expected to decline. We bear the full credit exposure on our Private Education Loans. Losses on our Private Education Loans 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 on our Private Education Loans was $39 million for the first six months of 2014 compared with $18 million in the comparable 2013 period. In connection with the Spin-Off, we changed our policy of charging off Private Education Loans when they are delinquent for 212 days to charging off loans after 120 days delinquent. In addition, we changed our loss confirmation period for Private Education Loans from two years to one year to reflect the shorter charge-off period and recent changes in our servicing practices.

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. Our provision for losses in our FFELP Loans portfolio was $1.2 million for the first six months of 2014 compared with the $1.4 million in the comparable 2013 period.

Charge-Offs and Delinquencies

When a Private Education Loan reaches 120 days delinquent it is charged against the allowance for loan losses. 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. Prior to the Spin-off, the Bank would sell delinquent loans to an entity that is now a subsidiary of Navient prior to the loans becoming 120 days past due. As a result,

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there were no historical charge-offs recorded in our historical financial statements. In addition, because loans were sold earlier in their delinquency status, the historical delinquency statistics are not necessarily indicative of expected future performance.

Delinquencies are a very important indicator of potential future credit performance. Private Education Loan delinquencies as a percentage of Private Education Loans in repayment decreased from 0.8 percent at June 30, 2013 to 0.7 percent at June 30, 2014.

Operating Expenses

The operating expenses reported are those that are directly attributable to the Company, the costs of Transition Services Agreements with Navient, and restructuring costs associated with the build-out of our servicing platform and the remaining costs of the Spin-Off. Our efficiency ratio is calculated as operating expense, excluding restructuring costs, divided by total interest income and other income. In the second quarter this ratio was 35 percent. We expect this ratio to decline steadily over the next several years as the balance sheet grows to a level commensurate with its loan origination platform and we control the growth of our expense base.

Core Earnings

We prepare financial statements in accordance with GAAP. However, we also produce and report our after-tax earnings on a separate basis which we refer to as “Core Earnings.” While pre-Spin-Off SLM also reported a metric by that name, what we now report and what we describe below is significantly different and should not be compared to any Core Earnings reported by pre-Spin-Off SLM.

“Core Earnings” recognizes the difference in accounting treatment based upon whether the derivative qualifies for hedge accounting treatment and eliminates the earnings impact associated with derivatives we use as an economic hedge but do not qualify for hedge accounting treatment. We enter into derivatives instruments to economically hedge interest rate and cash flow risk associated with our portfolio. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. Those derivative instruments that qualify for hedge accounting treatment have their related cash flows recorded in interest income or interest expense along with the hedged item. However, some of our derivatives do not qualify for hedge accounting treatment and the stand-alone derivative must be marked-to-fair value in the income statement with no consideration for the corresponding change in fair value of the hedged item. These gains and losses, recorded in “Gains (losses) on derivative and hedging activities, net”, are primarily caused by interest rate volatility and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment.

The adjustments required to reconcile from our “Core Earnings” results to our GAAP results of operations, net of tax, relate to differing treatments for 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, net of tax. These amounts are recorded on our income statement as “(Losses) gains on derivative and hedging activities, net.” The amount recorded in “(Losses) gains on derivative and hedging activities, net” includes the accrual of the current payment on the swaps as well as the change in fair values related to future expected cash flows. For purposes of “Core Earnings” we are including in GAAP earnings the current period accrual amounts (interest reclassification) on the swaps and excluding the remaining ineffectiveness. "Core Earnings" is meant to represent what earnings would have been had these derivatives qualified for hedge accounting and there was no ineffectiveness.

“Core Earnings” are not a substitute for reported results under GAAP. We provide “Core Earnings” basis of presentation because (i) earnings per share computed on a “Core Earnings” basis is one of several measures we utilize in establishing management incentive compensation and (ii) we believe it better reflects the financial results for derivatives that are economic hedges of interest rate risk but do not qualify for hedge accounting treatment..

GAAP provides a uniform, comprehensive basis of accounting. Our “Core Earnings” basis of presentation differs from GAAP in the way it treats ineffective hedges as described above.

The following table shows the amount in "(Losses) gains on derivative and hedging activities, net" that relates to the interest reclassification on the derivative contracts.

