HMN FINANCIAL INC
Form 10-Q
August 04, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) FOR THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number 0-24100
HMN FINANCIAL, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	41-1777397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1016 Civic Center Drive N.W., Rochester, MN	55901
(Address of principal executive offices)	(ZIP Code)

Registrant s telephone number, including area code: (507) 535-1200

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

Indicate by check mark whether the registrant 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 o No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

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

Class	Outstanding at July 22 , 2011

Common stock, $0.01 par value	4,387,951

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PART I FINANCIAL INFORMATION

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Part I FINANCIAL INFORMATION
Item 1: Financial Statements

HMN FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Dollars in thousands)	June 30, 2011 (unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	$ 26,724	20,981
Securities available for sale:		
Mortgage-backed and related securities (amortized cost $25,410 and $32,036)	26,780	33,506
Other marketable securities (amortized cost $107,616 and $118,631)	107,467	118,058
	134,247	151,564
Loans held for sale	1,075	2,728
Loans receivable, net	601,787	664,241
Accrued interest receivable	2,932	3,311
Real estate, net	21,868	16,382
Federal Home Loan Bank stock, at cost	5,574	6,743
Mortgage servicing rights, net	1,520	1,586
Premises and equipment, net	8,925	9,450
Prepaid expenses and other assets	2,722	3,632
Deferred tax asset, net	0	0
Total assets	$ 807,374	880,618
Liabilities and Stockholders Equity		
Deposits	$ 647,115	683,230
Federal Home Loan Bank advances and Federal Reserve borrowings	85,000	122,500
Accrued interest payable	898	1,092
Customer escrows	730	818
Accrued expenses and other liabilities	6,060	3,431
Total liabilities	739,803	811,071
Commitments and contingencies		
Stockholders equity:		
Serial preferred stock ($.01 par value):		
authorized 500,000 shares; issued shares 26,000	24,517	24,264
Common stock ($.01 par value):		
authorized 11,000,000; issued shares 9,128,662	91	91
Additional paid-in capital	53,607	56,420
Retained earnings, subject to certain restrictions	53,313	55,838
Accumulated other comprehensive income	865	541

Unearned employee stock ownership plan shares	(3,287)	(3,384)
Treasury stock, at cost 4,740,711 and 4,818,263 shares	(61,535)	(64,223)
Total stockholders equity	67,571	69,547
Total liabilities and stockholders equity	$ 807,374	880,618

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Loss
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2011	2010	2011	2010
Interest income:				
Loans receivable	$ 9,301	11,461	19,204	23,220
Securities available for sale:				
Mortgage-backed and related	290	479	614	1,014
Other marketable	407	591	824	1,163
Cash equivalents	2	1	3	2
Other	45	37	114	74
Total interest income	10,045	12,569	20,759	25,473
Interest expense:				
Deposits	1,806	3,038	3,746	6,459
Federal Home Loan Bank advances	1,240	1,542	2,569	3,064
Total interest expense	3,046	4,580	6,315	9,523
Net interest income	6,999	7,989	14,444	15,950
Provision for loan losses	3,463	4,360	5,409	10,893
Net interest income after provision for loan losses	3,536	3,629	9,035	5,057
Non-interest income:				
Fees and service charges	925	920	1,849	1,762
Mortgage servicing fees	250	274	500	542
Gains on sales of loans	301	467	796	781
Other	113	120	230	270
Total non-interest income	1,589	1,781	3,375	3,355
Non-interest expense:				
Compensation and benefits	3,512	3,411	7,072	6,860
Loss (gain) on real estate owned	143	33	190	(728)
Occupancy	916	1,035	1,856	2,066
Deposit insurance	407	519	811	1,036
Data processing	305	298	558	574
Other	2,209	1,034	3,797	2,539
Total non-interest expense	7,492	6,330	14,284	12,347

Loss before income tax expense (benefit)	(2,367)	(920)	(1,874)	(3,935)
Income tax expense (benefit)	(76)	6,912	0	5,744
Net loss	(2,291)	(7,832)	(1,874)	(9,679)
Preferred stock dividends and discount	457	448	906	888
Net loss available to common shareholders	$ (2,748)	(8,280)	(2,780)	(10,567)
Basic loss per common share	$ (0.72)	(2.20)	(0.73)	(2.82)
Diluted loss per common share	$ (0.72)	(2.20)	(0.73)	(2.82)

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity and Comprehensive Loss
For the Six-Month Period Ended June 30, 2011
(unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Stock-Holders Equity
Balance, December 31, 2010	$ 24,264	91	56,420	55,838	541	(3,384)	(64,223)	69,547
Net loss				(1,874)				(1,874)
Other comprehensive income, net of tax:								
Net unrealized gains on securities available for sale					324			324
Total comprehensive loss								(1,550)
Preferred stock discount amortization	253		(253)					0
Stock compensation tax benefits			14					14
Unearned compensation restricted stock awards			(2,700)				2,700	0
Restricted stock awards forfeited			12				(12)	0
Amortization of restricted stock awards			152					152
Preferred stock dividends accrued				(651)				(651)
Earned employee stock ownership plan shares			(38)			97		59
Balance, June 30, 2011	$ 24,517	91	53,607	53,313	865	(3,287)	(61,535)	67,571

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net loss	$ (1,874)	(9,679)
Adjustments to reconcile net loss to cash provided by operating activities:		
Provision for loan losses	5,409	10,893
Depreciation	640	837
Amortization of premiums, net	166	324
Amortization of deferred loan fees	(294)	(114)
Amortization of mortgage servicing rights, net	213	219
Capitalized mortgage servicing rights	(147)	(333)
Deferred income tax	0	11,625
Loss (gain) on real estate	190	(728)
Gains on sales of loans	(796)	(781)
Proceeds from sale of loans held for sale	25,350	39,782
Disbursements on loans held for sale	(19,237)	(35,981)
Amortization of restricted stock awards	152	190
Amortization of unearned ESOP shares	97	96
Earned employee stock ownership shares priced below original cost	(38)	(19)
Stock option compensation	14	31
Decrease (increase) in accrued interest receivable	379	(282)
Decrease in accrued interest payable	(194)	(660)
Decrease (increase) in other assets	867	(4,926)
Increase (decrease) in accrued expenses and other liabilities	1,965	(482)
Other, net	119	3
Net cash provided by operating activities	12,981	10,015
Cash flows from investing activities:		
Principal collected on securities available for sale	6,635	9,803
Proceeds collected on maturities of securities available for sale	80,000	63,000
Purchases of securities available for sale	(69,028)	(70,149)
Purchase of Federal Home Loan Bank Stock	(17)	(874)
Redemption of Federal Home Loan Bank Stock	1,186	971
Proceeds from sales of real estate	2,463	13,616
Net decrease in loans receivable	45,473	32,695
Purchases of premises and equipment	(115)	(64)
Net cash provided by investing activities	66,597	48,998
Cash flows from financing activities:		
Decrease in deposits	(36,247)	(49,820)
Dividends to preferred stockholders	0	(650)

