

SALLIE MAE

Moderator: Steve McGarry
April 23, 2009

Operator: Good morning, ladies and gentlemen. My name is (Alexandria) and I will be your conference Operator. At this time I would like to welcome everyone to SLM Corporation's First Quarter 2009 conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, you may do so by pressing star one on your telephone keypad. If you would like to withdraw your question, press the pound key.

I would now like to turn the conference over to our host, Mr. Steve McGarry, Senior Vice President, Investor Relations. Mr. McGarry, please go ahead.

Steve McGarry: Thank you very much, (Alexandria). Good morning, everybody, and welcome to our 2009 First Quarter Earnings conference call. With me today on the call are Al Lord, our CEO, and Jack Remondi, our Chief Financial Officer. After they finish their remarks, we'll open up the call for questions.

Please note that during the conference call, we may discuss predictions and expectations and make other forward-looking statements. Actual results in the future may differ from those discussed here perhaps materially. This could be due to a variety of factors. Listeners should refer to the discussion of those factors on the company's Form 10-K and other filings with the SEC.

During the conference call, we will refer to non-GAAP measures that we call our core earnings presentation. The description of core earnings, a full reconciliation to GAAP measures, and our GAAP results can be found in the

First Quarter 2009 Supplemental Earnings Disclosure posted along with the earnings press release on the Investors Page at salliemae.com.

Thank you, and now I'll turn the call over to Al.

Al Lord:

Thanks, Steve. Good morning, all. I assume you've all seen in our earnings release that we incurred a core loss to our common shareholders of 3 cents a share. Obviously not what I would call a good quarter, but we intend to improve those numbers soon.

This result is largely attributable to the commercial paper LIBOR basis distortion, a problem that's existed since last fall when commercial paper virtually stopped trading. As you may recall, the Federal Reserve stepped in to help CP issuers and relevant CP rates have been artificially low ever since. The index is broken and needs to be fixed. Congress is looking at the problem.

Just to put some of this in perspective for you, the Higher Education Act of 1965 describes a purpose of student loan compensation, and I'll paraphrase this, to be sufficient to cause lender returns to be equitable and it also directs that appropriate consideration is to be taken of money market conditions.

In the fourth quarter when this problem also existed, the Education Department adjusted the broken index to take appropriate consideration of money market conditions. In the fourth – in the first quarter, the Department of Education did not make any adjustment to the CP rate.

The low unadjusted commercial paper rate adversely affects us in a couple of ways, but in total it reduced our revenue by \$180 million and which translates to about 24 cents per share. As you see, the economy continues to drive our private credit delinquencies up and our charge-offs up. We added \$50 million to our provision that was higher than we had anticipated and we increased our loan loss reserve about \$100 million, or 5 percent.

The third issue in the quarter was a \$75 million markdown of our distressed real estate portfolio. We discontinued this business in the third quarter of '08. We actually at the time felt we had (inaudible) finished writing it down. Sales

and markdowns have cut that portfolio almost in half to 533 million, but even now we still see values deteriorated a couple percent a month.

Good news in the quarter – we had record student loan volume at \$6.6 billion. All those loans are made under the provisions of ECASLA. Legislation – for those of you who don't use that acronym, that – it was legislation passed last year. It means Ensuring Continued Access to Student Loans. It was sponsored by Chairman Miller and Senator Kennedy and passed in May of 2008.

Under the – under ECASLA, loans are originated by lenders, and obviously in this case, the loans are originated by Sallie Mae, and then funded by the U.S. Treasury. We hope – we service those loans today and we hope to continue to service those customer loans long-term under servicing contracts now being negotiated with the Department of Education.

The ECASLA model has worked flawlessly since it was implemented last summer, which was right in the midst of historic credit crisis. No student lost access to federal student loans. Though it was likely unintended, the (inaudible) structure system has also has already created billions of dollars of savings for taxpayers.

Other news after an 8-month effort, we expect that the straight-A commercial paper funding program sponsored by the Department of Education and Treasury, which also is mandated by the ECASLA legislation, could start funding as soon as 10 days. We have about \$16 billion of loans that are eligible for this 5-year funding vehicle. We also expect to renew our ABCP facility within days.

Jack Remondi has a good – our CFO, Jack Remondi, has a good summary of the financing picture and the quarterly results and will deliver it to you shortly. I just want to take a few more minutes of your valuable time to talk about a few items that are obviously in the news these days. Student lending and Sallie Mae have been much in the news as attention is being directed towards President Obama's various budget proposals.

And the first point I'd like to make, and maybe the most important point, is that Sallie Mae agrees with and wants to help President Obama achieve his education ends. And say it again – we agree with those goals. The President's ends are clear – create enough savings to meet his \$90 billion-plus Pell Grant target. It's a truly laudable goal and we hardily support it.

The second point I'd like to make is that Sallie Mae is often reported to be fighting with advocates of direct lending and others. We are not fighting anybody. There may be some who are fighting, but Sallie Mae is not fighting. We want to be a major part of achieving the President's goal. We do suggest that Congress take the surest and safest route to achieve those goals.

We trust the President would endorse an efficient risk-free approach. Some think the only means to achieve the President's Pell Grant goal is a 100 percent reshaping of the present system to a system where all loans run through the Department of Education. We know there is at least one other means to achieve the President's goal and we believe the most effective solution will use the current ECASLA model.

It will continue to use government funds and compensate lenders with fees for the origination, servicing, and collection services that they provide. In other words, fee for service. There's a prevailing belief, and I read it often, that lenders receive subsidies sufficient to fund Pell Grants. Let me give you the most current perspective we have on these so-called subsidies.

For the most recent 10-year period that ends in 2008 – the most recent 10-year period, over those 10 years Sallie Mae has received net special allowance payments which are payments to us for providing capital, servicing loans, and the other services that we provide. That special allowance is \$3.7 billion. During that same 10-year time period, we've paid taxes and other fees to the government for participating in the program, aggregating \$6.5 billion. Over the last 10 years, we've been a net payer ultimately to the American tax payer of \$2.8 billion.

