SLM CORP
Form 10-Q
October 19, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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)

Delaware	52-2013874
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 Continental Drive, Newark, Delaware	19713
(Address of principal executive offices)	(Zip Code)

(302) 451-0200
(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 þ 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 þ	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 þ No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ 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 September 30, 2016
Common Stock, $0.20 par value	428,267,726 shares

SLM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
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SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$1,454,938	$2,416,219
Available-for-sale investments at fair value (cost of $209,464 and $196,402, respectively)	213,176	195,391
Loans held for investment (net of allowance for losses of $164,839 and $112,507, respectively)	14,760,504	11,630,591
Restricted cash and investments	38,256	27,980
Other interest-earning assets	47,283	54,845
Accrued interest receivable	805,647	564,496
Premises and equipment, net	86,721	81,273
Tax indemnification receivable	276,543	186,076
Other assets	62,545	57,227
Total assets	$17,745,613	$15,214,098
Liabilities		
Deposits	$12,941,345	$11,487,707
Short-term borrowings	350,000	500,175
Long-term borrowings	1,577,689	579,101
Income taxes payable, net	199,813	166,662
Upromise related liabilities	259,290	275,384
Other liabilities	157,980	108,746
Total liabilities	15,486,117	13,117,775
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	165,000	165,000
Series B: 4 million and 4 million shares issued, respectively, at stated value of $100 per share	400,000	400,000
Common stock, par value $0.20 per share, 1.125 billion shares authorized: 434.4 million and 430.7 million shares issued, respectively	86,881	86,136
Additional paid-in capital	1,157,248	1,135,860
Accumulated other comprehensive loss (net of tax benefit of $17,253 and $9,949, respectively)	(27,813)	(16,059)
Retained earnings	530,594	366,609
Total SLM Corporation stockholders' equity before treasury stock	2,311,910	2,137,546
Less: Common stock held in treasury at cost: 6.1 million and 4.4 million shares, respectively	(52,414)	(41,223)
Total equity	2,259,496	2,096,323

Total liabilities and equity	$17,745,613	$15,214,098

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	$268,341	$205,274	$765,246	$598,417
Investments	2,193	2,640	7,155	7,746
Cash and cash equivalents	2,003	987	4,832	2,568
Total interest income	272,537	208,901	777,233	608,731
Interest expense:				
Deposits	38,210	29,110	107,633	86,961
Interest expense on short-term borrowings	1,604	1,951	5,827	4,719
Interest expense on long-term borrowings	9,448	2,398	17,869	2,398
Total interest expense	49,262	33,459	131,329	94,078
Net interest income	223,275	175,442	645,904	514,653
Less: provisions for credit losses	41,784	27,497	116,179	59,673
Net interest income after provisions for credit losses	181,491	147,945	529,725	454,980
Non-interest income:				
Gains on sales of loans, net	—	—	—	76,874
Gains (losses) on derivatives and hedging activities, net	1,368	(547)	3,156	4,347
Other income	21,598	10,455	56,309	29,374
Total non-interest income	22,966	9,908	59,465	110,595
Non-interest expenses:				
Compensation and benefits	43,380	39,304	138,659	119,079
FDIC assessment fees	5,095	3,801	13,548	10,230
Other operating expenses	51,234	49,759	135,164	134,541
Total operating expenses	99,709	92,864	287,371	263,850
Acquired intangible asset amortization expense	226	370	747	1,110
Restructuring and other reorganization expenses	—	910	—	6,311
Total non-interest expenses	99,935	94,144	288,118	271,271
Income before income tax expense	104,522	63,709	301,072	294,304
Income tax expense	47,557	17,985	120,987	109,865
Net income	56,965	45,724	180,085	184,439
Preferred stock dividends	5,316	4,913	15,698	14,606
Net income attributable to SLM Corporation common stock	$51,649	$40,811	$164,387	$169,833
Basic earnings per common share attributable to SLM Corporation	$0.12	$0.10	$0.38	$0.40
Average common shares outstanding	428,077	426,019	427,711	425,384
Diluted earnings per common share attributable to SLM Corporation	$0.12	$0.09	$0.38	$0.39
Average common and common equivalent shares outstanding	433,523	432,547	432,079	432,531

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	$56,965	$45,724	$180,085	$184,439
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	406	2,008	4,723	(499)
Unrealized gains (losses) on cash flow hedges	9,324	(21,751)	(23,782)	(19,284)
Total unrealized gains (losses)	9,730	(19,743)	(19,059)	(19,783)
Income tax (expense) benefit	(3,690)	7,676	7,305	7,661
Other comprehensive income (loss), net of tax (expense) benefit	6,040	(12,067)	(11,754)	(12,122)
Total comprehensive income	$63,005	$33,657	$168,331	$172,317

