

SLM CORP
Form 10-Q
August 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from to

Commission File Number: 001-13251

SLM Corporation

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

52-2013874
(I.R.S. Employer
Identification No.)

300 Continental Drive, Newark, Delaware
(Address of principal executive offices)

19713
(Zip Code)

(302) 283-8000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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 No

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

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

Class	Outstanding at June 30, 2013
Common Stock, \$0.20 par value	436,188,852 shares

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SLM CORPORATION

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SLM CORPORATION****CONSOLIDATED BALANCE SHEETS****(In millions, except share and per share amounts)****(Unaudited)**

	June 30, 2013	December 31, 2012
Assets		
FFELP Loans (net of allowance for losses of \$133 and \$159, respectively)	\$ 108,491	\$ 125,612
Private Education Loans (net of allowance for losses of \$2,149 and \$2,171 respectively)	37,116	36,934
Investments		
Available-for-sale	72	72
Other	866	1,010
Total investments	938	1,082
Cash and cash equivalents	3,327	3,900
Restricted cash and investments	4,109	5,011
Goodwill and acquired intangible assets, net	440	448
Other assets	7,047	8,273
Total assets	\$ 161,468	\$ 181,260
Liabilities		
Short-term borrowings	\$ 16,558	\$ 19,856
Long-term borrowings	135,879	152,401
Other liabilities	3,597	3,937
Total liabilities	156,034	176,194
Commitments and contingencies		
Equity		
Preferred stock, par value \$0.20 per share, 20 million shares authorized		
Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of \$50 per share	165	165
Series B: 4 million and 4 million shares issued, respectively, at stated value of \$100 per share	400	400
Common stock, par value \$0.20 per share, 1.125 billion shares authorized: 544 million and 536 million shares issued, respectively	109	107
Additional paid-in capital	4,355	4,237
Accumulated other comprehensive income (loss) (net of tax (expense) benefit of \$(5) and \$3, respectively)	9	(6)
Retained earnings	2,195	1,451
Total SLM Corporation stockholders' equity before treasury stock	7,233	6,354
Less: Common stock held in treasury at cost: 108 million and 83 million shares, respectively	(1,804)	(1,294)
Total SLM Corporation stockholders' equity	5,429	5,060
Noncontrolling interest	5	6
Total equity	5,434	5,066

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Total liabilities and equity \$ 161,468 \$ 181,260

Supplemental information assets and liabilities of consolidated variable interest entities:

	June 30, 2013	December 31, 2012
FFELP Loans	\$ 103,662	\$ 121,059
Private Education Loans	26,084	26,072
Restricted cash and investments	3,698	4,826
Other assets	1,841	2,312
Short-term borrowings	6,524	9,551
Long-term borrowings	116,504	131,518
Net assets of consolidated variable interest entities	\$ 12,257	\$ 13,200

See accompanying notes to consolidated financial statements.

Table of Contents**SLM CORPORATION****CONSOLIDATED STATEMENTS OF INCOME****(In millions, except per share amounts)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income:				
FFELP Loans	\$ 703	\$ 777	\$ 1,439	\$ 1,619
Private Education Loans	627	616	1,249	1,241
Other loans	3	4	6	9
Cash and investments	4	6	8	8
Total interest income	1,337	1,403	2,702	2,877
Total interest expense	553	656	1,123	1,322
Net interest income	784	747	1,579	1,555
Less: provisions for loan losses	201	243	442	496
Net interest income after provisions for loan losses	583	504	1,137	1,059
Other income (loss):				
Gains on sales of loans and investments	251		307	
Gains (losses) on derivative and hedging activities, net	18	6	(13)	(366)
Servicing revenue	89	88	178	178
Contingency revenue	109	87	208	176
Gains on debt repurchases	19	20	42	58
Other	24	(2)	58	38
Total other income	510	199	780	84
Expenses:				
Salaries and benefits	134	117	265	242
Other operating expenses	124	114	243	240
Total operating expenses	258	231	508	482
Goodwill and acquired intangible asset impairment and amortization expense	4	5	7	9
Restructuring and other reorganization expenses	24	3	35	7
Total expenses	286	239	550	498
Income from continuing operations, before income tax expense	807	464	1,367	645
Income tax expense	300	169	512	237
Net income from continuing operations	507	295	855	408
Income (loss) from discontinued operations, net of tax expense (benefit)	35	(4)	33	(6)
Net income	542	291	888	402
Less: net loss attributable to noncontrolling interest	(1)	(1)	(1)	(1)
Net income attributable to SLM Corporation	543	292	889	403
Preferred stock dividends	5	5	10	10

