Meeting Between Federal Reserve Board Staff and Representatives of Sallie Mae, Inc. (SLM) April 5, 2011

Participants:  Michael Gibson, Diana Hancock, Joshua Gallin, Jose Berrospide, Mark Van Der Weide, Molly Mahar, Paige Pidano and Christine Graham (Federal Reserve Board)

John Remondi, Sarah Ducich, Timothy Morrison and Richard Hohlt (SLM)

Summary: Federal Reserve Board staff met with representatives of SLM to discuss systemic risk regulation in light of the new authority provided to the Financial Stability Oversight Council (FSOC) and the Federal Reserve Board under Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The representatives of SLM presented an overview of SLM’s business and discussed their views on applying the systemic risk criteria set forth in the FSOC’s Notice of Proposed Rulemaking “Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies” to SLM. The SLM representatives provided the attached presentation, which guided the discussion.
NONBANK FINANCIAL COMPANIES

Dodd-Frank Wall Street Reform & Consumer Protection Act Criteria for Systemically Important Designation
April 4, 2011
SLM SHOULD NOT BE DESIGNATED

- Dodd-Frank Act establishes criteria for designating non-bank financial companies as systemically important
- On most important criteria, interconnectedness and contagion, SLM has limited exposure
- With 81% of assets federally guaranteed at 97% or above, SLM poses little systemic risk
- 96% of assets are term-funded
- 85% of liabilities are non-recourse
- No off-balance sheet exposure exists
- Substitutes exist for SLM activities
- SLM bank regulated by FDIC; SLM student loan activity will be regulated by CFPB; SLM services to financial institutions examined regularly by the Federal Financial Institutions Examination Council (the “FFIEC”)
CONSIDERATIONS FOR DETERMINING SYSTEMIC RISK POSED BY NON-BANK FINANCIAL COMPANIES

(A) the extent of the leverage of the company;

(B) the extent and nature of the off-balance-sheet exposures of the company;

(C) the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies;

(D) the importance of the company as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system;

(E) the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities;

(F) the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse;

(G) the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company;

(H) the degree to which the company is already regulated by 1 or more primary financial regulatory agencies;

(I) the amount and nature of the financial assets of the company;

(J) the amount and types of the liabilities of the company, including the degree of reliance on short-term funding; and

(K) any other risk-related factors that the Council deems appropriate.
FSOC HAS GROUPED CONSIDERATIONS INTO CATEGORIES FOR ANALYZING SYSTEMIC IMPORTANCE

► Impact of a Firm’s Financial Distress on the Broader Financial System
  ▪ Size
  ▪ Substitutability
  ▪ Interconnectedness

► Likelihood of a Firm’s Financial Distress
  ▪ Leverage and Capital Adequacy
  ▪ Liquidity and Maturity Mismatch
  ▪ Existing Regulatory Scrutiny
IMPACT OF A FIRM’S FINANCIAL DISTRESS ON THE BROADER FINANCIAL SYSTEM

• Size
• Substitutability
• Interconnectedness
Most Important Consideration: Nature of Assets

81% of SLM Loan Assets Guaranteed at 97% or Above

- $149b, 81%
- $36b, 19%

Guaranteed by Federal Government

All other assets
SLM LIMITS ITS RELIANCE ON SHORT-TERM FINANCING
97% OF ASSETS FUNDED WITH TERM LIABILITIES

$184 Billion Managed Student Loan Portfolio as of 12/31/10

- Liabilities w/Ave Life of 4.9 years, 7%
- Short Term, 3%
- Funded to Term, 90%
SLM HAS NO OFF-BALANCE SHEET EXPOSURE

Historical Off-Balance Sheet Exposure

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Trusts Assets (less derivatives)</td>
<td>$43,542</td>
<td>$38,085</td>
<td>$34,203</td>
<td>$0</td>
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<tr>
<td>Derivatives Notional Value</td>
<td>$17,971</td>
<td>$16,964</td>
<td>$15,858</td>
<td>$0</td>
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<tr>
<td>Derivatives MV</td>
<td>$995</td>
<td>$959</td>
<td>$818</td>
<td>$0</td>
</tr>
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</table>

Following the company’s adoption of FAS 166/167, SLM no longer carries any exposures off balance sheet. All securitization and derivative activity is reflected on the current GAAP financial statements.
All SLM assets reside on balance sheet.