Proceeds from borrowings	0	5,000
Repayment of borrowings	(37,500)	(5,000)
Decrease in customer escrows	(88)	(257)
Net cash used by financing activities	(73,835)	(50,727)
Increase in cash and cash equivalents	5,743	8,286
Cash and cash equivalents, beginning of period	20,981	16,418
Cash and cash equivalents, end of period	$ 26,724	24,704
Supplemental cash flow disclosures:		
Cash paid for interest	$ 6,509	10,182
Cash paid for income taxes	0	39
Supplemental noncash flow disclosures:		
Transfer of loans to real estate	8,259	8,254
Loans transferred to loans held for sale	3,607	2,899

See accompanying notes to consolidated financial statements.

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HMN FINANCIAL, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(unaudited)
June 30, 2011 and 2010

(1) HMN Financial, Inc.

HMN Financial, Inc. (HMN or the Company) is a stock savings bank holding company that owns 100 percent of Home Federal Savings Bank (the Bank). The Bank has a community banking philosophy and operates retail banking and loan production offices in Minnesota and Iowa. The Bank has one wholly owned subsidiary, Osterud Insurance Agency, Inc. (OIA), which offers financial planning products and services. HMN has another wholly owned subsidiary, Security Finance Corporation (SFC), which is currently not actively engaged in any activities.

The consolidated financial statements included herein are for HMN, SFC, the Bank and OIA. All significant intercompany accounts and transactions have been eliminated in consolidation.

(2) Basis of Preparation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and therefore, do not include all disclosures necessary for a complete presentation of the consolidated balance sheets, consolidated statements of loss, consolidated statement of stockholders equity and comprehensive loss and consolidated statements of cash flows in conformity with U.S. generally accepted accounting principles. However, all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of the interim financial statements have been included. The results of operations for the six-month period ended June 30, 2011 is not necessarily indicative of the results which may be expected for the entire year.

Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform with the current period presentation.

(3) New Accounting Standards

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings are also required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio s risk and performance. This ASU is effective for interim and annual reporting periods after December 15, 2010 and the related disclosures were included in Note 5 in the Company s December 31, 2010 notes to the consolidated financial statements and in Note 9 of this quarterly report.

In January 2011, the FASB issued ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendment temporarily delays the effective date of the disclosures about troubled debt restructurings in ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* for public entities.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310)*, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* This ASU provides guidance on evaluating whether a restructuring constitutes a troubled debt restructuring. It indicates that if a creditor separately concludes that a restructuring constitutes a concession and that the debtor is experiencing financial difficulties that the restructuring is a troubled debt restructuring. It also clarifies guidance on a creditor s evaluation of the above two items. For public entities, such as HMN, the amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. In addition, this ASU requires that the disclosures about troubled debt restructurings that

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were delayed by ASU 2011-01 in January 2011 be disclosed for interim and annual periods beginning on or after June 15, 2011. It is anticipated the implementation of the guidance in this ASU will result in more loan restructurings being classified as troubled debt restructurings and will require additional disclosure when adopted in the third quarter of 2011.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements. Topic 860, Transfers and Servicing,* prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred assets. The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this ASU. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modification of existing transaction that occur on or after the effective date. The adoption of this ASU in the first quarter of 2012 is not anticipated to have a material impact on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in this ASU change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in wording between U.S. GAAP and IFRS. This ASU is effective for interim or annual period beginning on or after December 15, 2011. The adoption of this ASU in the first quarter of 2012 is not anticipated to have a material impact on the Company s consolidated financial statements other than to change the disclosures relating to fair value measurements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income.* Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. The first two options are to present this information in a single continuous statement of comprehensive income or in two separate but consecutive statements. The third option, which is used by the Company, is to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This ASU eliminates the third option and therefore the Company will have to adopt one of the two remaining methods for presentation. This ASU is effective for fiscal years, and interim periods beginning after December 15, 2011. The adoption of this ASU in the first quarter of 2012 is not anticipated to have a material impact on the Company s consolidated financial statements other than to change the presentation of other comprehensive income as discussed above.

(4) Derivative Instruments and Hedging Activities

The Company has commitments outstanding to extend credit to future borrowers that have not closed prior to the end of the quarter. The Company intends to sell these commitments, which are referred to as its mortgage pipeline. As commitments to originate loans enter the mortgage pipeline, the Company generally enters into commitments to sell the mortgage pipeline into the secondary market on a firm commitment or best efforts basis. The commitments to originate, purchase or sell loans on a firm commitment basis are derivatives. As a result of marking to market the mortgage pipeline and the related firm commitments to sell for the period ended June 30, 2011, the Company recorded an increase in other assets of $10,000, an increase in other liabilities of $14,000 and a loss included in the gain on sales of loans of $4,000.

The current commitments to sell loans held for sale are derivatives that do not qualify for hedge accounting. As a result, these derivatives are marked to market and the related loans held for sale are recorded at the lower of cost or market. The Company recorded a decrease in other assets of $53,000 and an increase in the mark to market adjustment for loans held for sale of $53,000.

(5) Fair Value Measurements

ASC 820, *Fair Value Measurements* establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system consisting of three levels, based on the markets in which the assets and liabilities are

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traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table summarizes the assets and liabilities of the Company for which fair values are determined on a recurring basis as of June 30, 2011 and December 31, 2010.

