

SLM CORP
Form 10-Q
May 06, 2011

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 March 31, 2011
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-13251

SLM Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

52-2013874

(I.R.S. Employer Identification No.)

300 Continental Drive, Newark, Delaware

(Address of principal executive offices)

19713

(Zip Code)

(302) 283-8000

(Registrant's telephone number, including area code)

12061 Bluemont Way, Reston, Virginia 20190

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

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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 Smaller reporting company
(Do not check if a 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 April 30, 2011
Voting common stock, \$.20 par value	527,420,754 shares

SLM CORPORATION

FORM 10-Q

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March 31, 2011

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⁽¹⁾ Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	March 31, 2011	December 31, 2010
Assets		
FFELP Loans (net of allowance for losses of \$190,235 and \$188,858, respectively)	\$ 145,558,134	\$ 148,649,400
Private Education Loans (net of allowance for losses of \$2,034,318 and \$2,021,580, respectively)	35,966,019	35,655,724
Investments		
Available-for-sale	78,296	83,048
Other	813,322	873,376
Total investments	891,618	956,424
Cash and cash equivalents	3,871,476	4,342,327
Restricted cash and investments	6,393,243	6,254,493
Goodwill and acquired intangible assets, net	472,345	478,409
Other assets	10,201,973	8,970,272
Total assets	\$ 203,354,808	\$ 205,307,049
Liabilities		
Short-term borrowings	\$ 32,316,856	\$ 33,615,856
Long-term borrowings	161,886,309	163,543,504
Other liabilities	3,944,556	3,136,111
Total liabilities	198,147,721	200,295,471
Commitments and contingencies		
Equity		
Preferred stock, par value \$.20 per share, 20,000 shares authorized:		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of \$50 per share	165,000	165,000
Series B: 4,000 and 4,000 shares, respectively, issued at stated value of \$100 per share	400,000	400,000
Common stock, par value \$.20 per share, 1,125,000 shares authorized: 527,494 and 595,263 shares issued, respectively	105,499	119,053
Additional paid-in capital	4,092,334	5,939,838

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Accumulated other comprehensive loss (net of tax benefit of \$20,417 and \$25,758, respectively)	(35,401)	(44,664)
Retained earnings	479,655	308,839
Total equity before treasury stock	5,207,087	6,888,066
Common stock held in treasury at cost: 0 and 68,320 shares, respectively		1,876,488
Total equity	5,207,087	5,011,578
Total liabilities and equity	\$ 203,354,808	\$ 205,307,049

Supplemental information assets and liabilities of consolidated variable interest entities:

	March 31, 2011	December 31, 2010
FFELP Loans, net	\$ 142,271,427	\$ 145,750,016
Private Education Loans, net	23,898,923	24,355,683
Restricted cash and investments	6,083,081	5,983,080
Other assets	4,173,741	3,705,716
Short-term borrowings	23,897,738	24,484,353
Long-term borrowings	139,928,763	142,243,771
Net assets of consolidated variable interest entities	\$ 12,600,671	\$ 13,066,371

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 31,	
	2011	2010
Interest income:		
FFELP Loans	\$ 877,378	\$ 806,762
Private Education Loans	603,933	565,154
Other loans	5,911	8,996
Cash and investments	5,339	4,949
Total interest income	1,492,561	1,385,861
Total interest expense	594,595	531,384
Net interest income	897,966	854,477
Less: provisions for loan losses	303,405	359,120
Net interest income after provisions for loan losses	594,561	495,357
Other income (loss):		
Gains on sales of loans and securities, net		8,653
Losses on derivative and hedging activities, net	(241,882)	(82,410)
Servicing revenue	98,252	122,272
Contingency revenue	78,381	80,312
Gains on debt repurchases	37,903	90,081
Other	21,745	13,800
Total other income (loss)	(5,601)	232,708
Expenses:		
Salaries and benefits	135,441	149,102
Other operating expenses	167,759	138,533
Total operating expenses	303,200	287,635
Goodwill and acquired intangible assets impairment and amortization expense	6,064	9,712
Restructuring expenses	3,561	24,804
Total expenses	312,825	322,151
Income from continuing operations, before income tax expense	276,135	405,914
Income tax expense	99,711	159,160
Net income from continuing operations	176,424	246,754

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Loss from discontinued operations, net of tax benefit	(1,730)	(6,614)
Net income	174,694	240,140
Preferred stock dividends	3,878	18,678
Net income attributable to common stock	\$ 170,816	\$ 221,462
Basic earnings (loss) per common share:		
Continuing operations	\$.32	\$.47
Discontinued operations		(.01)
Total	\$.32	\$.46
Average common shares outstanding	526,746	484,259
Diluted earnings (loss) per common share:		
Continuing operations	\$.32	\$.46
Discontinued operations		(.01)
Total	\$.32	\$.45
Average common and common equivalent shares outstanding	531,964	526,631
Dividends per common share	\$	\$

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

Issued	Common Stock Shares		Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock
	Treasury	Outstanding						
52,219,576	(67,221,942)	484,997,634	\$ 1,375,370	\$ 110,444	\$ 5,090,891	\$ (40,825)	\$ 604,467	\$ (1,861,140)
							240,140	
							63	
							(1,712)	
							(37)	
							(2,875)	
							(955)	
							(14,688)	
							(11)	
1,188,209		1,188,209		238	6,401			
					160		(160)	
					(3,593)			
					12,235		(753,856)	