Now let me say it a little differently. Over the last 10 years, we originated, funded, serviced, and collected on about \$200 billion of loans and we paid

\$2.8 billion to the taxpayers for the privilege of doing so, and we do consider it a privilege. That's the last 10 years. Today we're talking about the next 10 years. We know – and I want to emphasize that – we know there are sufficient funds to pay for the President's programs.

They will not – those funds will not come from subsidies paid to Sallie Mae or anybody else. The savings will come from financing 6.8 percent student loans using cheap U.S. Treasury funds with the assets on the government's books. Under ECASLA today, just as we're operating today, we estimate the government is earning about 4 percent or more on FFELP loans.

If we could sweep aside all the rhetoric that surrounds direct lending and FFELP advocacy, we'd come to a simple, basic fact. When both programs are funded in the same way, the only additional savings can come from operating efficiencies and better default prevention and collection. Sallie Mae is a very competitive company. We are prepared to compete on the basis of operating efficiency and default management. In fact, we suggest that participants in this program share the default risk by putting some skin in the game.

One last thing – some have referred to this simple risk-free solution as a Sallie Mae plan, which is flattering, but really the answer lies in the current ECASLA system which we did not design. That system is and can be the foundation to major taxpayer savings. It will be in 2009 and it will be in the subsequent years. With very few changes, risk-free changes, today's student loan industry can produce those Pell Grants with no transition risk.

I thank you for your time and attention. And I'm going to turn it over to Jack.

Jack Remondi: Thanks, Al. Good morning, everyone. This morning I will take – I will review our operating results for the quarter on both a GAAP and a core earnings basis. In addition, I'll review our funding activity and liquidity, provide an update on our lending business, and review the performance of our private credit portfolio. Finally, I'll provide an update on our FFELP business opportunities and the outlook for the remainder of 2009.

Today Sallie Mae reported net income on a core earnings basis of \$13.9 million for the first quarter which, after the payment of preferred dividends,

resulted in a core earnings loss of 3 cents per share. These results compare to earnings of 8 cents per share in the prior quarter and 34 cents per share in the year-ago quarter. As Al said, this quarter's loss was the direct result of the continued broken relationship between the commercial paper rate, the index in which our federal student loan assets are based, and LIBOR, the principle index in which our liabilities are based.

Since the Federal Reserve intervened in the commercial paper markets in 2008, this CP/LIBOR relationship has widened to unprecedented levels with extreme volatility. This fact caused the Federal Reserve to caution that the CP index is not likely comparable to historical periods. And in the fourth quarter, the Department of Education also recognized this issue and adopted an alternative approach to calculating the CP rate to better match money market conditions.

This quarter, the Department of Education made no such adjustment. As a result, the CP/LIBOR spread for the quarter was 42 basis points wider than normal, reducing net interest income by \$139 million and earnings by 19 cents a share. This quarter's results were also impacted by the terms of the DOE participation program. This program is structured such that the liability rate is based on the prior quarter's commercial paper rate. It was done for operational ease for the Department of Ed.

As a result, in a quarter where interest rates declined sharply, the funding costs for this facility was \$40 million higher, reducing core earnings per share by 5 cents. Combined these two items reduced earnings by 24 cents in the quarter. Finally, this quarter's results included a \$74 million in impairments in our purchased mortgage portfolio of 10 cents a share. Our mortgage portfolio is carried at 67 percent of the estimated collateral value. It includes an additional 10 percent decline in the price of residential real estate.

Net interest income was \$429 million for the quarter, versus 567 million in the prior year, and the net interest margin decreased to just under 90 basis points from 1.24 percent in the year-ago quarter. Net interest income on our federal loans of \$61 million was \$129 million lower than the fourth quarter due to the CP issue I described earlier.

Our private credit portfolio generated net interest income of 395 million in the quarter and a 1.1 percent spread after provision. In the quarter, we earned \$28 million in hedged (floor) income versus 38 million in the year-ago period, and we earned an additional \$107 million in (floor) income that is not included in our core earnings. That's up from \$9 million in the prior quarter. If this was included, we would have increased earnings per share by 14 cents in the quarter.

We booked \$297 million provisions for our private credit portfolio in the quarter, versus \$160 million a year ago, and \$348 million in the fourth quarter. Our provision in the fourth quarter included an estimate for increased losses as a result of changes in our forbearance practices. In addition, this quarter we provided \$40 million for federal loans versus \$33 million in the fourth quarter.

At March 31, our allowance for private credit loans covered 9.3 percent of loans in repayment. Combined, our federal and private credit allowance covers eight quarters of expected charge-offs in both portfolios. Charge-offs within our private credit portfolio varied significantly from 2.2 percent of traditional loans to 14.5 percent in the non-traditional portfolio. This compares to 1.7 and 12.3 percent respectively in the fourth quarter.

In addition, within our traditional portfolio, the charge-off rate for loans with a co-borrower, which is the primary focus of new lending for us, was 1.5 percent. And even at these elevated levels of charge-offs, our private credit portfolio earned a positive spread of 1.1 percent in the quarter. As discussed in prior calls and presentations, we changed our forbearance policies in the middle of 2008. As a result, loans in forbearance have declined sharply to 6.7 percent of eligible loans at quarter-end versus 16.4 percent a year ago.

As expected, this has contributed to an increase in delinquencies and ultimately charge-offs but far less than a one-to-one relationship. However, despite the economic climate, as the delinquency data revealed, we are beginning to see some improvement in early-stage delinquencies. In addition, we are also seeing a significant improvement in cash collections at our

centers. For example, the number of delinquent borrowers across all buckets that are making payments has increased over 70 percent over the prior quarter.