Servicing of third-party-owned assets on contractual basis: While SLM actively services assets for third parties, it does not maintain an ownership interest in these assets.

UPromise: SLM runs a business which markets and administers 529 college savings plans with 12 million members enrolled representing $35 billion in assets. SLM does not maintain an ownership interest in these assets. SLM generally provides record keeping or administrative services and does not manage the financial assets.
**Substitutes Available for SLM Activities**

Servicing: SLM services both Federal and Private student loans. As of 12/31/10, the servicing portfolio totaled $206 billion, including $156 billion from SLM’s own portfolio and $50 billion serviced for third parties including the US Department of Education. Several other organizations are actively involved in servicing student loans including ACS, Nelnet, PHEAA, & Great Lakes. For AY 10-11, the Department of Education is allocating SLM 22% of new federal student loans for servicing.

**Student Loan Servicing**
Private & Federal, Volume in Billions

- Sallie Mae, $194, 30%
- ACS, $175, 27%
- PHEAA, $59, 9%
- Great Lakes, $48, 8%
- Nelnet, $38, 6%
- Others, $131, 20%

Source: 2009 SLSA Survey; investor disclosure documents for Citi Student Loans and ACS

**Servicing of Federal Student Loans**
Share of Volume December 2009

- Sallie Mae 27%
- ACS 32%
- PHEAA 7%
- Great Lakes 8%
- Nelnet 6%
- Others 20%

Source: 2009 SLSA Survey; investor disclosure documents for Citi Student Loans and ACS

**Forecast of Direct Loan Servicing Allotments**
($ in billion)

- Sallie Mae, $21, 22%
- Great Lakes, $30, 32%
- PHEAA, $28, 30%
- Nelnet, $15, 16%

Source: Department of Education, FSA Servicing Results; Volume forecast based on AY 2009-10 disbursements, inflated by 6%

Note that the SLSA for 2010 is not yet available
SUBSTITUTES AVAILABLE FOR SLM ACTIVITIES

Private Education Loans
SLM is a lender to Parents and Students of Private Credit (non-government guaranteed) student loans.

SLM originations for AY 2010-11 will be less than $3 billion of the over $400 billion spent on higher education annually.

Other large private education lenders include: Wells Fargo, JP Morgan Chase, PNC, and Discover. SLM share of the market is approximately 25%.

Total Cost of Education
2010/2011 Academic Year

- Family Contributions, $189B
- Federal Loans, $103B
- Grants*, $109B
- Funding Gap Private Credit, $9B

*Grants include federal, state, institutional, private/employer, education tax benefits and work study
Source: College Board, U.S. Department of Education & Company analysis
SLM POSES LITTLE INTERCONNECTEDNESS RISK

One of the most important criteria for designation as systemically risky is related to the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company. SLM poses little risk under this criteria.

► Asset mix: 99% of assets are loan assets, of which 81% are federally guaranteed (principal & interest) at 97% or above

► Funding: 97% of loan assets term-funded
  ▪ $134 billion in term ABS, which are non-recourse and bankruptcy remote
  ▪ SLM is not required to, and did not provided, explicit support to outstanding ABS during credit crisis
  ▪ Risk of interconnectedness for $120 billion of FFELP securitizations is mitigated by the facts that:
    • ABS are widely held
    • Underlying collateral reflects high level of government guarantee
    • Back-up servicing arrangements are well-defined.

► Credit and market risk policies manage credit concentrations
SLM Poses Little Interconnectedness Risk

- SLM does not provide any material credit to institutional, government or corporate entities. The vast majority of all lending activity is directed toward individual consumers through our student lending activities. 99% of SLM loan assets are consumer loans.

- Borrowing/Financing: SLM utilizes credit from various counterparties to finance assets and support the general business activities of the firm. Major exposures to SLM in this category include a $1.2 billion acquisition financing term loan (CitiBank) and Liquidity provided to a $7.5 billion ABCP program financing government guaranteed assets (a bank syndicate group). SLM has outstanding $23 billion of senior unsecured debt into the global capital markets. These securities are held by a globally diverse institutional investor base.