	Carrying value at June 30, 2011			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 134,247	1,146	133,101	0
Mortgage loan commitments	10	0	10	0
Total	$ 134,257	1,146	133,111	0

$ 255 $ 183 $ 1,134 $ 576

Basic earnings per common share attributable to SLM Corporation:				
Continuing operations	$ .56	$ .39	$ 2.46	$ 1.19
Discontinued operations	.02		.10	
Total	$ .58	$ .39	$ 2.56	$ 1.19
Average common shares outstanding	436	464	442	483
Diluted earnings per common share attributable to SLM Corporation:				
Continuing operations	$ .55	$ .39	$ 2.42	$ 1.18
Discontinued operations	.02		.10	
Total	$ .57	$ .39	$ 2.52	$ 1.18
Average common and common equivalent shares outstanding	445	471	450	490
Dividends per common share attributable to SLM Corporation	$ .15	$ .125	$ .45	$ .375

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income	$ 260	$ 187	$ 1,148	$ 589
Other comprehensive income (loss):				
Unrealized gains (losses) on derivatives:				
Unrealized hedging gains (losses) on derivatives	(3)	(3)	19	(14)
Reclassification adjustments for derivative losses included in net income (interest expense)	1	6	7	22
Total unrealized gains (losses) on derivatives	(2)	3	26	8
Unrealized gains (losses) on investments			(4)	1
Income tax (expense) benefit	1	(1)	(8)	(3)
Other comprehensive income (loss), net of tax	(1)	2	14	6
Comprehensive income	259	189	1,162	595
Less: comprehensive loss attributable to noncontrolling interest		(1)	(1)	(2)
Total comprehensive income attributable to SLM Corporation	$ 259	$ 190	$ 1,163	$ 597

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in millions, except share and per share amounts)

(Unaudited)

	Preferred Stock Shares	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at June 30, 2012	7,300,000	532,672,974	(63,270,775)	469,402,199	$ 565	$ 107	$ 4,196	$ (10)	$ 1,040	$ (967)	$ 4,931	$ 7	$ 4,938
Comprehensive income:													
Net income (loss)									188		188	(1)	187
Other comprehensive income, net of tax								2			2		2
Total comprehensive income											190	(1)	189
Cash dividends:													
Common stock ($.125 per share)									(58)		(58)		(58)
Preferred stock, series A ($.87 per share)									(3)		(3)		(3)
Preferred stock, series B ($.57 per share)									(2)		(2)		(2)
Issuance of common shares		1,654,506		1,654,506			17				17		17
Tax benefit related to employee stock-based compensation plans							(2)				(2)		(2)
Stock-based compensation expense							8				8		8
Common stock repurchased			(7,643,999)	(7,643,999)						(121)	(121)		(121)
Shares repurchased related to employee stock-based compensation plans			(1,253,922)	(1,253,922)						(20)	(20)		(20)
Balance at September 30, 2012	7,300,000	534,327,480	(72,168,696)	462,158,784	$ 565	$ 107	$ 4,219	$ (8)	$ 1,165	$ (1,108)	$ 4,940	$ 6	$ 4,946

Balance at June 30, 2013	7,300,000	543,781,184	(107,592,332)	436,188,852	$ 565	$ 109	$ 4,355	$ 9	$ 2,195	$ (1,804)	$ 5,429	$ 5	$ 5,434
Comprehensive income:													
Net income (loss)									260		260		260
Other comprehensive income, net of tax								(1)			(1)		(1)
Total comprehensive income											259		259
Cash dividends:													
Common stock ($.15 per share)									(65)		(65)		(65)
Preferred stock, series A ($.87 per share)									(3)		(3)		(3)
Preferred stock, series B ($.50 per share)									(2)		(2)		(2)
Issuance of common shares		326,789		326,789			8				8		8
Tax benefit related to employee stock-based compensation plans							2				2		2
Stock-based compensation expense							8				8		8
Shares repurchased related to employee stock-based compensation plans			(251,570)	(251,570)						(9)	(9)		(9)
Balance at September 30, 2013	7,300,000	544,107,973	(107,843,902)	436,264,071	$ 565	$ 109	$ 4,373	$ 8	$ 2,385	$ (1,813)	$ 5,627	$ 5	$ 5,632

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in millions, except share and per share amounts)

(Unaudited)

	Preferred Stock Shares	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2011	7,300,000	529,075,322	(20,323,997)	508,751,325	$ 565	$ 106	$ 4,136	$ (14)	$ 770	$ (320)	$ 5,243	$ 8	$ 5,251
Comprehensive income:													
Net income (loss)									591		591	(2)	589
Other comprehensive income, net of tax								6			6		6
Total comprehensive income											597	(2)	595
Cash dividends:													
Common stock ($.375 per share)									(180)		(180)		(180)
Preferred stock, series A ($2.61 per share)									(8)		(8)		(8)
Preferred stock, series B ($1.69 per share)									(7)		(7)		(7)
Dividend equivalent units related to employee stock-based compensation plans									(1)		(1)		(1)
Issuance of common shares		5,252,158		5,252,158		1	47				48		48
Tax benefit related to employee stock-based compensation plans							(5)				(5)		(5)
Stock-based compensation expense							41				41		41
Common stock repurchased			(48,184,145)	(48,184,145)						(730)	(730)		(730)
Shares repurchased related to employee			(3,660,554)	(3,660,554)						(58)	(58)		(58)

stock-based compensation plans													
Balance at September 30, 2012	7,300,000	534,327,480	(72,168,696)	462,158,784	$ 565	$ 107	$ 4,219	$ (8)	$ 1,165	$ (1,108)	$ 4,940	$ 6	$ 4,946
Balance at December 31, 2012	7,300,000	535,507,965	(82,910,021)	452,597,944	$ 565	$ 107	$ 4,237	$ (6)	$ 1,451	$ (1,294)	$ 5,060	$ 6	$ 5,066
Comprehensive income:													
Net income (loss)									1,149		1,149	(1)	1,148
Other comprehensive income, net of tax								14			14		14
Total comprehensive income											1,163	(1)	1,162
Cash dividends:													
Common stock ($.45 per share)									(199)		(199)		(199)
Preferred stock, series A ($2.61 per share)									(9)		(9)		(9)
Preferred stock, series B ($1.51 per share)									(6)		(6)		(6)
Dividend equivalent units related to employee stock-based compensation plans									(1)		(1)		(1)
Issuance of common shares		8,600,008		8,600,008		2	92				94		94
Tax benefit related to employee stock-based compensation plans							7				7		7
Stock-based compensation expense							37				37		37
Common stock repurchased			(19,316,948)	(19,316,948)						(400)	(400)		(400)
Shares repurchased related to employee stock-based compensation plans			(5,616,933)	(5,616,933)						(119)	(119)		(119)
Balance at September 30, 2013	7,300,000	544,107,973	(107,843,902)	436,264,071	$ 565	$ 109	$ 4,373	$ 8	$ 2,385	$ (1,813)	$ 5,627	$ 5	$ 5,632