In our traditional portfolio, 90-day delinquencies increased to 4.3 percent from 1.8 percent in the year-ago quarter and forbearance usage at quarter-end declined to 6.3 percent from 15.5 percent. Our new forbearance policies are reducing both the term of the forbearance granted in the usage, contributing to the overall delinquencies.

Reserves for traditional loans at March 31 equal 5.4 percent of loans in repayment. In our non-traditional portfolio, 90-day delinquencies year-over-year, increased to 19.1 percent from 10.7 percent while forbearance usage declined to 8.5 percent from 21.4. Reserves for this portfolio were 32.2 percent of loans in repayment.

Fee income in the quarter totaled \$239 million compared to \$200 million in the fourth quarter. This quarter's results include \$77 million in impairment in our purchased paper portfolios versus \$45 million in the fourth quarter, an increase of \$8 million in guarantor servicing fees due to seasonal factors, and \$64 million in gains from repurchasing debt versus \$27 million in the fourth quarter. A full description of our fee income is provided in the supplemental earnings release.

Operating expenses including restructuring charges of \$5 million were 297 million in the quarter, an 18 percent decrease from the first quarter of 2008. Within our lending segment, operating expenses declined significantly to \$1312 million in the quarter from 164 million a year ago or 29 basis points of managed loans. That's down from 39 basis points in the first quarter of 2008 and 48 basis points in the first quarter of 2007.

Our scale and efficiency are significant competitive advantages, helping us to secure our market share in the student loan marketplace. In the first quarter of 2009, we began to see some welcome signs of activity in the capital markets. In this environment, we completed our previously announced \$1.5 billion private credit securitization. We also completed three securitization

transactions of consolidation loans and student loan-backed securities in the last 3 weeks, totaling \$5 billion.

Together, these consolidate – these federal student loan asset-based transactions had an average life in excess of seven-and-a-half years in spreads of 225 to 280 basis points over LIBOR. Although these transactions carry a high cost, especially considering the fact that 100 percent of the underlying loans could default and the security holders would still be paid in full, they do provide life-of-loan funding for assets that are not eligible for the DOE conduit.

In the quarter, we raised \$1.2 billion in term deposits at the bank with an average life of 3.2 years and a cost of 200 basis points over LIBOR to fund our new private credit originations. We continue to see strong demand for this important funding source. And as AI indicated, we expect to close on a 364-day extension of our FFELP asset-backed CP facility this week. We intend to repay the private credit portion as planned.

The DOE conduit, the straight-A funding facility, continues to move forward but has suffered from numerous delays. We've been assured that the delays are operational and we expect this program to be funding in the next 7 to 10 days. At the end of the quarter, 72 percent of our managed loans were funded for the life of the loan. Another 11 percent is funded with fixed-spread liabilities with an average life of 4.4 years. Our position has remained consistent throughout 2008 and 2009. We only make new term loans to the extent with secured assets to term financing first.

At quarter end, we had \$9 billion in primary liquidity consisting of cash and investments and committed lines. In addition, we had \$5 billion in standby liquidity in the form of unencumbered FFELP loans. Adjusted for this month's ABS transactions, primary liquidity increased to \$13.6 billion. We expect free cash flow over the next 12 months to total approximately \$7.5 billion versus corporate debt maturities of 5 billion. This is a company that generates very strong free cash flow. This cash is principally generated from principle payments from our loan portfolios, cash distributions from our

securitization trusts, and other cash flows including net earnings before income.

In addition, we expect to attain significantly higher advance rates for under the straight-A funding vehicle compared to the asset-backed CP facility funding those loans today. During the quarter, we originated a record \$6.6 billion of FFELP loans, an increase of 10 percent from the prior year, and through the first three quarters of the academic year, we have originated 16.1 billion of federal loans for our book and an additional 2.5 billion for third-party clients. In total, we expect to originate over \$22 billion of federal loans in 2009.

Our ability to meet the growing demand for federal student loans is the direct result of the ECASLA legislation sponsored by Chairmen Kennedy and Miller. This program will allow us to ensure that every student at every school will continue to have access to student loans this year and next. Our private credit originations totaled 1.5 billion in the quarter, a decrease of 40 percent from the year-ago. We have significantly increased the quality of loans we are underwriting in this area. In the most recent quarter, for example, the average FICO score was up 18 points to 734 and over 74 percent of loans made had a co-borrower.

For our new program that has been launched this quarter, over 90 percent of the volume coming in has a co-borrower. This program which was introduced this quarter called the Smart Option Loan required interest-only payments during in-school periods and shorter repayment terms. Combined, the typical borrower will save over 60 percent in finance charges over the life of the loan, dramatically improving loan affordability for students.

Total equity at March 31 was 5 billion, resulting in a tangible capital ratio of 1.8 percent of managed assets unchanged from year-end and with 81 percent of our managed loans carrying explicit government guarantee and with 72 percent of managed loans funded for the life of the loan, we believe our capital levels are appropriate, given our asset and funding mix.

For GAAP, we recorded a first quarter net loss of \$21 million or 10 cents per diluted share, and that compares to a net loss of \$104 million, or 28 cents per diluted share in the year-ago quarter. The loss, as with core earnings, is a result of the CP issue and the interest rate timing issue discussed at the beginning of my remarks. In addition, we had a \$261 million mark-to-market loss on the value of our residual assets. Combined these items reduced net income by \$394 million, or 53 cents per share.

Our GAAP results also include the net impact of derivative accounting that increased net income by \$54 million. The net impact of derivative accounting under FAS 133 are recognized in GAAP, but not in our core earnings. The GAAP provision for loan losses was \$250 million for the quarter, including \$203 million for our private credit loans. GAAP net interest income was \$215 million for the quarter, and under GAAP accounting, as you know, the provision for loan losses and net interest income are based only on the on-balance-sheet portfolios compared to core earnings, which are based managed loans.