- Standard use of derivatives to hedge interest rate risk: SLM is active in the derivatives market and is currently required to post collateral to cover other institutions’ (counterparties’) exposure on its agreements. Derivatives are structured with collateral posting and netting features that limit systemic impact in the even of SLM and/or counterparty deterioration.
LIKELIHOOD OF A FIRM’S FINANCIAL DISTRESS

- Leverage and Capital Adequacy
- Liquidity and Maturity Mismatch
- Existing Regulatory Scrutiny
SLM Leverage Reflects Federally Guaranteed Assets

SLM leverage reflects that the vast majority of its assets are federally guaranteed and funded with term liabilities. The federal guarantee is set in statute and is at 97% or above.

Managed capital levels will rise considerably over the next several years as a result of the elimination of the FFELP. Thus the existing $149 billion in government guaranteed student loans will amortize and the balance sheet shrinks rapidly over the next several years which reduces leverage and materially increases capital levels.

- **SLM holds capital for non-government guaranteed assets**, in excess of regulatory risk-based requirements.

- Leverage for government guaranteed assets is appropriate given minimal credit exposure and existing liability structure. Capital held against FFELP loans is more than 8 times annual charge-offs. Charge-offs for FFELP loans were 0.06% in 2010.

- The assets are government guaranteed and funded with term liabilities with limited basis and repricing risk.
LOAN LOSSES

2010 YTD

U.S. Government Guaranteed Loans(2) 80%
Private Education Loans(2) 20%

Total Charge-Offs (1) = 0.77%

Charge-Offs (1) = 0.06%
Charge-Offs (1) = 3.53%

“Core Earnings” Student Loan Portfolio(2)

Leverage and Capital Adequacy

(1) All data YTD as of December 31, 2010. “Core Earnings” FFELP charge-offs as a percentage of average “Core Earnings” FFELP assets. “Core Earnings” Private Education Loan charge-offs as a percentage of average “Core Earnings” Private Education Loan assets. Total charge-offs as a percentage of average “Core Earnings” FFELP and Private Education Loan assets.

(2) Percentages of Total “Core Earnings” student loan portfolio based upon average portfolio balances.
**CAPITAL ALLOCATION**

SLM allocates capital internally based on the risk of the assets it supports.

- **Government Guaranteed Loan Assets**: 72% of "Core Earnings" Assets
- **Private Education Loans**: 18% of "Core Earnings" Assets
- **Cash, Investments, Other Assets**: 10% of "Core Earnings" Assets

*Other Assets includes a small amount of goodwill & intangibles for which capital is allocated at 100%.

As of Dec 31, 2010

**Leverage and Capital Adequacy**
SLM LIMITS ITS RELIANCE ON SHORT-TERM FINANCING
97% OF ASSETS FUNDED WITH TERM LIABILITIES