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating activities		
Net income	$ 1,148	$ 589
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	(47)	2
Gains on sales of loans and investments	(307)	(1)
Gains on debt repurchases	(42)	(102)
Goodwill and acquired intangible asset impairment and amortization expense	10	13
Stock-based compensation expense	37	41
Unrealized (gains) losses on derivative and hedging activities	(384)	51
Provisions for loan losses	649	766
(Increase) decrease in restricted cash other	(3)	5
(Increase) decrease in accrued interest receivable	(74)	204
Decrease in accrued interest payable	(61)	(55)
Decrease in other assets	545	403
(Decrease) increase in other liabilities	(85)	31
Cash provided by operating activities continuing operations	1,386	1,947
Cash provided by (used in) operating activities discontinued operations	46	(5)
Total net cash provided by operating activities	1,432	1,942
Investing activities		
Student loans acquired and originated	(3,689)	(5,497)
Reduction of student loans:		
Installment payments, claims and other	9,159	14,167
Proceeds from sales of student loans	707	428
Other investing activities, net	56	(101)
Purchases of available-for-sale securities	(44)	(39)
Proceeds from maturities of available-for-sale securities	28	56
Purchases of other securities	(288)	(182)
Proceeds from maturities of other securities	289	161
Decrease (increase) in restricted cash variable interest entities	422	(609)
Total net cash provided by investing activities	6,640	8,384
Financing activities		
Borrowings collateralized by loans in trust issued	8,542	10,004
Borrowings collateralized by loans in trust repaid	(10,815)	(11,565)
Asset-backed commercial paper conduits, net	4,341	140
ED Conduit Program facility, net	(9,551)	(8,960)
Other short-term borrowings issued		23
Other short-term borrowings repaid		(122)
Other long-term borrowings issued	2,712	3,769
Other long-term borrowings repaid	(2,343)	(2,952)
Other financing activities, net	(782)	224
Retail and other deposits, net	867	327

Common stock repurchased	(400)	(730)
Common stock dividends paid	(199)	(180)
Preferred stock dividends paid	(15)	(15)
Net cash used in financing activities	(7,643)	(10,037)
Net increase in cash and cash equivalents	429	289
Cash and cash equivalents at beginning of period	3,900	2,794
Cash and cash equivalents at end of period	$ 4,329	$ 3,083
Supplemental disclosures of cash flow information:		
Cash disbursements made (refunds received) for:		
Interest	$ 1,646	$ 1,913
Income taxes paid	$ 520	$ 416
Income taxes received	$ (19)	$ (5)
Noncash activity:		
Investing activity Student loans and other assets acquired	$	$ 402
Student loans and other assets removed related to sale of Residual Interest in securitization	$ (11,802)	$
Financing activity Borrowings assumed in acquisition of student loans and other assets	$	$ 425
Borrowings removed related to sale of Residual Interest in securitization	$ (12,084)	$

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2013 and for the three and nine months ended

September 30, 2013 and 2012 is unaudited)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (we, us, our, or the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries and those Variable Interest Entities (VIEs) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results for the year ending December 31, 2013 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K). Definitions for certain capitalized terms used in this document can be found in the 2012 Form 10-K.

Consolidation

In the first six months of 2013, we sold Residual Interests in FFELP Loan securitization trusts to third parties. We will continue to service the student loans in the trusts under existing agreements. Prior to the sale of the Residual Interests, we had consolidated the trusts as VIEs because we had met the two criteria for consolidation. We had determined we were the primary beneficiary because (1) as servicer to the trust we had the power to direct the activities of the VIE that most significantly affected its economic performance and (2) as the residual holder of the trust, we had an obligation to absorb losses or receive benefits of the trust that could potentially be significant. Upon the sale of the Residual Interests we are no longer the residual holder, thus we determined we no longer met criterion (2) above and deconsolidated the trusts. As a result of these transactions, we removed securitization trust assets of $12.5 billion and the related liabilities of $12.1 billion from the balance sheet and recorded a $312 million gain as part of gains on sales of loans and investments for the nine months ended September 30, 2013.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

Recently Adopted Accounting Standards

Accumulated Other Comprehensive Income

On January 1, 2013, we adopted Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220), Reporting Amounts Reclassified out of Accumulated Other Comprehensive Income. The objective of this new guidance is to improve the reporting of reclassifications out of accumulated other comprehensive income. The impact of adopting this new guidance was immaterial and there was no impact on our results of operations.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses

Our provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. We segregate our Private Education Loan portfolio into two classes of loans traditional and non-traditional. Non-traditional loans are loans to (i) customers attending for-profit schools with an original Fair Isaac and Company (FICO) score of less than 670 and (ii) customers attending not-for-profit schools with an original FICO score of less than 640. The FICO score used in determining whether a loan is non-traditional is the greater of the customer or cosigner FICO score at origination. Traditional loans are defined as all other Private Education Loans that are not classified as non-traditional.

Allowance for Loan Losses Metrics

	Three Months Ended September 30, 2013			
(Dollars in millions)	**FFELP Loans**	**Private Education Loans**	**Other Loans**	**Total**
Allowance for Loan Losses				
Beginning balance	$ 133	$ 2,149	$ 35	$ 2,317
Total provision	12	195		207
Charge-offs[1]	(15)	(205)	(3)	(223)
Reclassification of interest reserve[2]		5		5
Ending balance	$ 130	$ 2,144	$ 32	$ 2,306
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,091	$ 24	$ 1,115
Ending balance: collectively evaluated for impairment	$ 130	$ 1,053	$ 8	$ 1,191
Loans:				
Ending balance: individually evaluated for impairment	$	$ 8,982	$ 49	$ 9,031
Ending balance: collectively evaluated for impairment	$ 105,422	$ 31,640	$ 91	$ 137,153
Charge-offs as a percentage of average loans in repayment (annualized)	.08%	2.57%	7.70%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.06%	2.48%	7.70%	
Allowance as a percentage of the ending total loan balance	.12%	5.28%	22.90%	
Allowance as a percentage of the ending loans in repayment	.17%	6.77%	22.90%	
Allowance coverage of charge-offs (annualized)	2.2	2.6	2.8	
Ending total loans[3]	$ 105,422	$ 40,622	$ 140	
Average loans in repayment	$ 78,012	$ 31,630	$ 148	
Ending loans in repayment	$ 77,618	$ 31,651	$ 140	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