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Net income attributable to SLM Corporation common stock	\$ 538	\$ 287	\$ 879	\$ 393
Basic earnings (loss) per common share attributable to SLM Corporation:				
Continuing operations	\$ 1.14	\$.60	\$ 1.90	\$.81
Discontinued operations	.08	(.01)	.07	(.01)
Total	\$ 1.22	\$.59	\$ 1.97	\$.80
Average common shares outstanding	440	482	445	493
Diluted earnings (loss) per common share attributable to SLM Corporation:				
Continuing operations	\$ 1.12	\$.60	\$ 1.87	\$.80
Discontinued operations	.08	(.01)	.07	(.01)
Total	\$ 1.20	\$.59	\$ 1.94	\$.79
Average common and common equivalent shares outstanding	448	488	453	499
Dividends per common share attributable to SLM Corporation	\$.15	\$.125	\$.30	\$.25

See accompanying notes to consolidated financial statements.

Table of Contents**SLM CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In millions)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 542	\$ 291	\$ 888	\$ 402
Other comprehensive income (loss):				
Unrealized gains (losses) on derivatives:				
Unrealized hedging gains (losses) on derivatives	22	(10)	23	(11)
Reclassification adjustments for derivative losses included in net income (interest expense)	2	8	5	17
Total unrealized gains (losses) on derivatives	24	(2)	28	6
Unrealized losses on investments	(3)		(4)	
Income tax (expense) benefit	(8)	1	(9)	(2)
Other comprehensive income (loss), net of tax	13	(1)	15	4
Comprehensive income	555	290	903	406
Less: comprehensive loss attributable to noncontrolling interest	(1)	(1)	(1)	(1)
Total comprehensive income attributable to SLM Corporation	\$ 556	\$ 291	\$ 904	\$ 407

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			Preferred Stock	Common Stock	Accumulated		Retained Earnings	Treasury Stock	Total		
		Issued	Treasury	Outstanding			Additional Paid Capital	Other Comprehen sive Income (Loss)			Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at March 31, 2012	7,300,000	532,246,806	(39,084,156)	493,162,650	\$ 565	\$ 106	\$ 4,182	\$ (9)	\$ 814	\$ (620)	\$ 5,038	\$ 8	\$ 5,046
Comprehensive income:													
Net income (loss)									292		292	(1)	291
Other comprehensive income, net of tax							(1)				(1)		(1)
Total comprehensive income											291	(1)	290
Cash dividends:													
Common stock (\$.125 per share)									(61)		(61)		(61)
Preferred stock, series A (\$.87 per share)									(3)		(3)		(3)
Preferred stock, series B (\$.56 per share)									(2)		(2)		(2)
Issuance of common shares		426,168		426,168		1	4				5		5
Stock-based compensation expense							10				10		10
Common stock repurchased			(23,836,964)	(23,836,964)						(341)	(341)		(341)
Shares repurchased related to employee stock-based compensation plans			(349,655)	(349,655)						(6)	(6)		(6)
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
Balance at March 31, 2013	7,300,000	539,665,760	(95,455,400)	444,210,360	\$ 565	\$ 108	\$ 4,291	\$ (4)	\$ 1,723	\$ (1,535)	\$ 5,148	\$ 6	\$ 5,154
Comprehensive income:													