(Dollars in thousands)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Hedge ineffectiveness (losses) gains	$(7,031)	$(385)	$(8,255)	$(69)
Interest reclassification	(2,427)	333	(1,967)	627
(Losses) gains on derivatives and hedging activities, net	$(9,458)	$(52)	$(10,222)	$558

The following table reflects adjustments associated with our derivative activities.

(Dollars in thousands, except per share amounts)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
"Core Earnings" adjustments to GAAP:				
GAAP net income	$44,128	$76,469	$91,576	$149,353
Adjustments:				
Net impact of derivative accounting(1)	7,031	385	8,255	69
Net tax effect(2)	(2,708)	(142)	(3,180)	(26)
Total "Core Earnings" adjustments to GAAP	4,323	243	5,075	43
"Core Earnings"	$48,451	$76,712	$96,651	$149,396
GAAP diluted earnings per common share	$0.09	$0.17	$0.20	$0.33
Derivative adjustments, net of tax	0.01	—	0.02	—
"Core Earnings" diluted earnings per common share	$0.10	$0.17	$0.22	$0.33

(1) Derivative Accounting: "Core Earnings" exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP, as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0.

(2) "Core Earnings" tax rate is based on the effective tax rate at the Bank where the derivative instruments are held.

Private Education Loan Originations

Private Education Loans are the principal asset on the Bank's balance sheet and the main driver of the Bank's future earnings and asset growth. The size of the Private Education Loan market and, hence, our ability to increase Private Education Loan originations 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. If the cost of education increases at a pace that exceeds income and savings growth, and the availability of federal funds does not significantly increase, we can expect more students and families to borrow privately. If the costs of attending college remain constant or decrease and/or the availability of federal funds increases, our ability to sustain Private Education Loan origination growth will be challenged.

Funding Sources

Deposits. The Bank gathers low cost retail deposits through its direct banking platform which serves as an important source of funding. The Bank utilizes both brokered and retail deposits to meet funding needs and enhance its liquidity position. These deposits can be term or liquid deposits. The term brokered deposits are swapped into one-month LIBOR. This has the effect of increasing the average life of our liabilities and matching the index that our assets reset on, minimizing our exposure to interest rate risk. Retail deposits are sourced through its direct banking platform and serve as an important source of diversified funding. Brokered deposits are sourced through a small network of brokers and provide a stable source of funding. Retail and brokered deposits can be term or liquid deposits. As of June 30, 2014, the Bank had $9.5 billion of customer deposits, representing 91 percent of interest earning assets, composed of $3.0 billion of retail deposits, $5.1 billion of brokered deposits and $1.5 billion of other deposits.

Loan Sales and Securitizations. The Bank intends to fund its portfolio of Private Education Loans with a mix of deposits and term asset backed securities. Term asset backed securities provide long term funding for our Private Education Loan portfolio at attractive interest rates and at terms that effectively match the average life of the asset. In addition, to prudently manage the growth of its balance sheet, capital, liquidity needs and to generate revenue, over time, the Bank intends to sell Private Education Loans to third parties through an auction process. It may retain servicing of these Private Education Loans subsequent to the sale at prevailing market rates for such services. While there may be near-term Private Education Loan sales to Navient to facilitate an orderly transition after the Spin-Off, neither the Company nor Navient will have any ongoing obligation to buy or sell Private Education Loans to or from the other.

2014 Management Objectives

In 2014 we have set out five major goals to create shareholder value. They are: (1) prudently grow Private Education Loan assets and revenues; (2) maintain our strong capital position; (3) complete necessary steps to permit the Bank to independently originate and service Private Education Loans; (4) continue to expand the Bank's capabilities and enhance risk oversight and internal controls; and (5) manage operating expenses while improving efficiency and customer experience. Here is how we plan to achieve these objectives:

Prudently Grow Private Education Loan Assets and Revenues

We will continue to pursue managed growth in our Private Education Loan portfolio in 2014 by leveraging our Sallie Mae and Upromise brands and our relationship with more than two thousand colleges and universities while sustaining the credit quality of, and percentage of cosigners for, new originations. We are currently targeting at least $4 billion in new loan originations for 2014, compared with $3.8 billion in 2013. We will also continue to help our customers manage their borrowings and succeed in their payoff, which we expect will result in lower charge-offs and provision for loan losses. Originations were 3 percent higher in the second quarter of 2014 compared with the year-ago quarter and 7 percent higher for the six months ended June 30, 2014, compared with the year-ago period.