Over the next several months, the administration and Congress will consider significant changes to the federal student loan programs. In addition, we and other lenders are likely to put tens of billions of dollars in federal loans to the department under the ECASLA program. We will compete vigorously to demonstrate the value we bring to the federal loan programs. We believe the best program for students, schools, and taxpayers will leverage low-cost federal funding, offer students and schools the ability to choose the origination platform and processes that best meet their needs, create competition to enhance the level of service and lower the cost of the program for taxpayers.

We also believe that the program should require services to have skin in the game by retaining risk in the performance in the loan. And by not incurring implementation risk by forcing over 75 percent of schools to adopt an origination platform they did not choose, we believe we can deliver the savings outlined in the Obama – in President Obama’s proposal in a – in a time-assured process. We believe a program built off the foundation created under ECASLA and the President’s proposal can meet or exceed the budget

savings and funding for Pell grants as proposed by President Obama while delivering a better program for students and schools.

As AI described earlier, the savings forecasted by the CBO are produced from the government acting as a bank, earning the profit from making 6.8 to 8.5 percent fixed rate loans to students funded with low-cost Treasury debt. They are not the result of eliminating lender subsidies. And our proposal provides compensation to participants on a fee-for-service model, the same approach used in the President's budget proposal.

In addition, this week the Department of Education issued the final RFP for servicing FFELP loans that are put under the participation and put program, or the ECASLA program. This contract will govern the servicing of the expanded future federal student loan products and we expect the contracts to be awarded in early June. As the largest lowest-cost servicer of student loans, we believe we are well positioned to participate in this contract and we are confident that we'll be selected.

For 2009, there remain many variables that could have a material impact on our results. These include the CP/LIBOR spread, funding availability and cost, credit cost, and whether or not we put the 2008/2009 federal loans to the Department of Education in September. Given the uncertainty surrounding these issues, especially the CP/LIBOR spread, it's difficult to provide updated guidance at this time. With that, I'd now like to open the call to your questions.

Operator, we're ready for questions.

Operator: Certainly, sir. At this time, I would like to remind everyone in order to ask your question, please press star, then the number one on your telephone keypad at this time. If you'd like to withdraw your question, press the pound key. We'll pause for just a moment to compile the Q&A roster.

Our first question is from David Hochstim with Buckingham Research.

David Hochstim: Most of my questions, but would you be able to give us any sense of what you think losses on the private loan portfolio look like over the next few quarters (inaudible)?

Jack Remondi: Yes, when we, as you can see from our allowance for private credit loans, we clearly are expecting higher overall charge-offs compared to what we experienced in the first quarter. Our allowance at the end of the quarter on a managed basis was \$1.9 billion when you compare that to the charge-offs that we incurred in the quarter, that's nine-and-a-half. That roughly covers nine-and-a-half times the first quarter's levels and our charge-off estimate here our provision covers eight quarters. So, you know on an average basis, you'd be looking at about \$240 million a quarter during that 2-year timeframe.

David Hochstim: But are they sort of front end loaded as you have loans going to repayment declining or should we think about them spread evenly?

Jack Remondi: Yes, I mean I – we certainly, given the economic environment, we would certainly expect them to be more heavily loaded towards 2009 versus 2010. Obviously economic conditions though will ultimately drive how those – how those losses are incurred.

David Hochstim: OK, and then could you help us think about the securitizations you just did and kind of what we think about the all-in funding costs and the – and the yield on the underlying assets? Is there positive spread there or ...

Jack Remondi: Well, clearly those transactions, the average funding costs for the – for the three transactions was 240 basis points over LIBOR. At those levels, they do produce – those loans are funded at a loss. That would be a correct statement. However they are funding loans for the life of the loans and in one case, the first transaction we did, we were refinancing previously securitized student loans and repackaging those securities into a new transaction. For our purposes, when we looked at doing those deals, ultimately the life of loan funding outweighed the – in providing liquidity to the company, outweighed the negative margin. We did minimize that to the extent possible and you know those – the appetite I would say to do more of those is certainly limited.

David Hochstim: All right. Thanks.

Operator: Our next question is from (Lee Cooperman) with (Omega Advisors).

Lee Cooperman: Thank you very much. It kind of strikes me as the irony if ironies in a sense that the President of the country says his highest priority is to have the highest percentage of college educated people of any country in the world and we have a stock that – of a company that is a leader in accomplishing this selling at \$4 a share near historic lows. Kind of ironic. But anyway, so much for observations.

I have three or four questions and I apologize if you addressed any of these. I had the wrong time on the call so I came in a little bit late. But my first question is a couple of conference calls ago – earnings calls ago, we talked about runoff value. And our calculation in our firm is somewhere in the teens. And I was wondering – and I like to state all my questions and give you a chance to answer them in any order you prefer. But do you fellows have a firm view of runoff value at the present time?

Secondly, if you step back and look at two business models, business model one is you originate a loan, you service a loan, and you carry the loan in the books. Or the second model is we originate the loan, we service the loan, but the government carries the loan in the book. What's the better business model in your opinion long-term?

And third question is you know your debt in the market – your debt in the market certainly the intermediate term (inaudible) maturities are selling at yields of almost 20 percent. I'd be curious if you could contrast the profitability of originating a loan and carrying it on your books versus retiring debt at 20 percent. Where is the rate of return greater?

And finally, you know someone once made a comment to me that you guys have no intention of being the Thanksgiving Day turkey for government. Have you reached a conclusion that government doesn't want to see you make a reasonable return on behalf of your shareholders that will go off to – into runoff and return the money to shareholders? I want to make sure that we're thinking like, you know, proper capitalists. I think you've done a great job of fulfilling your mission that you have. But if we're not appreciated, whether

we recognize the need to serve our shareholders properly and do what's right for the shareholders.

Sorry all these questions, but this is kind of what's on my mind.