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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			Accumulated					Total			
		Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Paid Capital	Other Comprehensive Income (Loss)	Retained Earnings	Treasur Stock	Stockholders' Equity	Controllers' 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)									403		403	(1)	402
Other comprehensive income, net of tax							4				4		4
Total comprehensive income											407	(1)	406
Cash dividends:													
Common stock (\$0.25 per share)									(123)		(123)		(123)
Preferred stock, series A (\$1.74 per share)									(6)		(6)		(6)
Preferred stock, series B (\$1.13 per share)									(4)		(4)		(4)
Issuance of common shares		3,597,652		3,597,652		1	31				32		32
Tax benefit related to employee stock-based compensation plans							(3)				(3)		(3)
Stock-based compensation expense							32				32		32
Common stock repurchased Shares			(40,540,146)	(40,540,146)						(609)	(609)		(609)
Shares repurchased related to employee stock-based compensation plans			(2,406,632)	(2,406,632)						(38)	(38)		(38)
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

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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)									889		889	(1)	888
Other comprehensive income, net of tax								15			15		15
Total comprehensive income											904	(1)	903
Cash dividends:													
Common stock (\$.30 per share)									(134)		(134)		(134)
Preferred stock, series A (\$1.74 per share)									(6)		(6)		(6)
Preferred stock, series B (\$1.01 per share)									(4)		(4)		(4)
Dividend equivalent units related to employee stock-based compensation plans									(1)		(1)		(1)
Issuance of common shares		8,273,219		8,273,219		2	84				86		86
Tax benefit related to employee stock-based compensation plans							5				5		5
Stock-based compensation expense							29				29		29
Common stock repurchased			(19,316,948)	(19,316,948)							(400)	(400)	(400)
Shares repurchased related to employee stock-based compensation plans			(5,365,363)	(5,365,363)							(110)	(110)	(110)
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

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Operating activities		
Net income	\$ 888	\$ 402
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	(33)	6
Gains on sales of loans and investments	(307)	
Gains on debt repurchases	(42)	(58)
Goodwill and acquired intangible asset impairment and amortization expense	7	9
Stock-based compensation expense	29	32
Unrealized (gains) losses on derivative and hedging activities	(330)	(1)
Provisions for loan losses	442	496
(Increase) decrease in restricted cash other	(6)	1
(Increase) decrease in accrued interest receivable	(42)	104
Increase in accrued interest payable	6	29
Decrease in other assets	504	32
(Decrease) increase in other liabilities	(200)	92
Cash provided by operating activities continuing operations	916	1,144
Cash provided by (used in) operating activities discontinued operations	38	(6)
Total net cash provided by operating activities	954	1,138
Investing activities		
Student loans acquired and originated	(2,078)	(3,826)
Reduction of student loans:		
Installment payments, claims and other	6,265	8,479
Proceeds from sales of student loans	707	284
Other investing activities, net	115	
Purchases of available-for-sale securities	(24)	(22)
Proceeds from maturities of available-for-sale securities	20	44
Purchases of other securities	(144)	(148)
Proceeds from maturities of other securities	133	128
Decrease (increase) in restricted cash variable interest entities	611	(994)
Total net cash provided by investing activities	5,605	3,945
Financing activities		
Borrowings collateralized by loans in trust issued	6,187	6,894
Borrowings collateralized by loans in trust repaid	(6,439)	(6,849)
Asset-backed commercial paper conduits, net	4,349	1,233
ED Conduit Program facility, net	(9,551)	(5,835)
Other short-term borrowings issued		23
Other short-term borrowings repaid	(893)	(64)
Other long-term borrowings issued	1,489	1,927
Other long-term borrowings repaid	(1,403)	(1,782)
Other financing activities, net	(766)	94

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Retail and other deposits, net	439	244
Common stock repurchased	(400)	(609)
Common stock dividends paid	(134)	(123)
Preferred stock dividends paid	(10)	(10)
Net cash used in financing activities	(7,132)	(4,857)
Net (decrease) increase in cash and cash equivalents	(573)	226
Cash and cash equivalents at beginning of period	3,900	2,794
Cash and cash equivalents at end of period	\$ 3,327	\$ 3,020
Supplemental disclosures of cash flow information:		
Cash disbursements made (refunds received) for:		
Interest	\$ 1,121	\$ 1,276
Income taxes paid	\$ 282	\$ 310
Income taxes received	\$ (18)	\$ (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.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2013 and for the three and six months ended

June 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 six months ended June 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 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 six months ended June 30, 2013.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and six months ended June 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.