Maintain Our Strong Capital Position

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

Complete Necessary Steps to Permit the Bank to Independently Originate and Service Private Education Loans
At the time of this filing, the Bank continues to be reliant on Navient for loan origination and servicing capabilities provided under a transition services agreement entered into with Navient in connection with the Spin-Off. The two key projects remaining to complete the Bank's transition to fully independent servicer are the testing and completion of a new loan originations platform and the transition of the Bank's Private Education Loan accounts to a separate, free-standing application of that servicing platform currently utilized in tandem with Navient. We also must take steps to make sure our customers' experience is uninterrupted and as seamless and as simple as possible during this transition. Our objectives are to implement, and complete the separation of, the servicing platform and begin use of the new loan originations platform on at least a limited basis by year's end. While the Bank is not at risk of losing access to Navient originations and servicing applications for 2015 and beyond, completing the full separation of the Bank's operations from Navient resources is one of our top goals.
Continue to Expand the Bank's Capabilities and Enhance Risk Oversight and Internal Controls
In preparation for the Spin-Off, since the beginning of the year we have added approximately 880 employees to the Bank, primarily through transfers of the Company's or its subsidiaries' existing employees, complimented by external hires. We have also undertaken significant work to establish that all functions, policies and procedures transferred to the Bank in the Spin-Off are sufficient to meet currently applicable bank regulatory standards. We must continue to prepare for our expected growth and designation as a "large bank," which will entail enhanced regulatory scrutiny. For 2014, the following key initiatives have been completed or are underway.
Creation of Board-level Risk and Compliance Committees. In connection with the Spin-Off, we have created additional Board-level committees to provide more focused resources and oversight with respect to the continuing development of our enterprise risk management functions and framework, as well as our consumer protection regulatory compliance management system.
Significant Additions to Management Team and Risk Functions. We have hired a new Chief Executive Officer, Chief Audit Officer and Chief Risk Officer, all with extensive experience in the banking and financial services industries. Since the beginning of the year, we have doubled our internal audit staff through experienced external hires, including our new Chief Audit Officer. We also expect our new Chief Risk Officer to make significant progress in hiring and augmenting existing dedicated risk personnel by year end.
Continuing Development of our Enterprise Risk Management and Internal Controls Environments. In preparation for the Spin-Off, our management and Board of Directors reconsidered and recalibrated our Risk Appetite Framework and related risk profiles and tolerances initially adopted by the Board of Directors of pre-Spin-Off SLM in early 2013. We are also in the process of revising and separating our previous Internal Controls Excellence or "ICE" policies and procedures. Our Chief Financial Officer is now responsible for our internal controls over financial reporting, which have been extensively revised and updated in connection with the Spin-Off. Our Chief Risk Officer will now separately be responsible for monitoring and maintaining the system of controls and reporting procedures across our organization to monitor, escalate and mitigate significant risks against previous agreed risk tolerances. For the remainder of 2014, we will continue efforts underway to put in place a fully-developed set of operational and managerial controls throughout our organization to assist the Chief Risk Officer and to fully inform our management and Board of Directors via the Risk Appetite Framework.
Improved Compliance with Consumer Protection Laws. As part of our compliance with the terms of the 2014 FDIC Order discussed elsewhere, we expect to continue to make significant changes and enhancements to our compliance management systems and program. This work will be ongoing through 2014 and beyond.
Enhanced Vendor Management Function. As part of the transition and development of the Bank's capabilities in connection with the Spin-Off, we undertook a full review and redesign of our vendor management function. While Navient will, over time, cease to be the Bank's dominant, third-party vendor, as a stand-alone bank the number of third-party vendors on whom we rely and the volume of work we obtain from them will increase significantly as Navient is replaced.
Manage Operating Expenses While Improving Efficiency and Customer Experience
Post-Spin-Off, two major projects remain to be completed before full operational separation from Navient can be achieved: establishing the Bank's servicing and loan origination platforms. For the remainder of 2014, the Company will focus on further enhancing a culture that values customer satisfaction and the efficient delivery of its products and

services. We will measure our effectiveness by the Company's efficiency ratio excluding restructuring costs, which are the costs associated with the build-out of our servicing platform and the remaining costs of the Spin-Off. Our efficiency ratio is calculated as operating expense, excluding restructuring costs, divided by total interest income and other income. In the second quarter this ratio was 35 percent. We expect this ratio to decline steadily over the next several years as the balance sheet grows to a level commensurate with our loan origination platform and we control the growth of our expense base.