Jack Remondi: OK, I'm going to take them in the order you – we'll take them in the order I guess you asked them. We do look at the portfolio obviously from a – an earnings contribution capability over the life of the loans and because we do finance, the vast majority of our assets that way – 72 percent at quarter-end, we certainly have a firm view of what this business is worth and we would agree that it is worth substantially more than the stock's trading. Some – a number in the teens is certainly a number that we can get to.

When we look at question two, it's just what's the better business model, I think you have to look at the environment in which you're operating in. If we could go back to an environment like we were in in 2004 and 2005 with easy access to funding at you know 10 – 8 to 10 basis points over LIBOR and the margins we were in and we clearly prefer that business model over a fee-for-service one.

Today, however, the federal government has dramatically reduced the margins available on several student loans to take into consideration that what were previously low funding costs, and they did that back in 2007, and today credit spreads have not – are no longer at 8 to 10, but are at that 225 kind of number that we just did on our ABS transactions. And that funding is scarce or it's certainly at least uncertain.

On that basis, fee-for-service model for the FFELP assets is a far more attractive business model. We think we add a tremendous amount of value to the federal loan programs on that basis. We know we operate at the lowest costs in the industry, we know we deliver better services. And a piece that gets missed quite often in this process is we also do a substantially better job on the collection side. When we look at how we perform on that basis, our loans – students who borrow from us attending similar types of schools as entities that operate on a fee – pure fee-for-service basis without risk sharing, our defaults are on average 30 percent lower across all school types.

And you have to look at it on that basis because students attending different types of institutions have materially different default rates. And so if you just look at the aggregates, you can miss – you can miss that performance. But those statistics are consistent over a multiyear timeframe and we think we can apply those under any business model with the right incentives to reduce defaults which has an enormous benefit not just for taxpayers but to the borrowers themselves.

On the debt yield side of the equation, we don't disagree with the concept here that our debt is trading at ridiculous levels of spreads and where we have availability, we have been active in the markets. But if you look at new origination activities, the funding sources that are available to make those loans are not available to be redirected to debt purchases. On the federal loans, we're funding from the DOE. Those proceeds must be used to fund new federal student loans.

And for our private credit book, we are raising bank deposits to fund those assets also not available to repurchase debt. Clearly as we replaced some of our short-term vehicles like the asset-backed CT facility and cover our maturing unsecured corporate debt, we hope to be far more active at – in the markets and buying back our debt. And we are pretty close I would say moving from addressing the short-term liquidity needs that have been overhanging this company through the asset-backed CP facility, for example, to focus more on long-term profitability.

Lee Cooperman: One other question if I may and you may not be able to tackle this or want to tackle this, but assuming we remain in the constrained credit environment where structures for (inaudible) just is not available like it used to be available and essentially – and the government goes through with its program and no changes and we essentially become an originator in the service or the government carries the loans, between your origination fee, assuming there is one, and your servicing margin, what kind of earning power would this corporation have in three to four years? Not like quarterly guidance, but just you know can you be earning a dollar a share and plus the value of the runoff? Or is that just too hard to pinpoint at this point in time?

Al Lord: (Lee), this is Al. Your – the (inaudible) Thanksgiving Turkey. You mentioned – you mentioned a number of things. I mean I don't think we want to go – we're very confident that even in a servicing mode that we have the earnings power to generate a substantially higher stock price. There isn't – I don't think there's anyone in this building, to your earlier point, that's not a capitalist. And ...

Lee Cooperman: I'm not worried about you guys by the way. I worry about somebody else.

Al Lord: ... I understand that and I understand exactly where you're coming from with your – with your questions. We're – we have modeled out any number of scenarios and feel very, very confident. You know today we're beleaguered by a spread on the CP/LIBOR thing that – that's troublesome and some short – what I would call short-term liquidity issues that are – that are very close to resolving themselves. We are very anxious particularly with our new private credit product to – you know to get back into an earnings per share growth mode and we think that – we think that we've reached the point where we've got to go up. And anyway, I ...

Lee Cooperman: I hear you. I appreciate it.

Al Lord: ... yes, the – we do a variety of things well and we – and we have – we have growth in a variety of revenue areas. It was not enough obviously to overcome this CP/LIBOR thing and we will – we will push on. And I frankly think either on or off balance sheet, we are the people to maximize the returns on the – on the student loan business in the next 10 years.

Lee Cooperman: Thank you very much and good luck.

Al Lord: Thank you.

Operator: Our next question is from Matt Snowling with FBR Capital Management.

Matt Snowling: Good morning.

Jack Remondi: Good morning.

Matt Snowling: Hi. Can you guys talk a little bit about the surge in delinquencies and how much of that may have been a result of the change in forbearance status?

Jack Remondi: Well, we think it's a significant factor here when you are moving loans. If you look at the – if you look at the dollar balances or percentage balances of loans that – of the forbearance decreases, you can see that – and where they stopped basically at the end of the third quarter, you could see that over the next 180 days, a significant increase in the rise of 90-day delinquencies. If you look at the 30-day buckets and the 60-day buckets, though, you start to see a turn in those numbers, as basically those portfolios are running through the delinquency curve. Now, it's early still, and we want to see how this performs out over the next couple of months or quarters, but we're optimistic in the direction that it's heading.

And, as I said, on the cash collection side you know one of the big changes that we're doing here is instead of allowing a borrower to use a forbearance and then start making payments and be current, we're actually looking for borrowers to demonstrate a willingness to pay, along with the ability to pay, by making payments before they get granted the forbearance. And so in that 90-day bucket and higher delinquency buckets we're seeing a significantly higher – or a significant increase in the amount of borrowers who are making payments, but still remain in those delinquency buckets because they haven't – they're not rolling, but they haven't been able to make enough payments to bring their account current. If we can get three payments from them – and these are full payments, not \$5 or \$10 payments, but full payments – then we would grant them a forbearance and let them begin the process as a current account. So, we're optimistic on the results. As I said, the ratio has been far less than one-for-one, and we think it was the right decision and remain focused on that.