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	(341,846)	(341,846)							(4,)
53,407,785	(67,563,788)	485,843,997	\$ 1,375,370	\$ 110,682	\$ 5,106,094	\$ (42,511)	\$ 72,062	\$ (1,866,	
95,263,474	(68,319,589)	526,943,885	\$ 565,000	\$ 119,053	\$ 5,939,838	\$ (44,664)	\$ 308,839	\$ (1,876,	
							174,694		
						(319)			
						9,374			
						208			
							(2,875)		
							(1,003)		
2,304,659		2,304,659		461	22,474				
70,074,369)	70,074,369		(14,015)	(1,889,891)				1,903,	
					(5,079)				
					24,992				
	(1,754,780)	(1,754,780)							(27,
27,493,764		527,493,764	\$ 565,000	\$ 105,499	\$ 4,092,334	\$ (35,401)	\$ 479,655	\$	

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended	
	March 31,	
	2011	2010
Operating activities		
Net income	\$ 174,694	\$ 240,140
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss from discontinued operations, net of tax	1,730	6,614
Gains on sale of loans and securities, net		(8,653)
Gains on debt repurchases	(37,903)	(90,081)
Goodwill and acquired intangible assets impairment and amortization expense	6,064	9,712
Stock-based compensation expense	24,992	12,278
Unrealized (gains)/losses on derivative and hedging activities	56,796	(122,044)
Provisions for loan losses	303,405	359,120
Student loans originated for sale, net		(6,722,387)
Decrease in restricted cash other	53,904	25,755
(Increase) in accrued interest receivable	(103,934)	(158,066)
Increase in accrued interest payable	145,645	79,833
Decrease in other assets	212,287	821,729
(Decrease) in other liabilities	(78,761)	(3,366)
 Total adjustments	 584,225	 (5,789,556)
 Total net cash provided by (used in) operating activities	 758,919	 (5,549,416)
Investing activities		
Student loans acquired and originated	(1,278,529)	(1,689,074)
Reduction of student loans:		
Installment payments, claims and other	4,551,933	3,484,121
Proceeds from sales of student loans	188,520	75,493
Other loans repaid	14,699	82,688
Other investing activities, net	(955,202)	(911,947)
Purchases of available-for-sale securities	(70,534)	(18,688,583)
Proceeds from maturities of available-for-sale securities	53,444	19,182,117
Purchases of other securities	(50,063)	(10,458)
Proceeds from maturities of other securities	67,394	39,007
(Increase) in restricted cash	(91,823)	(52,489)
 Cash provided by investing activities continuing operations	 2,429,839	 1,510,875

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Cash provided by investing activities discontinued operations	28,424	42,752
Total net cash provided by investing activities	2,458,263	1,553,627
Financing activities		
Borrowings collateralized by loans in trust issued	818,447	1,544,073
Borrowings collateralized by loans in trust repaid	(2,712,317)	(2,099,724)
Asset-backed commercial paper conduits, net	(1,237,935)	(441,723)
ED Participation Program, net		6,740,199
ED Conduit Program facility, net	(911,868)	368,537
Other long-term borrowings issued	1,966,802	1,463,534
Other long-term borrowings repaid	(1,814,721)	(2,541,703)
Other financing activities, net	206,605	(247,746)
Excess tax benefit from the exercise of stock-based awards	832	100
Common stock issued		11
Preferred dividends paid	(3,878)	(18,517)
Noncontrolling interest, net		(363)
Net cash (used in) provided by financing activities	(3,688,033)	4,766,678
Net (decrease) increase in cash and cash equivalents	(470,851)	770,889
Cash and cash equivalents at beginning of period	4,342,327	6,070,013
Cash and cash equivalents at end of period	\$ 3,871,476	\$ 6,840,902
Cash disbursements made (refunds received) for:		
Interest	\$ 612,519	\$ 549,075
Income taxes paid	\$ 165,243	\$ 5,097
Income taxes (received)	\$ (18,008)	\$ (498,229)

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at March 31, 2011 and for the three months ended
March 31, 2011 and 2010 is unaudited)

(Dollars in thousands, except per share amounts, unless otherwise noted)

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. 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 months ended March 31, 2011 are not necessarily indicative of the results for the year ending December 31, 2011. 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, 2010 (the 2010 Form 10-K).

Reclassifications

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2010 to be consistent with classifications adopted for 2011, and had no effect on net income, total assets, or total liabilities.

Recently Issued Accounting Standards

Troubled Debt Restructurings

In April 2011, the Financial Accounting Standards Board released Accounting Standards Update No. 2011-02, *Receivables*, which provides clarification for creditors in determining whether or not a restructuring of a loan is considered a troubled debt restructuring. This new guidance is effective for us as of July 1, 2011; but will be applied retrospectively to January 1, 2011 upon adoption. We may identify student loans that are considered a troubled debt restructuring that were previously not and this may require us to increase the amount of recorded impairment. We are currently evaluating the new guidance and have not yet determined what effect, if any, it will have on our consolidated financial statements.

2. Allowance for Loan Losses

Our provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for student loan losses is inherently subjective as it requires material estimates that