$184 Billion Managed Student Loan Portfolio as of 12/31/10

Liabilities w/Ave Life of 4.9 years, 7%

Short Term, 3%

Funded to Term, 90%
**Projected Cash Flows from FFELP Portfolio**

($ in Millions)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Projected FFELP Average Balance</td>
<td>$139,081</td>
<td>$125,686</td>
<td>$112,463</td>
<td>$100,231</td>
<td>$89,393</td>
<td>$79,621</td>
<td>$70,336</td>
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<tr>
<td>Projected Excess Spread</td>
<td>$976</td>
<td>$923</td>
<td>$835</td>
<td>$742</td>
<td>$664</td>
<td>$729</td>
<td>$653</td>
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<tr>
<td>Projected Servicing Revenue</td>
<td>$758</td>
<td>$691</td>
<td>$620</td>
<td>$553</td>
<td>$491</td>
<td>$432</td>
<td>$376</td>
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<tr>
<td>Projected Total Revenue</td>
<td>$1,734</td>
<td>$1,614</td>
<td>$1,455</td>
<td>$1,295</td>
<td>$1,155</td>
<td>$1,161</td>
<td>$1,029</td>
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<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
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<tbody>
<tr>
<td>Projected FFELP Average Balance</td>
<td>$61,753</td>
<td>$53,705</td>
<td>$46,289</td>
<td>$39,973</td>
<td>$34,973</td>
<td>$30,474</td>
<td>$26,148</td>
<td>$21,961</td>
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<tr>
<td>Projected Excess Spread</td>
<td>$581</td>
<td>$514</td>
<td>$441</td>
<td>$355</td>
<td>$294</td>
<td>$261</td>
<td>$235</td>
<td>$213</td>
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<tr>
<td>Projected Servicing Revenue</td>
<td>$324</td>
<td>$275</td>
<td>$230</td>
<td>$194</td>
<td>$168</td>
<td>$146</td>
<td>$125</td>
<td>$106</td>
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<tr>
<td>Projected Total Revenue</td>
<td>$905</td>
<td>$789</td>
<td>$671</td>
<td>$549</td>
<td>$462</td>
<td>$407</td>
<td>$360</td>
<td>$319</td>
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<thead>
<tr>
<th></th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
<th>2031</th>
<th>2032</th>
<th>2033</th>
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</thead>
<tbody>
<tr>
<td>Projected FFELP Average Balance</td>
<td>$17,928</td>
<td>$14,069</td>
<td>$10,637</td>
<td>$7,936</td>
<td>$5,854</td>
<td>$4,143</td>
<td>$2,634</td>
<td>$1,399</td>
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<tr>
<td>Projected Excess Spread</td>
<td>$183</td>
<td>$153</td>
<td>$125</td>
<td>$99</td>
<td>$78</td>
<td>$57</td>
<td>$40</td>
<td>$15</td>
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<tr>
<td>Projected Servicing Revenue</td>
<td>$87</td>
<td>$68</td>
<td>$52</td>
<td>$39</td>
<td>$29</td>
<td>$20</td>
<td>$13</td>
<td>$7</td>
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<tr>
<td>Projected Total Revenue</td>
<td>$270</td>
<td>$221</td>
<td>$177</td>
<td>$138</td>
<td>$107</td>
<td>$77</td>
<td>$53</td>
<td>$22</td>
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</tbody>
</table>

- Total Cash Flows from Projected Excess Spread = $9.2 Billion
- Total Cash Flows from Projected Servicing Revenues = $5.8 Billion

**Assumptions**
- CP/LIBOR = 10 basis points
- No Floor Income
- CPR/CDR = Stafford & Plus (7.0%), Consolidation (3.0%)
Sallie Mae Bank is currently regulated by the FDIC as well as the Utah Department of Financial Institutions. All consumers lending activity is conducted through this entity. Sallie Mae Bank maintains capital in excess of the “Well Capitalized” standards established by the FDIC.

### Sallie Mae Bank
**Regulatory Capital Ratios**

<table>
<thead>
<tr>
<th>Quarter / Year</th>
<th>Tier 1 Leverage Ratio</th>
<th>Annual Average</th>
<th>Tier 1 Risk-Based Capital Ratio</th>
<th>Annual Average</th>
<th>Total Risk-Based Capital Ratio</th>
<th>Annual Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2007</td>
<td>21.12%</td>
<td></td>
<td>24.41%</td>
<td></td>
<td>24.45%</td>
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<tr>
<td>9/30/2007</td>
<td>21.71%</td>
<td>21.93%</td>
<td>24.45%</td>
<td></td>
<td>24.46%</td>
<td></td>
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<tr>
<td>12/31/2007</td>
<td>23.21%</td>
<td></td>
<td>24.45%</td>
<td></td>
<td>24.46%</td>
<td></td>
</tr>
<tr>
<td>3/31/2008</td>
<td>18.56%</td>
<td></td>
<td>18.66%</td>
<td></td>
<td>18.68%</td>
<td></td>
</tr>
<tr>
<td>6/30/2008</td>
<td>17.30%</td>
<td>20.02%</td>
<td>20.04%</td>
<td></td>
<td>20.04%</td>
<td></td>
</tr>
<tr>
<td>9/30/2008</td>
<td>16.72%</td>
<td>17.93%</td>
<td>17.95%</td>
<td></td>
<td>17.95%</td>
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<tr>
<td>12/31/2008</td>
<td>40.67%</td>
<td>23.31%</td>
<td>45.88%</td>
<td></td>
<td>46.28%</td>
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<tr>
<td>3/31/2009</td>
<td>24.53%</td>
<td></td>
<td>29.57%</td>
<td></td>
<td>30.19%</td>
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</tr>
<tr>
<td>6/30/2009</td>
<td>17.93%</td>
<td></td>
<td>26.16%</td>
<td></td>
<td>26.92%</td>
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<tr>
<td>9/30/2009</td>
<td>14.17%</td>
<td></td>
<td>24.20%</td>
<td></td>
<td>25.06%</td>
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</tr>
<tr>
<td>12/31/2009</td>
<td>15.04%</td>
<td>17.92%</td>
<td>24.61%</td>
<td></td>
<td>26.14%</td>
<td></td>
</tr>
<tr>
<td>3/31/2010</td>
<td>16.16%</td>
<td></td>
<td>30.65%</td>
<td></td>
<td>31.57%</td>
<td></td>
</tr>
<tr>
<td>6/30/2010</td>
<td>17.23%</td>
<td></td>
<td>30.38%</td>
<td></td>
<td>31.43%</td>
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</tr>
<tr>
<td>9/30/2010</td>
<td>16.71%</td>
<td></td>
<td>26.73%</td>
<td></td>
<td>27.69%</td>
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<tr>
<td>12/31/2010</td>
<td>12.05%</td>
<td>15.54%</td>
<td>18.71%</td>
<td></td>
<td>26.62%</td>
<td></td>
</tr>
</tbody>
</table>