GAAP Results of Operations

We present the results of operations below first on a consolidated basis in accordance with GAAP.

GAAP Statements of Income (Unaudited)

(In millions, except per share data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Increase (Decrease) $	Increase (Decrease) %	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Increase (Decrease) $	Increase (Decrease) %
Interest income:								
Loans	$162	$122	$40	33 %	$322	$254	$68	27 %
Investments	2	6	(4)	(67)	3	11	(8)	(73)
Cash and cash equivalents	1	1	—	—	2	2	—	—
Total interest income	165	129	36	28	327	267	60	22
Interest expense:								
Total interest expense	21	22	(1)	(5)	44	44	—	—
Net interest income	144	107	37	35	283	223	60	27
Less: provisions for loan losses	1	(1)	2	(200)	40	20	20	100
Net interest income after provisions for loan losses	143	108	35	32	243	203	40	20
Noninterest income:								
Gains on sales of loans to affiliates, net	2	73	(71)	(97)	36	149	(113)	(76)
(Losses) gains on derivatives and hedging activities, net	(9)	—	(9)	(100)	(10)	1	(11)	(1,100)
Other income	15	9	6	67	23	16	7	44
Total noninterest income	8	82	(74)	(90)	49	166	(117)	(70)
Expenses:								
Operating expenses	60	66	(6)	(9)	124	127	(3)	(2)
Acquired intangible asset impairment and amortization expense	1	1	—	—	3	2	1	50
Restructuring and other reorganization expenses	14	—	14	100	14	—	14	100
Total expenses	75	67	8	12	141	129	12	9
Income before income tax expense	76	123	(47)	(38)	151	240	(89)	(37)
Income tax expense	32	47	(15)	(32)	60	92	(32)	(35)
Net income	44	76	(32)	(42)	91	148	(57)	(39)
Less: net loss attributable to noncontrolling interest	—	—	—	—	—	(1)	1	(100)
	44	76	(32)	(42)	91	149	(58)	(39)

Net income attributable to SLM Corporation								
Preferred stock dividends	3	—	3	100	3	—	3	100
Net income attributable to SLM Corporation common stock	$41	$76	$(35)	(46)%	$88	$149	$(61)	(41)%
Basic earnings per common share attributable to SLM Corporation	$0.10	$0.17	$(0.07)	(41)%	$0.21	$0.34	$(0.13)	(38)%
Diluted earnings per common share attributable to SLM Corporation	$0.09	$0.17	$(0.08)	(47)%	$0.20	$0.33	$(0.13)	(39)%

GAAP Consolidated Earnings Summary
Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

For the three months ended June 30, 2014, net income was $44 million, or $0.09 diluted earnings per common share, compared with net income of $76 million, or $0.17 diluted earnings per common share for the three months ended June 30, 2013. The decrease in net income was primarily due to a $71 million decrease in gains on sales of loans to affiliates and a $9 million increase in losses on derivatives and hedging activities, net, which was partially offset by a $37 million increase in net interest income and lower operating expenses of $6 million.
The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income increased by $37 million in the current quarter compared with the year-ago quarter primarily due to a $1.8 billion increase in average Private Education Loans outstanding.
- Provisions for loan losses increased $2 million compared with the year-ago quarter. This increase was primarily the result of less loan sales in the second quarter of 2014 increasing the provision by $8 million quarter-over-quarter, higher sales of credit impaired loans increasing the provision by $5 million, and a $3 million increase due to loans entering repayment. This was partially offset by a $14 million benefit this quarter from the net effect of a change in our loss emergence period from two years to one year and a change in our charge-off policy.
- Gains on sales of loans to affiliates decreased by $71 million as there were fewer sales to affiliates in the quarter.
- Other income increased $6 million primarily from the divestiture of NGI and an increase in the tax indemnity receivable from Navient. On April 29, 2014, we divested our ownership interests in NGI, though we will continue to partner with NGI under an extended joint marketing agreement.
- (Losses) gains on derivative and hedging activities, net, resulted in a net loss of $9 million in the second quarter 2014 compared with $0 in the year-ago quarter. The primary factors affecting the change were interest rates and whether the derivative qualified for hedge accounting treatment. In second quarter 2014, we had more derivatives used to economically hedge risk that did not qualify for hedge accounting treatment than we did in the year-ago quarter.
- Second-quarter 2014 operating expenses were $60 million compared with $66 million in the year-ago quarter. The decrease in operating expenses is primarily the result of an $8 million reduction in our litigation reserve, partially offset by a $4 million increase in marketing expenses.
- Second-quarter 2014 restructuring and other reorganization expenses were $14 million compared with $0 in the year-ago quarter. The increase is primarily the result of costs related to the Spin-Off.

Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013
For the six months ended June 30, 2014, net income was $91 million, or $0.20 diluted earnings per common share, compared with net income of $148 million, or $0.33 diluted earnings per common share for the six months ended June 30, 2013. The decrease in net income was primarily due to a $113 million decrease in net gains on sales of loans to affiliates, a $20 million increase in provisions for loan losses, and an $11 million increase in losses on derivatives and hedging activities which were partially offset by a $60 million increase in net interest income.
The primary contributors to each of the identified drivers of changes in net income for the current six-month period compared with the year-ago six-month period are as follows:

- Net interest income increased by $60 million primarily due to a $1.5 billion increase in average Private Education Loans outstanding.
- Provisions for loan losses increased $20 million compared with the year-ago period primarily as a result of growth in loans entering repayment and sales of credit impaired loans to Navient during the period which were partially offset by a $14 million benefit from the net effect of a change in our loss emergence period from two years to one year and a change in our charge-off policy.
- Gains on sales of loans to affiliates decreased by $113 million as a result of fewer loan sales to affiliates.
- (Losses) gains on derivative and hedging activities, net, resulted in a net loss of $10 million in the first half of 2014 compared with a gain of $1 million in the year-ago period. The primary factors affecting the change were interest rates and whether the derivative qualified for hedge accounting treatment. In the first half of 2014 we had more derivatives used to economically hedge risk that did not qualify for hedge accounting treatment than we did in the

year-ago period.

- First-half 2014 operating expenses were $124 million compared with $127 million in the first half of 2013. The decrease in operating expenses is primarily the result of an $8 million reduction in our litigation reserve relating to the 2014 FDIC Order, which was partially offset by $7 million in increased marketing and servicing costs.
- First-half 2014 restructuring and other reorganization expenses were $14 million compared with $0 in the first half of 2013. The increase is primarily the result of costs related to the Spin-Off.

Private Education Loan Provision for Loan Losses

The following table summarizes the total Private Education Loan provision for loan losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Private Education Loan provision for loan losses	$329	$(1,966)	$38,982	$18,278

In establishing the allowance for Private Education Loan losses as of June 30, 2014, we considered several factors with respect to our Private Education Loan portfolio, in particular, credit quality and delinquency, forbearance and charge-off trends in connection with the portfolio.

Prior to the Spin-Off, the Bank sold loans that were delinquent more than 90 days to an entity that is now a subsidiary of Navient. Post-Spin-Off, we (a) have changed SLM's policy of charging off loans when they are delinquent for 212 days to 120 days and (b) will, nonetheless, continue to sell to Navient Split Loans that are delinquent more than 90 days. Currently, our portfolio of Split Loans amounts to approximately $1.3 billion. Delinquent loans from this portfolio are sold at a discount to par which has historically been included in the Bank's provision and reduced the allowance for loan losses in equal amounts.

Pre-Spin-Off SLM's default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus more on loans 60 to 120 days delinquent. We have little experience in executing our default aversion strategies on such compressed collection timeframes. Through June 30, 2014, our delinquency cure rates have exceeded our expectations.

For the reasons described above, many of our historical credit indicators and period-over-period trends are not indicative of future performance and future performance may be somewhat affected by ongoing sales of Split Loans to Navient. Because we now retain more delinquent loans, we believe it could take up to two years before our credit performance indicators provide meaningful period-over-period comparisons.