	Three Months Ended September 30, 2012			
(Dollars in millions)	FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	$ 173	$ 2,186	$ 59	$ 2,418
Total provision	18	252		270
Charge-offs[1]	(23)	(250)	(6)	(279)
Student loan sales	(2)			(2)
Reclassification of interest reserve[2]		8		8
Ending balance	$ 166	$ 2,196	$ 53	$ 2,415
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,056	$ 40	$ 1,096
Ending balance: collectively evaluated for impairment	$ 166	$ 1,140	$ 13	$ 1,319
Loans:				
Ending balance: individually evaluated for impairment	$	$ 7,099	$ 76	$ 7,175
Ending balance: collectively evaluated for impairment	$ 126,441	$ 33,012	$ 146	$ 159,599
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.23%	9.58%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	3.11%	9.58%	
Allowance as a percentage of the ending total loan balance	.13%	5.48%	23.92%	
Allowance as a percentage of the ending loans in repayment	.18%	7.09%	23.92%	
Allowance coverage of charge-offs (annualized)	1.8	2.2	2.4	
Ending total loans[3]	$ 126,441	$ 40,111	$ 222	
Average loans in repayment	$ 90,898	$ 30,816	$ 231	
Ending loans in repayment	$ 90,481	$ 30,972	$ 222	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

	Nine Months Ended September 30, 2013			
(Dollars in millions)	FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	$ 159	$ 2,171	$ 47	$ 2,377
Total provision	42	607		649
Charge-offs[1]	(57)	(649)	(15)	(721)
Student loan sales	(14)			(14)
Reclassification of interest reserve[2]		15		15
Ending balance	$ 130	$ 2,144	$ 32	$ 2,306
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,091	$ 24	$ 1,115
Ending balance: collectively evaluated for impairment	$ 130	$ 1,053	$ 8	$ 1,191
Loans:				
Ending balance: individually evaluated for impairment	$	$ 8,982	$ 49	$ 9,031
Ending balance: collectively evaluated for impairment	$ 105,422	$ 31,640	$ 91	$ 137,153
Charge-offs as a percentage of average loans in repayment (annualized)	.09%	2.74%	12.14%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.65%	12.14%	
Allowance as a percentage of the ending total loan balance	.12%	5.28%	22.90%	
Allowance as a percentage of the ending loans in repayment	.17%	6.77%	22.90%	
Allowance coverage of charge-offs (annualized)	1.7	2.5	1.6	
Ending total loans[3]	$ 105,422	$ 40,622	$ 140	
Average loans in repayment	$ 82,196	$ 31,631	$ 163	
Ending loans in repayment	$ 77,618	$ 31,651	$ 140	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

	Nine Months Ended September 30, 2012			
(Dollars in millions)	FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	$ 187	$ 2,171	$ 69	$ 2,427
Total provision	54	712		766
Charge-offs[1]	(68)	(709)	(16)	(793)
Student loan sales	(7)			(7)
Reclassification of interest reserve[2]		22		22
Ending balance	$ 166	$ 2,196	$ 53	$ 2,415
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,056	$ 40	$ 1,096
Ending balance: collectively evaluated for impairment	$ 166	$ 1,140	$ 13	$ 1,319
Loans:				
Ending balance: individually evaluated for impairment	$	$ 7,099	$ 76	$ 7,175
Ending balance: collectively evaluated for impairment	$ 126,441	$ 33,012	$ 146	$ 159,599
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.10%	8.79%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.97%	8.79%	
Allowance as a percentage of the ending total loan balance	.13%	5.48%	23.92%	
Allowance as a percentage of the ending loans in repayment	.18%	7.09%	23.92%	
Allowance coverage of charge-offs (annualized)	1.8	2.3	2.5	
Ending total loans[3]	$ 126,441	$ 40,111	$ 222	
Average loans in repayment	$ 92,157	$ 30,577	$ 242	
Ending loans in repayment	$ 90,481	$ 30,972	$ 222	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default; therefore, the key credit quality indicator for this portfolio is loan status. The impact of changes in loan status is incorporated quarterly into the allowance for loan losses calculation.

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 traditional/non-traditional loan designation. The other Private Education Loan key quality indicators can change and are incorporated quarterly into the allowance for loan losses calculation. The following table highlights the principal balance (excluding the receivable for partially charged-off loans) of our Private Education Loan portfolio stratified by the key credit quality indicators.

	Private Education Loans Credit Quality Indicators			
	September 30, 2013		December 31, 2012	
(Dollars in millions)	Balance[3]	% of Balance	Balance[3]	% of Balance
Credit Quality Indicators				
School Type/FICO Scores:				
Traditional	$ 36,353	93%	$ 35,347	92%
Non-Traditional[1]	2,947	7	3,207	8
Total	$ 39,300	100%	$ 38,554	100%
Cosigners:				
With cosigner	$ 26,277	67%	$ 24,907	65%
Without cosigner	13,023	33	13,647	35
Total	$ 39,300	100%	$ 38,554	100%
Seasoning[2]:				
1-12 payments	$ 5,855	15%	$ 7,371	19%
13-24 payments	5,765	15	6,137	16
25-36 payments	6,227	16	6,037	16
37-48 payments	4,871	12	4,780	12
More than 48 payments	10,041	25	8,325	22
Not yet in repayment	6,541	17	5,904	15
Total	$ 39,300	100%	$ 38,554	100%

(1) Defined as loans to customers attending for-profit schools (with a FICO score of less than 670 at origination) and customers attending not-for-profit schools (with a FICO score of less than 640 at origination).

(2) Number of months in active repayment for which a scheduled payment was due.