Sallie Mae, Inc. and several other subsidiaries of SLM Corporation are service providers to insured financial institutions and, as such, are subject to regular examination by the Federal Financial Institutions Examination Council (the “FFIEC”).

**Existing Regulatory Scrutiny**
ADDITIONAL INFORMATION
Three Distinct Aspects of the Business Model

FFELP Loan Portfolio and Guarantor Collections & Servicing
- Existing portfolios generating substantial income and cash flow
- Servicing cash flows are super senior, residuals stable to minimal credit risk
- Cash flow enhances ability to service debt

Private Education Loan Originations and Portfolio
- Ongoing business with significant long term value
- Legacy portfolio quality vastly improved

Sallie Mae Services
- Attractive fee business with little capital required & high return on equity
- Diverse portfolio of customers and services
- Opportunities to expand services provided including industry consolidation
- Efficient structure and top performer
## Average Balance Sheets

(Dollars in millions)

(No Audited)

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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Average Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFELP Loans</td>
<td>$144,854</td>
<td>$148,101</td>
<td>$147,822</td>
<td>$127,522</td>
<td>$142,043</td>
</tr>
<tr>
<td>Private Education Loans</td>
<td>36,679</td>
<td>36,470</td>
<td>36,317</td>
<td>36,674</td>
<td>36,534</td>
</tr>
<tr>
<td>Other loans</td>
<td>391</td>
<td>322</td>
<td>300</td>
<td>280</td>
<td>323</td>
</tr>
<tr>
<td>Cash and investments</td>
<td>12,773</td>
<td>13,152</td>
<td>12,891</td>
<td>12,104</td>
<td>12,729</td>
</tr>
<tr>
<td><strong>Total interest-earning assets</strong></td>
<td>194,697</td>
<td>198,045</td>
<td>197,330</td>
<td>176,580</td>
<td>191,629</td>
</tr>
<tr>
<td>Non-interest-earning assets</td>
<td>6,736</td>
<td>6,503</td>
<td>5,944</td>
<td>4,564</td>
<td>5,931</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$201,433</td>
<td>$204,548</td>
<td>$203,944</td>
<td>$181,144</td>
<td>$197,560</td>
</tr>
</tbody>
</table>

|                         |               |               |               |               |              |
| **Average Liabilities and Equity** |           |               |               |               |              |
| Short-term borrowings   | $38,978       | $42,813       | $45,526       | $27,273       | $38,634      |
| Long-term borrowings    | 154,268       | 153,303       | 149,646       | 145,956       | 150,768      |
| **Total interest-bearing liabilities** | 193,246   | 196,116       | 195,172       | 173,229       | 189,402      |
| Non-interest-bearing liabilities | 3,412    | 3,485           | 3,180         | 3,050         | 3,280        |
| Equity                  | 4,775         | 4,947         | 4,922         | 4,865         | 4,878        |
| **Total liabilities and equity** | $201,433 | $204,548      | $203,274      | $181,144      | $197,560     |

Net interest margin: **1.78%** **1.81%** **1.75%** **1.93%** **1.82%**