Private Education Loan provisions for loan losses increased $2 million compared with the year-ago quarter. The provision in the current quarter was primarily driven by a $22 million increase in the provision due to an increase of loans entering repayment which was partially offset by a $14 million benefit this quarter from the net effect of a change in our loss emergence period from two years to one year and a change in our charge-off policy. Although there have been short-term improvements in credit results, it is unclear at this point whether these trends are sustainable given our change in charge-off policy. The provision in the prior year quarter was driven by a large loan sale which decreased the provisions for loan losses. Private Education Loan provisions increased $21 million in the six months ended June 30, 2014, compared with the year-ago period primarily as a result of growth in loans entering repayment and sales of credit impaired loans during the period which were partially offset by the $14 million benefit from the net effect of a change in our loss emergence period from two years to one year and a change in our charge-off policy.

Total loans delinquent (as a percentage of loans in repayment) have decreased to 0.7 percent from 0.8 percent in the year-ago quarter. Loans in forbearance (as a percentage of loans in repayment and forbearance) have increased to 0.9 percent from 0.1 percent in the year-ago quarter. The increase in the loans in forbearance was because in the prior year we typically sold loans in the same month that a forbearance was offered to a borrower. Other than Split Loans, we are retaining loans that have gone into forbearance.

For a more detailed discussion of our policy for determining the collectability of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates - Allowance for Loan

Losses."

Upromise Rewards

Upromise generates transaction fees through our Upromise consumer savings network. Since inception through June 30, 2014, members have saved approximately $850 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. Upromise income increased $1 million for the quarter and six months ended June 30, 2014, compared with the prior-year periods due to an increase in advertising revenue and consumer purchases.

Average Balance Sheets - GAAP

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

	Three Months Ended June 30,						Six Months Ended June 30,					
	2014			2013			2014			2013		
(Dollars in thousands)	Balance	Rate		Balance	Rate		Balance	Rate		Balance	Rate	
Average Assets												
Private Education Loans	$7,350,825	8.23	%	$5,533,745	8.20	%	$7,382,565	8.19	%	$5,863,633	8.13	%
FFELP Loans	1,374,291	3.33		1,087,954	3.32		1,387,358	3.27		1,064,303	3.30	
Taxable securities	376,199	2.38		653,098	3.44		248,642	2.58		628,471	3.71	
Cash and other short-term investments	1,777,683	0.25		1,496,399	0.29		1,549,076	0.26		1,244,492	0.30	
Total interest-earning assets	10,878,998	6.10	%	8,771,196	5.89	%	10,567,641	6.25	%	8,800,899	6.12	%
Non-interest-earning assets	534,109			505,532			484,608			540,463		
Total assets	$11,413,107			$9,276,728			$11,052,249			$9,341,362		
Average Liabilities and Equity												
Brokered deposits	$5,319,031	0.95	%	$4,873,915	1.25	%	$5,543,419	1.03	%	$4,989,395	1.28	%
Retail and other deposits	3,121,003	0.92		2,568,062	0.97		3,098,722	0.92		2,531,003	0.99	
Other interest-bearing liabilities	559,718	0.92		129,190	0.14		294,905	0.92		171,392	0.09	
Total interest-bearing liabilities	8,999,752	0.94	%	7,571,167	1.14	%	8,937,046	0.99	%	7,691,790	1.16	%
Non-interest-bearing liabilities	769,879			546,456			702,382			520,289		
Equity	1,643,476			1,159,105			1,412,821			1,129,283		
Total liabilities and equity	$11,413,107			$9,276,728			$11,052,249			$9,341,362		

Net interest margin	5.08 %	4.64 %	5.18 %	4.82 %

Rate/Volume Analysis - GAAP

The following rate/volume analysis shows the relative contribution of changes in interest rates and asset volumes.