Table of Contents**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

(Dollars in millions)	FFELP Loans	Three Months Ended June 30, 2013		Total
		Private Education Loans	Other Loans	
Allowance for Loan Losses				
Beginning balance	\$ 147	\$ 2,170	\$ 42	\$ 2,359
Total provision	14	187		201
Charge-offs ⁽¹⁾	(20)	(212)	(7)	(239)
Student loan sales	(8)			(8)
Reclassification of interest reserve ⁽²⁾		4		4
Ending balance	\$ 133	\$ 2,149	\$ 35	\$ 2,317
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 1,181	\$ 26	\$ 1,207
Ending balance: collectively evaluated for impairment	\$ 133	\$ 968	\$ 9	\$ 1,110
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 8,416	\$ 57	\$ 8,473
Ending balance: collectively evaluated for impairment	\$ 107,538	\$ 31,601	\$ 96	\$ 139,235
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	2.69%	17.57%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.59%	17.57%	
Allowance as a percentage of the ending total loan balance	.12%	5.37%	22.93%	
Allowance as a percentage of the ending loans in repayment	.17%	6.80%	22.93%	
Allowance coverage of charge-offs (annualized)	1.7	2.5	1.2	
Ending total loans ⁽³⁾	\$ 107,538	\$ 40,017	\$ 153	
Average loans in repayment	\$ 81,423	\$ 31,618	\$ 161	
Ending loans in repayment	\$ 77,063	\$ 31,627	\$ 153	

(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

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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.

Table of Contents**SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Three Months Ended June 30, 2012			Total
	FFELP Loans	Private Education Loans	Other Loans	
Allowance for Loan Losses				
Beginning balance	\$ 180	\$ 2,190	\$ 64	\$ 2,434
Total provision	18	225		243
Charge-offs ⁽¹⁾	(23)	(235)	(5)	(263)
Student loan sales	(2)			(2)
Reclassification of interest reserve ⁽²⁾		6		6
Ending balance	\$ 173	\$ 2,186	\$ 59	\$ 2,418
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 921	\$ 45	\$ 966
Ending balance: collectively evaluated for impairment	\$ 173	\$ 1,265	\$ 14	\$ 1,452
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 6,569	\$ 84	\$ 6,653
Ending balance: collectively evaluated for impairment	\$ 131,512	\$ 32,905	\$ 152	\$ 164,569
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.09%	9.80%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.96%	9.80%	
Allowance as a percentage of the ending total loan balance	.13%	5.54%	24.85%	
Allowance as a percentage of the ending loans in repayment	.19%	7.11%	24.85%	
Allowance coverage of charge-offs (annualized)	1.8	2.3	2.5	
Ending total loans ⁽³⁾	\$ 131,512	\$ 39,474	\$ 236	
Average loans in repayment	\$ 92,436	\$ 30,533	\$ 241	
Ending loans in repayment	\$ 91,998	\$ 30,731	\$ 236	

(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.

Table of Contents**SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Six Months Ended June 30, 2013			Total
	FFELP Loans	Private Education Loans	Other Loans	
Allowance for Loan Losses				
Beginning balance	\$ 159	\$ 2,171	\$ 47	\$ 2,377
Total provision	30	412		442
Charge-offs ⁽¹⁾	(42)	(444)	(12)	(498)
Student loan sales	(14)			(14)
Reclassification of interest reserve ⁽²⁾		10		10
Ending balance	\$ 133	\$ 2,149	\$ 35	\$ 2,317
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 1,181	\$ 26	\$ 1,207
Ending balance: collectively evaluated for impairment	\$ 133	\$ 968	\$ 9	\$ 1,110
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 8,416	\$ 57	\$ 8,473
Ending balance: collectively evaluated for impairment	\$ 107,538	\$ 31,601	\$ 96	\$ 139,235
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	2.83%	14.11%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.09%	2.73%	14.11%	
Allowance as a percentage of the ending total loan balance	.12%	5.37%	22.93%	
Allowance as a percentage of the ending loans in repayment	.17%	6.80%	22.93%	
Allowance coverage of charge-offs (annualized)	1.6	2.4	1.5	
Ending total loans ⁽³⁾	\$ 107,538	\$ 40,017	\$ 153	
Average loans in repayment	\$ 84,323	\$ 31,631	\$ 170	
Ending loans in repayment	\$ 77,063	\$ 31,627	\$ 153	

(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.