Al Lord: May I ask – this is Al. Look, the forbearance numbers come down about – almost a billion-and-a-half dollars over the past year. Obviously those loans had to go somewhere. Forbearance was, (Richard), the only kind of benign collection treatment that we – that we had a year ago. We have put in a fair number of additional procedures in place, but they require the borrower to demonstrate the ability to pay cash. If he doesn't demonstrate the ability to

pay cash we just put him back into – into repayment, and a lot of those are coming through.

To the earlier call, I think – or the earlier question from (David Hochstim), that is why – why we see charge offs and delinquencies high right now, and we think that is the reason we're seeing lower numbers in the earlier buckets. You know there's a huge unknown in all of this, and that is you know which direction is this economy going from here? If we stayed where we are right now, we think we could be a lot more certain about where those charge offs will go. But, I think – I think we're doing the right things and we expect that – as (Jack) said earlier, that we're going to see some heavy duty charge offs in the next four quarters and we hope they get better from there.

Jack Remondi: (I also) think if you look at the portfolio performance, in both delinquencies and charge offs, compared to other consumer asset classes these – you know on the traditional side of the equation we are far outperforming any single asset class, any other consumer asset class. That's true whether you look at you know cards, or autos, or (HELOCS), or even prime mortgages, and I think that's a testament as to who we're lending to, and the economic benefit that these borrowers get from a college education.

Matt Snowling: Well, let me ask a different question. As far as the \$13 billion, or so, of loans that are eligible to be put back to the government in September – I mean, should we assume they're going to put all those 13 billion, and if so you know the cash that gets released is that just the 1 percent origination fee rebate, plus \$75 a loan?

Jack Remondi: That's right.

Jack Remondi: And you should assume in today's funding environment that those loans will get put.

Matt Snowling: And any indication how much cash that frees up for you? I guess we could do the math.

Jack Remondi: Yes. I mean, the cash that gets freed up here is what you described, the 1 percent, plus the \$75 per loan. I don't have the loan count at my fingertips here.

Matt Snowling: OK, I'll follow up later.

Operator: Our next question is from (Michael Taiano) with Sandler O'Neal.

Michael Taiano: Hey, good morning. A couple of questions, (Jack). On the (ABCP) conduit, you said you expect to renew it in the next few days. Are there going to be step-down provisions as you move loans into straight-A funding? And then, secondly, did you say that you were going to completely pay down the private loan portion of that conduit?

Jack Remondi: Yes, we are going to pay down the private loan portion. That was part of the rationale behind the \$1.5 billion private credit transaction that we did. And we also are reducing the federal loan component size, as we have obtained, in part because of the ABS transactions that we just did and the anticipation of what our needs will be after straight A gets up and running. The facility will certainly – will (inaudible) include incentives for us to step down the facility's size over time, but not included requirements for us to step down the facility size over time. We did restructure the facility, from our perspective, to – as you remember, back in 2008, when we put this into place, we had high upfront fees and a relatively low funding cost – obviously combined it with a high funding cost. We've swept that around in this – we're flipping it around in this extension, so it's a higher interest cost, but lower fees. Economically it should be about the same cost as what we're paying today, but as we step it down it obviously has a better impact for us.

Our goal is to reduce that facility as fast as possible. You know it's a short term – it's been something that's hanging over the stock. It impacts our stock price. It impacts our debt – how our debt trades. Replacing that funding vehicle with term funding sources, like straight-A funding, is a key top priority for the Company.

Michael Taiano: OK. And then how should we think about private student loans going forward? I mean, in terms of – obviously you got the credit headwinds here in

the near term, but what sort of profitability, in terms of ROE and growth would you expect this business to produce over the longer term?

Jack Remondi: Well, we certainly are looking – we think this business is obviously an attractive business, otherwise we'd be – we'd be pulling back from it. And we think, even in this environment, we can earn very attractive returns on both an ROA or ROE basis. The portfolio typical loans today we target to generate with elevated credit losses a pretax margin of about 4 percent, and we are certainly hitting those numbers on – or more on new origination.

If you look at what's going in the portfolio, though – if you look at the traditional segment of the business you know charge offs this quarter were 2.2 percent of loans and repayment. If the loans with a co borrower that charge-off rate was 1.5 percent. And it's 90 percent of loans coming in, in application form, are co-borrower accounts. You know this is a portfolio that, as I just said, is outperforming every other consumer asset class. And you know there were – there were questions I think in the past of these loans being in – perhaps in elevated levels of forbearance states, and as we've moved to address that you can see that the performance statistics have continued to hold up.

Michael Taiano So, it sounds like you can generate, at least on the new loans you're talking about, something north of 20 percent sort of ROEs.

Jack Remondi: Yes.

Michael Taiano: OK. And then just a last question on the politics and you know obviously there's been this history of you know Democratic bias toward the DLP. As you talk to members of Congress, and the administration and the Department of Ed, what sort of reception are you getting to the numbers that you gave us earlier in the call about you know how much – you know how much subsidies are versus how much you pay – pay back you know compared to what you know the (CBO) has been saying historically and what they're saying now? It seems like the governments always seemed to rely on those CBO numbers, even though there's been fuzzy math in them. Are you seeming to get a little more reception to how you're analyzing this now?

Jack Remondi: I think the – you know the goal here is to create savings to fund Pell Grants, and you know the debate over whether it's lender subsidies or profit from owning and funding you know 6.8 to 8-1/2 percent fixed-rate loans, with low government funding costs, is – it clouds the issue. What we're trying to do is – you know let's just forget how you get to the savings. If the savings can be achieved, and you meet your goal, and you can do it with greater certainty in a better product for schools, and better product for students you know building off of what the President's proposals all about. I mean the President's principal component here is using the federal balance sheet, the federal government's balance sheet to fund these assets. That's where the savings – quote-unquote “savings” come from. We're there, and we are proposing a fee-for-service (basis), just as they are, so I would suggest our proposal builds off of what the President has proposed. It makes it better. It puts risk – it takes – it takes some of the risk off the federal government and transfers it to servicers, all those things. If we – as we explain them, and people understand them, should resonate very strongly, regardless of political affiliation.