(3) Balance represents gross Private Education Loans.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

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

	FFELP Loan Delinquencies			
	September 30, 2013		December 31, 2012	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 14,613		$ 17,702	
Loans in forbearance[2]	13,191		15,902	
Loans in repayment and percentage of each status:				
Loans current	64,144	82.6%	75,499	83.2%
Loans delinquent 31-60 days[3]	3,798	4.9	4,710	5.2
Loans delinquent 61-90 days[3]	2,734	3.5	2,788	3.1
Loans delinquent greater than 90 days[3]	6,942	9.0	7,734	8.5
Total FFELP Loans in repayment	77,618	100%	90,731	100%
Total FFELP Loans, gross	105,422		124,335	
FFELP Loan unamortized premium	1,058		1,436	
Total FFELP Loans	106,480		125,771	
FFELP Loan allowance for losses	(130)		(159)	
FFELP Loans, net	$ 106,350		$ 125,612	
Percentage of FFELP Loans in repayment		73.6%		73.0%
Delinquencies as a percentage of FFELP Loans in repayment		17.4%		16.8%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		14.5%		14.9%

(1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

(2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

	Private Education Traditional Loan Delinquencies			
	September 30, 2013		December 31, 2012	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 6,112		$ 5,421	
Loans in forbearance[2]	971		996	
Loans in repayment and percentage of each status:				
Loans current	27,015	92.3%	26,597	91.9%
Loans delinquent 31-60 days[3]	812	2.8	837	2.9
Loans delinquent 61-90 days[3]	519	1.7	375	1.3
Loans delinquent greater than 90 days[3]	924	3.2	1,121	3.9
Total traditional loans in repayment	29,270	100%	28,930	100%
Total traditional loans, gross	36,353		35,347	
Traditional loans unamortized discount	(650)		(713)	
Total traditional loans	35,703		34,634	
Traditional loans receivable for partially charged-off loans	798		797	
Traditional loans allowance for losses	(1,611)		(1,637)	
Traditional loans, net	$ 34,890		$ 33,794	
Percentage of traditional loans in repayment		80.5%		81.9%
Delinquencies as a percentage of traditional loans in repayment		7.7%		8.1%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.2%		3.3%

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not 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.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

	Private Education Non-Traditional Loan Delinquencies			
	September 30, 2013		December 31, 2012	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 429		$ 483	
Loans in forbearance[2]	137		140	
Loans in repayment and percentage of each status:				
Loans current	1,841	77.3%	1,978	76.5%
Loans delinquent 31-60 days[3]	154	6.5	175	6.8
Loans delinquent 61-90 days[3]	122	5.1	106	4.1
Loans delinquent greater than 90 days[3]	264	11.1	325	12.6
Total non-traditional loans in repayment	2,381	100%	2,584	100%
Total non-traditional loans, gross	2,947		3,207	
Non-traditional loans unamortized discount	(76)		(83)	
Total non-traditional loans	2,871		3,124	
Non-traditional loans receivable for partially charged-off loans	524		550	
Non-traditional loans allowance for losses	(533)		(534)	
Non-traditional loans, net	$ 2,862		$ 3,140	
Percentage of non-traditional loans in repayment		80.8%		80.6%
Delinquencies as a percentage of non-traditional loans in repayment		22.7%		23.4%
Loans in forbearance as a percentage of loans in repayment and forbearance		5.4%		5.1%

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not 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.

Receivable for Partially Charged-Off Private Education Loans

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. Our allowance for loan losses takes into account these potential recovery uncertainties. In the third quarter of

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

2013 we increased our allowance related to these potential recovery shortfalls by approximately $112 million. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was $329 million and $187 million in allowance for Private Education Loan losses at September 30, 2013 and 2012, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans.

The following table summarizes the activity in the receivable for partially charged-off Private Education Loans.

(Dollars in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Receivable at beginning of period	$ 1,334	$ 1,277	$ 1,347	$ 1,241
Expected future recoveries of current period defaults(1)	68	86	216	237
Recoveries(2)	(55)	(45)	(177)	(139)
Charge-offs(3)	(25)	(15)	(64)	(36)
Receivable at end of period	1,322	1,303	1,322	1,303
Allowance for estimated recovery shortfalls(4)	(329)	(187)	(329)	(187)
Net receivable at end of period	$ 993	$ 1,116	$ 993	$ 1,116

(1) Represents the difference between the loan balance and our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in the Private Education Loan total charge-offs as reported in the Allowance for Loan Losses Metrics tables.

(4) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the $2.1 billion and $2.2 billion overall allowance for Private Education Loan losses as of September 30, 2013 and 2012, respectively.

Troubled Debt Restructurings (TDRs)

We modify the terms of loans for certain customers when we believe such modifications may increase the ability and willingness of a customer to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. For customers experiencing financial difficulty, certain Private Education Loans for which we have granted either cumulative forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. Forbearance provides customers the ability to defer payments for a period of time, but does not result in the forgiveness of any principal or interest. While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. At September 30, 2013 and December 31, 2012, the percentage of loans granted forbearance that have migrated to a TDR classification due to the extension of the original forbearance period was 43 percent for each period. The unpaid principal balance of TDR loans that were in an interest rate reduction plan as of September 30, 2013 and December 31, 2012 was $1.5 billion and $1.0 billion, respectively.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

At September 30, 2013 and December 31, 2012, all of our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

(Dollars in millions)		Recorded Investment[1]	TDR Loans Unpaid Principal Balance	Related Allowance
September 30, 2013				
Private Education Loans	Traditional	$ 7,251	$ 7,307	$ 830
Private Education Loans	Non-Traditional	1,423	1,424	261
Total		$ 8,674	$ 8,731	$ 1,091
December 31, 2012				
Private Education Loans	Traditional	$ 5,999	$ 6,074	$ 844
Private Education Loans	Non-Traditional	1,295	1,303	282
Total		$ 7,294	$ 7,377	$ 1,126

(1) The recorded investment is equal to the unpaid principal balance and accrued interest receivable net of unamortized deferred fees and costs.

The following table provides the average recorded investment and interest income recognized for our TDR loans.

		Three Months Ended September 30,			
		2013		2012	
(Dollars in millions)		Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans	Traditional	$ 7,246	$ 108	$ 5,481	$ 87
Private Education Loans	Non-Traditional	1,477	29	1,274	27
Total		$ 8,723	$ 137	$ 6,755	$ 114

	Nine Months Ended September 30,	
	2013	2012
(Dollars in millions)		

		Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans	Traditional	$ 6,768	$ 304	$ 5,010	$ 241
Private Education Loans	Non-Traditional	1,420	83	1,197	78
Total		$ 8,188	$ 387	$ 6,207	$ 319

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (Continued)

The following table provides information regarding the loan status and aging of TDR loans that are past due.