(Dollars in thousands)	Increase (Decrease)	Change Due To[1] Rate	Volume
Three Months Ended June 30, 2014 vs. 2013			
Interest income	$36,685	$9,902	$26,778
Interest expense	(437)	(4,293)	3,856
Net interest income	$37,122	$14,195	$22,927
Six Months Ended June 30, 2014 vs. 2013			
Interest income	$60,267	$14,332	$45,928
Interest expense	(392)	(6,420)	6,028
Net interest income	$60,659	$20,752	$39,097

(1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

Summary of Our Education Loan Portfolio

Ending Education Loan Balances, net

(Dollars in thousands)	June 30, 2014 Private Education Loans	FFELP Loans	Total Portfolio	December 31, 2013 Private Education Loans	FFELP Loans	Total Portfolio
Total education loan portfolio:						
In-school[1]	$2,199,238	$1,689	$2,200,927	$2,191,445	$2,477	$2,193,922
Grace, repayment and other[2]	5,283,556	1,358,418	6,641,974	4,371,897	1,424,495	5,796,392
Total, gross	7,482,794	1,360,107	8,842,901	6,563,342	1,426,972	7,990,314
Unamortized premium/(discount)	7,746	3,851	11,597	5,063	4,081	9,144
Allowance for loan losses	(54,315)	(6,212)	(60,527)	(61,763)	(6,318)	(68,081)
Total education loan portfolio	$7,436,225	$1,357,746	$8,793,971	$6,506,642	$1,424,735	$7,931,377
% of total	85%	15%	100%	82%	18%	100%

(1) Loans for customers still attending school and are not yet required to make payments on the loan.

(2) Includes loans in deferment or forbearance.

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Average Student Loan Balances (net of unamortized premium/discount)

(Dollars in thousands)	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
Private Education Loans	$7,350,825	84 %	$5,533,745	84 %
FFELP Loans	1,374,291	16	1,087,954	16
Total portfolio	$8,725,116	100 %	$6,621,699	100 %

(Dollars in thousands)	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Private Education Loans	$7,382,565	84 %	$5,863,633	85 %
FFELP Loans	1,387,358	16	1,064,303	15
Total portfolio	$8,769,923	100 %	$6,927,936	100 %

Student Loan Activity

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

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

Student Loan Allowance for Loan Losses Activity

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

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

[1] Represents the recorded investment of loans classified as troubled debt restructuring.

Private Education Loan Originations

The following table summarizes our Private Education Loan originations.

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

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

Private Education Loan Delinquencies and Forbearance

Prior to the Spin-Off, the Bank exercised its right and sold substantially all of the Private Education Loans it originated that became delinquent or were granted forbearance to one or more of its then affiliates. Because of this arrangement, the Bank did not hold many loans in forbearance. As a result, the Bank had very little historical forbearance activity and very few delinquencies.

In connection with the Spin-Off, the agreement under which the Bank previously made these sales was amended so that the Bank now only has the right to require Navient to purchase loans where (a) the borrower has a lending relationship with both the Bank and Navient ("Split Loans") and (b) the Split Loans are either (1) more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At June 30, 2014, we held approximately $1.3 billion of Split Loans.

Pre-Spin-Off SLM's default aversion strategies were focused on the final stages of delinquency, from 150 days to 212 days. As a result of changing our corporate charge-off policy and greatly reducing the number of potentially delinquent loans we sell to Navient, our default aversion strategies must now focus more on loans 60 to 120 days delinquent. This change has the effect of accelerating the recognition of losses due to the shorter charge-off period. In addition, we changed our loss confirmation period from two years to one year to reflect the shorter charge-off policy and our revised servicing practices. These two changes resulted in a $14 million net reduction in our allowance for loan losses because we are now only reserving for one year of losses as compared with two years under the prior policy which more than offset the impact of the shorter charge-off period.

For the reasons described above, many of our historical credit indicators and period-over-period trends are not indicative of future performance and future performance may be somewhat affected by ongoing sales of Split Loans to Navient. The following results have not been adjusted to reflect what the delinquencies, charge-offs and recoveries would have been had we not sold these loans. Because we now retain more delinquent loans, we believe it could take up to two years before our credit performance indicators provide meaningful period-over-period comparisons.

The table below presents our Private Education Loan delinquency trends.

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

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

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

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

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

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

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

(1) Includes loans that are required to make a payment for the first time.
(2) Ending total loans represents gross Private Education Loans.

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

Use of Forbearance as a Private Education Loan Collection Tool

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

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

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

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

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

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

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

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

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

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Private Education Loan Repayment Options

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

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

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

Accrued Interest Receivable

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

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

Liquidity and Capital Resources

Funding and Liquidity Risk Management

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

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

Sources of Liquidity and Available Capacity

Ending Balances