Michael Taiano: Thank you very much.

Al Lord: You asked if – what kind of reception we're getting (inaudible). I think you have to start with a basic premise that at least on one side of the aisle there's a predisposition to give President Obama what he wants, at this stage of his administration. We believe what he wants are Pell Grants savings. The Congress will ultimately decide how we get those savings. I think the (reception) activity to some of these ideas – and, again, I say you know we may have gotten there inadvertently, but when they put a (inaudible) in the basic model was in place to generate the savings. And, I think that reception that we've gotten has improved over – particularly in recent weeks. So, we don't how this is going to go, but as I answered in an earlier question you know there's a variety of ways for this Company to go, and we're going to obviously push for what best helps achieve President Obama's goals, and (inaudible) ultimately helps our shareholders and our customers, and both the students and the schools.

Michael Taiano: OK, thanks, very helpful.

Operator: Our next question is from (Andrew Wessell) with JP Morgan.

Andrew Wessell: Hey, good morning, just a couple of other follow-up questions. Just a quick one on the ABCP facility with the banks is that – is that going to be another kind of like 3-month (roll), or is that going to be a year or longer maturity extension?

Jack Remondi: It's a 364 day.

Andrew Wessell: OK, a 1-year extension, great. And then on the – is there any kind of timeline that you're thinking about for an update on the servicing contract and the bids there? You know is it (inaudible) now, or is it going to be pushed back?

Jack Remondi: For the – the RFP is – the final RFPs just came out this week. We expect that we'll hear sometime in you know (inaudible) to mid June.

Andrew Wessell: (inaudible) to mid June, OK. And it's six total companies, including yourselves, bidding on that?

Jack Remondi: Yes.

Andrew Wessell: OK. And then you know last I think, just in terms of going back to that question on response to your alternative plan that you've been circulating, from the schools' perspective you know which I think maybe isn't a very important component now in the overall public debate, but will become a bigger issue once – once (monies) have to be made. And what's the feeling you're getting back from schools you know both Pell and direct-lending institution?

Al Lord: Well, schools – schools have been far more supportive frankly than I expected. I think that they like the idea of having a choice. A direct-loan program, once upon a time, had gotten to about a third of market share back in the mid '90s – mid to late '90s. It declined from there to 18 percent. It tends to – direct lending tends to do very well and delivers a nice product to public schools that have large backrooms. It has not fared very well with private schools, and so as recently as a year ago direct-lending service – something

like 18 percent of the number of schools – it had a far higher dollar volume. But, 82 percent of schools have made a different choice in direct lending.

Jack Remondi: And as Al said they have gone back and forth, so schools have been in DL, moved back to Pell and visa-a-versa, and you know choice, in that regard, means schools can decide which best meets their needs, and who wouldn't want choice from that perspective. Even a school that's in DL still had the ability to choose DL.

Al Lord: I have noticed in e-mail traffic among the schools, and back and forth with us, that they do tire – they do grow weary of being part of a political process, but you know that's – that's the world we live in. We all do that.

Andrew Wessell: (Sure) (inaudible).

Jack Remondi: I (like) it.

Andrew Wessell: Me too. All right. Well, thanks a lot, I appreciate it.

Operator: Our next question is from (Moshe Orenbuch) with Credit Suisse.

Moshe Orenbuch: Thanks. I was wondering if you could kind of expand a little bit on the DOE conduit. Do you have any better idea of kind of how quickly that could phase in costs and the like, in terms of – and I assume that you used that knowledge, I guess, to think about step downs and the size of the renewed ABCP facility.

Jack Remondi: Yes. And we certainly have a plan and expectations for how it will work. We're not the only – we'll not be the only user of that facility, and so how quickly we ramp up will, in large part, depend on how quickly others seek to participate. I think everybody involved in this process has been conservative in their estimates as to how fast the program can grow, based on investor demand. You know the big news I would say is the assumptions are far lower than what investor demand looks like it will be. But, like anything you know in a marketplace like this, until you officially launch the product and see it trading, you don't want to make too broad assumptions or too aggressive assumptions as to investor participation.

Moshe Orenbuch: But, are there – are there specific – I mean – guidelines as to cost or ...

Jack Remondi: (inaudible) it'll be – you know it'll be based – it's a commercial paper product, so it should trade like commercial paper. We expect the reductions at this facility will be far lower in cost – you know more than 100-bases points lower in cost than what we're funding at today and, equally as important, far higher advance rates, and so less collateral will be tied up for the same dollars raised.

Moshe Orenbuch: Right. And raising that point, in terms of the new facility, will the advance rates be comparable to where they've been?

Jack Remondi: Yes, it's the same – it's the same market-based advance-rate structure.

Moshe Orenbuch: And then just one quick question on the – you mentioned the new program on the private side. How much – when did that start? How much – you know how good is the – you know the customer you know uptake of that?

Jack Remondi: Oh, this is a – I mean our business demand is very seasonal, and so the reception has been strong, in terms of inflows – application inflows, but it's – you know it's a very small segment, so we don't – we'll have to see what's going to happen once award letters go out, and demand will start peaking in the June/July kind of timeframe. You know (we could) – overall. But, so far, we're very happy with the reception we've received.

Moshe Orenbuch: OK, thanks.

Operator: Our next question is from (Kevin Eng) with (Columbus Hill) Capital.

Kevin Eng: Hi, guys, how you doing? A couple of questions. Can you clarify – you mentioned that 16 billion will be eligible for the conduit program, and then in the supplemental – I think it's on page 48, or so – you mention – I'm sorry, 49 – you mention that 17.4 billion will be eligible for TALF. Can you confirm is the 16 included in the 17.4, or can we add them together, so you have liquidity for both programs in excess of 33 billion?