	TDR Loan Delinquencies			
	September 30, 2013		December 31, 2012	
(Dollars in millions)	Balance	%	Balance	%
Loans in deferment[1]	$ 789		$ 574	
Loans in forbearance[2]	768		544	
Loans in repayment and percentage of each status:				
Loans current	5,384	75.1%	4,619	73.8%
Loans delinquent 31-60 days[3]	555	7.7	478	7.6
Loans delinquent 61-90 days[3]	408	5.7	254	4.1
Loans delinquent greater than 90 days[3]	827	11.5	908	14.5
Total TDR loans in repayment	7,174	100%	6,259	100%
Total TDR loans, gross	$ 8,731		$ 7,377	

(1) Deferment includes loans for customers who have returned to school and are not currently required to make payments on their loans.

(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.

The following table provides the amount of modified loans that resulted in a TDR in the periods presented. Additionally, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the current period within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure. The majority of our loans that are considered TDRs involve a temporary forbearance of payments and do not change the contractual interest rate of the loan.

		Three Months Ended September 30,					
		2013			2012		
(Dollars in millions)		Modified Loans[1]	Charge-Offs[2]	Payment Default	Modified Loans[1]	Charge-Offs[2]	Payment Default
Private Education Loans	Traditional	$ 651	$ 88	$ 168	$ 573	$ 96	$ 332
Private Education Loans	Non-Traditional	94	32	48	101	37	97

Total		$ 745	$ 120	$ 216	$ 674	$ 133	$ 429

		Nine Months Ended September 30,					
		2013			2012		
(Dollars in millions)		**Modified Loans[1]**	**Charge-Offs[2]**	**Payment Default**	**Modified Loans[1]**	**Charge-Offs[2]**	**Payment Default**
Private Education Loans	Traditional	$ 1,686	$ 269	$ 547	$ 1,783	$ 244	$ 1,111
Private Education Loans	Non-Traditional	259	97	150	346	99	350
Total		$ 1,945	$ 366	$ 697	$ 2,129	$ 343	$ 1,461

(1) Represents period ending balance of loans that have been modified during the period and resulted in a TDR.

(2) Represents loans that charged off that were classified as TDRs.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. 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.

		Accrued Interest Receivable		
(Dollars in millions)		**Total**	**Greater Than 90 Days Past Due**	**Allowance for Uncollectible Interest**
September 30, 2013				
Private Education Loans	Traditional	$ 940	$ 33	$ 46
Private Education Loans	Non-Traditional	97	13	21
Total		$ 1,037	$ 46	$ 67
December 31, 2012				
Private Education Loans	Traditional	$ 798	$ 39	$ 45
Private Education Loans	Non-Traditional	106	16	22
Total		$ 904	$ 55	$ 67

3. Borrowings

The following table summarizes our borrowings.

	September 30, 2013			December 31, 2012		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**
Unsecured borrowings:						
Senior unsecured debt	$ 3,201	$ 15,509	$ 18,710	$ 2,319	$ 15,446	$ 17,765
Bank deposits	5,732	1,896	7,628	4,226	3,088	7,314
Other[(1)]	806		806	1,609		1,609
Total unsecured borrowings	9,739	17,405	27,144	8,154	18,534	26,688
Secured borrowings:						
FFELP Loan securitizations		91,690	91,690		105,525	105,525

Private Education Loan securitizations		19,434	19,434		19,656	19,656
FFELP Loans other facilities	5,794	5,394	11,188	11,651	4,827	16,478
Private Education Loans other facilities		878	878		1,070	1,070
Total secured borrowings	5,794	117,396	123,190	11,651	131,078	142,729
Total before hedge accounting adjustments	15,533	134,801	150,334	19,805	149,612	169,417
Hedge accounting adjustments	39	2,143	2,182	51	2,789	2,840
Total	$ 15,572	$ 136,944	$ 152,516	$ 19,856	$ 152,401	$ 172,257

(1) Other primarily consists of the obligation to return cash collateral held related to derivative exposures.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings (Continued)

Secured Borrowings

The tables below summarize all of our financing entities that are VIEs which we consolidate as a result of being the entities primary beneficiary. As such, these financing VIEs are accounted for as secured borrowings. We consolidate the following financing VIEs:

	September 30, 2013						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings VIEs:							
FFELP Loan securitizations	$	$ 91,690	$ 91,690	$ 92,865	$ 3,538	$ 715	$ 97,118
Private Education Loan securitizations		19,434	19,434	24,413	337	575	25,325
FFELP Loans other facilities	4,678	3,777	8,455	8,762	151	108	9,021
Private Education Loans other facilities		878	878	1,605	18	31	1,654
Total before hedge accounting adjustments	4,678	115,779	120,457	127,645	4,044	1,429	133,118
Hedge accounting adjustments		1,189	1,189			951	951
Total	$ 4,678	$ 116,968	$ 121,646	$ 127,645	$ 4,044	$ 2,380	$ 134,069

	December 31, 2012						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings VIEs:							
FFELP Loan securitizations	$	$ 105,525	$ 105,525	$ 107,009	$ 3,652	$ 608	$ 111,269
Private Education Loan securitizations		19,656	19,656	24,618	385	545	25,548
FFELP Loans other facilities	9,551	4,154	13,705	14,050	487	197	14,734
Private Education Loans other facilities		1,070	1,070	1,454	302	33	1,789
Total before hedge accounting adjustments	9,551	130,405	139,956	147,131	4,826	1,383	153,340
Hedge accounting adjustments		1,113	1,113			929	929
Total	$ 9,551	$ 131,518	$ 141,069	$ 147,131	$ 4,826	$ 2,312	$ 154,269

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings (Continued)

Securitizations

The following table summarizes the securitization transactions that occurred during the year ended December 31, 2012 and the nine months ended September 30, 2013.