Table of Contents**SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Six Months Ended June 30, 2012			Total
	FFELP Loans	Private Education Loans	Other Loans	
Allowance for Loan Losses				
Beginning balance	\$ 187	\$ 2,171	\$ 69	\$ 2,427
Total provision	36	460		496
Charge-offs ⁽¹⁾	(46)	(459)	(10)	(515)
Student loan sales	(4)			(4)
Reclassification of interest reserve ⁽²⁾		14		14
Ending balance	\$ 173	\$ 2,186	\$ 59	\$ 2,418
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 921	\$ 45	\$ 966
Ending balance: collectively evaluated for impairment	\$ 173	\$ 1,265	\$ 14	\$ 1,452
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 6,569	\$ 84	\$ 6,653
Ending balance: collectively evaluated for impairment	\$ 131,512	\$ 32,905	\$ 152	\$ 164,569
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.03%	8.41%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.90%	8.41%	
Allowance as a percentage of the ending total loan balance	.13%	5.54%	24.85%	
Allowance as a percentage of the ending loans in repayment	.19%	7.11%	24.85%	
Allowance coverage of charge-offs (annualized)	1.9	2.4	2.8	
Ending total loans ⁽³⁾	\$ 131,512	\$ 39,474	\$ 236	
Average loans in repayment	\$ 92,793	\$ 30,456	\$ 248	
Ending loans in repayment	\$ 91,998	\$ 30,731	\$ 236	

(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.

Table of Contents**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.

(Dollars in millions)	Private Education Loans Credit Quality Indicators			
	June 30, 2013		December 31, 2012	
	Balance ⁽³⁾	% of Balance	Balance ⁽³⁾	% of Balance
Credit Quality Indicators				
School Type/FICO Scores:				
Traditional	\$ 35,645	92%	\$ 35,347	92%
Non-Traditional ⁽¹⁾	3,038	8	3,207	8
Total	\$ 38,683	100%	\$ 38,554	100%
Cosigners:				
With cosigner	\$ 25,448	66%	\$ 24,907	65%
Without cosigner	13,235	34	13,647	35
Total	\$ 38,683	100%	\$ 38,554	100%
Seasoning ⁽²⁾ :				
1-12 payments	\$ 7,132	19%	\$ 7,371	19%
13-24 payments	5,681	15	6,137	16
25-36 payments	5,878	15	6,037	16
37-48 payments	4,822	12	4,780	12
More than 48 payments	9,274	24	8,325	22
Not yet in repayment	5,896	15	5,904	15
Total	\$ 38,683	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).

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

Table of Contents**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.

(Dollars in millions)	FFELP Loan Delinquencies			
	June 30, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 15,239		\$ 17,702	
Loans in forbearance ⁽²⁾	15,236		15,902	
Loans in repayment and percentage of each status:				
Loans current	64,801	84.1%	75,499	83.2%
Loans delinquent 31-60 days ⁽³⁾	3,750	4.9	4,710	5.2
Loans delinquent 61-90 days ⁽³⁾	2,156	2.8	2,788	3.1
Loans delinquent greater than 90 days ⁽³⁾	6,356	8.2	7,734	8.5
Total FFELP Loans in repayment	77,063	100%	90,731	100%
Total FFELP Loans, gross	107,538		124,335	
FFELP Loan unamortized premium	1,086		1,436	
Total FFELP Loans	108,624		125,771	
FFELP Loan allowance for losses	(133)		(159)	
FFELP Loans, net	\$ 108,491		\$ 125,612	
Percentage of FFELP Loans in repayment		71.7%		73.0%
Delinquencies as a percentage of FFELP Loans in repayment		15.9%		16.8%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		16.5%		14.9%

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

Table of Contents**SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

	Private Education Traditional Loan Delinquencies			
	June 30, 2013		December 31, 2012	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 5,475		\$ 5,421	
Loans in forbearance ⁽²⁾	1,015		996	
Loans in repayment and percentage of each status:				
Loans current	27,218			