Jack Remondi: You combine both programs. You combine the numbers.

Kevin Eng: OK. And then, also, on that same page, you talk about how the current ABCP facility is over collateralized by an amount of around \$6 billion. Is that \$6 billion included in the 17.4 billion of TALF?

Jack Remondi: It's included in the – it's included in the combined numbers.

Kevin Eng: OK.

Jack Remondi: The asset-backed (CP) facility funds both (DUE) eligible and TALF eligible loans. It does not fund one exclusively.

Kevin Eng: OK, got it. A couple of other questions. You know can you discuss a little bit you know the process – the (CP) LIBOR fix – you know your confidence in whether or not you think you can get that resolved and what the process is? And if you are able to get it resolved do you think it'll be retroactive through – you know through what period?

Jack Remondi: I think that's a little hard for us to comment, at this point in time. It's clear that we need a legislative fix to this, not an administrative fix, and we're working aggressively towards that. (I mean), it's also important to note that this is not just a student lender issue. It's also an (ABS-holder) issue, and the level of interest in getting this fixed, and people advocating for it to get fixed has been elevated over the last couple of – over the last week, after the Department of Education's decision not to take action on the (CP) (inaudible) quarter.

Kevin Eng: OK, and just a couple of other questions. Can you talk about you know the – another company, (CIT), reported today, and they got a partial (23) exemption, which allows them to move assets into the FDIC regulated bank. You guys also have an FDIC regulated bank. Have you guys thought about the 23 exemption, and if so you know any thoughts as to what you think is the likelihood of receiving a similar sort of exemption to help you increase liquidity?

Jack Remondi: You know obviously those issues are individually specific to entities. I don't think it's – I really don't have any more to add on that topic.

Kevin Eng: OK, and lastly you know to follow up on (Lee's) question you know clearly, as you know you are able to generate more liquidity – the combined TALF and (inaudible) funding you know will be in excess of 30 billion, clearly, after you use some of that to pay down the ABCP. But, have you thought about you know tendering for your notes at significant discount for PAR? And, also, can you comment on what (tender) of – you know what maturities that you bought, and the bond purchases during the quarter, and what average price you paid?

Jack Remondi: Well, we – whether or not we tender, I think is something to be decided in the future versus decided – or discussed today. We have repurchased – the debt we repurchased – in the supplemental slides that are up on the Web site – we repurchased \$144-million worth of notes, and you can see we recorded a gain of \$64 million, so you know that gain is what 44 percent of the total. The maturity ranges that we bought were everything from '09 out to, I think, maybe 2014. You know the things you have to think and everyone has to keep in mind here is just because bond prices are indicated at a certain level doesn't mean you can go out and actually buy (size) at those levels, as you probably know.

Al Lord: (Kevin), the point of your questions was you know are we – are we looking at various and sundry alternatives, once we have even more liquidity? Obviously the answer is yes. I mean, we model all these things all the time. And, as we told – as we told Mr. (Cooperman), all things are on the table. But, at the moment, obviously, we have described to you our current priorities.

Kevin Eng: OK, great. Thank you.

Operator: Our next question is from (Ryan O'Connell) with Citi Group.

Ryan O'Connell: Good morning.

Operator: (Ryan), your line is open.

Ryan O'Connell: Hello.

Jack Remondi: Hello.

Ryan O'Connell: Hello. Can you hear me?

Ryan O'Connell: Hello.

Jack Remondi: Yes.

Ryan O'Connell: OK, thanks. (Jack), you gave us an update on the cash flow (inaudible) over the next 12 months. That's very helpful. In July of next year you've got about 3.3 billion (in the) debt maturities. Could you maybe push out the – you know the estimates on the cash flow a little bit more, just to give us an idea of what cash is like – (believe it'll) look like through July or September of 2010?

Jack Remondi: Well, we certainly – if you look even longer than that, (out through) 2011, which is where the last kind of big chunk of (inaudible) that we have you know we think with existing cash flows, and the changes in advance rates that we will see on the financing of loans from asset-backed CP to the DOE conduit, our cash flows are in excess of our debt service requirements.

Ryan O'Connell: OK, and so (now I run through) all these timing issues. But, in other words, it's (not necessary) that you'll be caught short in any particular month or quarter?

Jack Remondi: Right.

Ryan O'Connell: Right. OK, thanks, that's helpful.

Operator: Once again, ladies and gentlemen, if you would like to ask a question simply press star, then the number one, on your telephone keypad. If you'd like to withdraw your question press the pound key. We'll pause for just a moment to compile the Q&A roster.

Our next question is from Cyril Battini with Credit Suisse.

Cyril Battini: Yes, hi, good morning. I have one question. If you could please size or quantify the total liquidity (call) that you have related to rating triggers (for) (inaudible) and enterprise, (including in your synchronization vehicles).

Jack Remondi: Ratings triggers from the rating agencies?

Cyril Battini: Yes.

Jack Remondi: There are no – they don't have specific guidelines or triggers for that – for those purposes.

Jack Remondi: (inaudible) on a corporate debt rating?

Cyril Battini: Yes. So, if you're saying that if there's a rating downgrade there wouldn't be (inaudible) liquidity?

Jack Remondi: Now I see what you're saying. I'm sorry. No, the – there are no triggers on our liquidity issues for rating downgrade.

Cyril Battini: OK, thank you.

Operator: Ladies and gentlemen, I would now like to turn the conference back over to our host for any other remarks.

Steve McGarry: Thank you very much, (Alexandria), and know that concludes this morning's conference call. Thank you, everybody, for tuning in, and if you have any follow-up questions, as always, contact myself, Steve McGarry or Joe Fisher. Thank you.

Operator: Ladies and gentlemen, thank you for your participation in today's SLM Corporation's first quarter 2009 conference call. This concludes today's call. You may now disconnect.

END