(Dollars in millions)			AAA-rated bonds	
Issue	Date Issued	Total Issued	Weighted Average Interest Rate	Weighted Average Life
FFELP:				
2012-1	January 2012	$ 765	1 month LIBOR plus 0.91%	4.6 years
2012-2	March 2012	824	1 month LIBOR plus 0.70%	4.7 years
2012-3	May 2012	1,252	1 month LIBOR plus 0.65%	4.6 years
2012-4	June 2012	1,491[(1)]	1 month LIBOR plus 1.10%	8.2 years
2011-3	July 2012	24	N/A (Retained B Notes sold)	
2012-4	July 2012	45	N/A (Retained B Notes sold)	
2012-5	July 2012	1,252	1 month LIBOR plus 0.67%	4.5 years
2012-6	September 2012	1,249	1 month LIBOR plus 0.62%	4.6 years
2012-7	November 2012	1,251	1 month LIBOR plus 0.55%	4.5 years
2012-8	December 2012	1,527	1 month LIBOR plus 0.90%	7.8 years
Total bonds issued in 2012		$ 9,680		
Total loan amount securitized in 2012		$ 9,565		
2013-1	February 2013	$ 1,249	1 month LIBOR plus 0.46%	4.3 years
2013-2	April 2013	1,246	1 month LIBOR plus 0.45%	4.4 years
2013-3	June 2013	1,246	1 month LIBOR plus 0.54%	4.5 years
2013-4	August 2013	747	1 month LIBOR plus 0.55%	4.4 years
2013-5	September 2013	996	1 month LIBOR plus 0.64%	4.6 years
Total bonds issued in nine months ended September 30, 2013		$ 5,484		
Total loan amount securitized in nine months ended September 30, 2013		$ 5,496		
Private Education:				
2012-A	February 2012	$ 547	1 month LIBOR plus 2.17%	3.0 years
2012-B	April 2012	891	1 month LIBOR plus 2.12%	2.9 years
2012-C	May 2012	1,135	1 month LIBOR plus 1.77%	2.6 years

2012-D	July 2012	640	1 month LIBOR plus 1.69%	2.5 years
2012-E	October 2012	976	1 month LIBOR plus 1.22%	2.6 years
Total bonds issued in 2012		$ 4,189		
Total loan amount securitized in 2012		$ 5,557		
2013-R1	January 2013	$ 254	1 month LIBOR plus 1.75%	6.3 years
2013-A	March 2013	1,108	1 month LIBOR plus 0.81%	2.6 years
2013-B	May 2013	1,135	1 month LIBOR plus 0.89%	2.7 years
2013-C	September 2013	624	1 month LIBOR plus 1.21%	3.1 years
Total bonds issued in nine months ended September 30, 2013		$ 3,121		
Total loan amount securitized in nine months ended September 30, 2013		$ 3,387		

(1) Total size excludes subordinated tranche that was retained at issuance totaling $45 million.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings (Continued)

2013 Sales of FFELP Securitization Trust Residual Interests

On February 13, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of $3.82 billion and related liabilities of $3.68 billion from our balance sheet.

On April 11, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of $2.03 billion and related liabilities of $1.99 billion from our balance sheet.

On June 13, 2013, we sold the three Residual Interests in FFELP Loan securitization trusts to a third party. We will continue to service the student loans in the trusts under existing agreements. The sale removed securitization trust assets of $6.60 billion and related liabilities of $6.42 billion from our balance sheet.

Additional, Recent Borrowing-Related Transactions

Senior Unsecured Debt

On January 28, 2013 and September 20, 2013, we issued $1.5 billion and $1.25 billion of senior unsecured bonds, respectively.

FFELP ABCP Facility

On June 10, 2013, we closed on a new $6.8 billion asset-backed commercial paper (ABCP) credit facility that matures in June 2014 to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the U.S. Department of Education s (ED) Conduit Program. The facility cannot be used to borrow any additional amounts. As a result, we ended our participation in the ED Conduit Program.

The cost of borrowing under the facility is the yield rate (either 30-day LIBOR daily average or commercial paper issuance cost) plus 0.50 percent, excluding up-front-commitment fees. Failure to pay off the facility on the maturity date would result in a 90-day extension of the facility with the interest rate increasing from LIBOR plus 0.75 percent to LIBOR plus 1.50 percent over that period. If, at the end of that period the facility has not been repaid, a default rate of LIBOR plus 3.00 percent would be payable until either the notes are repaid in full or the collateral is foreclosed upon. This default rate would also be triggered by the occurrence of a termination event. The facility is subject to termination under certain circumstances. Our borrowings under the facility are non-recourse. As of September 30, 2013, there was $4.7 billion outstanding under the facility. The book basis of the assets securing the facility as of September 30, 2013 was $4.9 billion.

Private Education Loan Facility

On July 17, 2013, we closed on a $1.1 billion asset-backed borrowing facility that matures on August 15, 2015. The facility was used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, which occurred on August 15, 2013. The cost of borrowing under the facility is commercial paper issuance cost plus 0.75 percent, excluding up-front commitment fees. If outstanding borrowings under the facility exceed $825 million after July 15, 2014 and $550 million after January 15, 2015, the cost of borrowing increases to commercial paper issuance cost plus 1.50 percent. Failure to pay off the facility on the maturity date would result in the interest rate increasing to LIBOR plus 3.00 percent until the notes are repaid in full or the collateral is foreclosed upon. Our borrowings under the facility are non-recourse. As of

September 30, 2013, there was $878 million outstanding under the facility. The book basis of the assets securing the facility as of September 30, 2013 was $1.7 billion.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Derivative Financial Instruments

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2012 Form 10-K. Please refer to Note 7 Derivative Financial Instruments in our 2012 Form 10-K for a full discussion.

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2013 and December 31, 2012, and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2013 and 2012.

Impact of Derivatives on Consolidated Balance Sheet

		Cash Flow		**Fair Value**		**Trading**		**Total**	
(Dollars in millions)	**Hedged Risk Exposure**	**Sept. 30, 2013**	**Dec. 31, 2012**	**Sept. 30, 2013**	**Dec. 31, 2012**	**Sept. 30, 2013**	**Dec. 31, 2012**	**Sept. 30, 2013**	**Dec. 31, 2012**
Fair Values[1]									
Derivative Assets:									
Interest rate swaps	Interest rate	$ 16	$	$ 881	$ 1,396	$ 69	$ 150	$ 966	$ 1,546
Cross-currency interest rate swaps	Foreign currency & interest rate			1,163	1,165	1	70	1,164	1,235
Other[2]	Interest rate					3	4	3	4
Total derivative assets[3]		16		2,044	2,561	73	224	2,133	2,785
Derivative Liabilities:									
Interest rate swaps	Interest rate	(1)	(11)	(98)	(1)	(202)	(197)	(301)	(209)
Floor Income Contracts	Interest rate					(1,564)	(2,154)	(1,564)	(2,154)
Cross-currency interest rate swaps	Foreign currency & interest rate			(175)	(136)	(7)		(182)	(136)
Other[2]	Interest rate					(21)		(21)	
Total derivative liabilities[3]		(1)	(11)	(273)	(137)	(1,794)	(2,351)	(2,068)	(2,499)
Net total derivatives		$ 15	$ (11)	$ 1,771					