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

		Common Stock Shares								
	Preferred Stock Shares	Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Tr St
Balance at December 31, 2014	7,300,000	424,804,125	(1,365,277)	423,438,848	$565,000	$84,961	$1,090,511	$(11,393)	$113,066	$(
Net income	—	—	—	—	—	—	—	—	184,439	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(12,122)	—	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A ($.87 per share)	—	—	—	—	—	—	—	—	(8,625)	—
Preferred Stock, series B ($.51 per share)	—	—	—	—	—	—	—	—	(5,981)	—
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	1,138	—	(1,138)	
Issuance of common shares	—	5,569,853	—	5,569,853	—	1,114	14,329	—	—	—
Tax benefit related to employee stock-based compensation	—	—	—	—	—	—	6,093	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	16,423	—	—	—
Shares repurchased related to	—	—	(2,900,266)	(2,900,266)	—	—	—	—	—	(2

employee stock-based compensation plans										
Balance at September 30, 2015	7,300,000	430,373,978	(4,265,543)	426,108,435	$565,000	$86,075	$1,128,494	$(23,515)	$281,761	$(

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share amounts)
(Unaudited)

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	T S
		Issued	Treasury	Outstanding						
Balance at December 31, 2015	7,300,000	430,677,434	(4,374,190)	426,303,244	$565,000	$86,136	$1,135,860	$(16,059)	$366,609	$
Net income	—	—	—	—	—	—	—	—	180,085	–
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(11,754)	—	–
Total comprehensive income	—	—	—	—	—	—	—	—	—	–
Cash dividends:										
Preferred Stock, series A ($0.87 per share)	—	—	—	—	—	—	—	—	(8,625)	–
Preferred Stock, series B ($0.65 per share)	—	—	—	—	—	—	—	—	(7,073)	–
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	402	—	(402)	–
Issuance of common shares	—	3,727,574		3,727,574	—	745	5,493	—	—	–
Tax deficiency related to employee stock-based compensation	—	—	—	—	—	—	(2,457)	—	—	–
Stock-based compensation	—	—	—	—	—	—	17,950	—	—	–

expense											
Shares repurchased related to employee stock-based compensation plans	—	—	(1,763,092)	(1,763,092)	—	—	—	—	—	(
Balance at September 30, 2016	7,300,000	434,405,008	(6,137,282)	428,267,726	$565,000	$86,881	$1,157,248	$(27,813)	$530,594	$

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating activities		
Net income	$180,085	$184,439
Adjustments to reconcile net income to net cash used in operating activities:		
Provisions for credit losses	116,179	59,673
Income tax expense	120,987	109,865
Amortization of brokered deposit placement fee	7,766	8,006
Amortization of ABCP Facility upfront fee	866	1,790
Amortization of deferred loan origination costs and fees, net	4,304	2,563
Net amortization of discount on investments	1,387	1,332
Interest income on tax indemnification receivable	(14,386)	(5,118)
Depreciation of premises and equipment	6,896	5,427
Amortization of acquired intangibles	747	1,110
Stock-based compensation expense	17,950	16,423
Unrealized gains on derivative and hedging activities, net	(1,881)	(1,985)
Gains on sale of loans, net	—	(76,874)
Other adjustments to net income, net	2,540	216
Changes in operating assets and liabilities:		
Net decrease in loans held for sale	—	55
Origination of loans held for sale	—	(55)
Increase in accrued interest receivable	(430,441)	(316,263)
Decrease (increase) in restricted cash and investments - other	1,564	(2,596)
Decrease in other interest-earning assets	7,562	24,875
Decrease in tax indemnification receivable	44,725	44,725
Increase in other assets	(22,879)	(18,022)
Decrease in income taxes payable, net	(201,338)	(176,172)
Increase in accrued interest payable	10,202	7,227
Increase (decrease) in payable due to entity that is a subsidiary of Navient	658	(5,368)
Increase in other liabilities	7,131	5,895
Total adjustments	(319,461)	(313,271)
Total net cash used in operating activities	(139,376)	(128,832)
Investing activities		
Loans acquired and originated	(4,072,631)	(3,786,946)
Net proceeds from sales of loans held for investment	7,912	790,094
Proceeds from claim payments	49,742	91,000
Net decrease in loans held for investment	953,715	672,665
Increase in restricted cash and investments - variable interest entities	(11,840)	(18,205)
Purchases of available-for-sale securities	(40,767)	(50,062)
Proceeds from sales and maturities of available-for-sale securities	26,318	26,222
Total net cash used in investing activities	(3,087,551)	(2,275,232)
Financing activities		

Brokered deposit placement fee	(3,953)	(477)
Net increase in certificates of deposit	481,623	161,096
Net increase (decrease) in other deposits	961,123	(129,412)
Issuance costs for collateralized borrowings	(1,351)	—
Borrowings collateralized by loans in securitization trusts - issued	1,104,551	620,681
Borrowings collateralized by loans in securitization trusts - repaid	(106,567)	(27,195)

Borrowings under ABCP Facility	376,325	713,746
Repayment of borrowings under ABCP Facility	(526,500)	(3,741)
Fees paid on ABCP Facility	(1,450)	(104)
Excess tax (expense) benefit from the exercise of stock-based awards	(2,457)	6,093
Preferred stock dividends paid	(15,698)	(14,606)
Net cash provided by financing activities	2,265,646	1,326,081
Net decrease in cash and cash equivalents	(961,281)	(1,077,983)
Cash and cash equivalents at beginning of period	2,416,219	2,359,780
Cash and cash equivalents at end of period	$1,454,938	$1,281,797
Cash disbursements made for:		
Interest	$119,812	$79,917
Income taxes paid	$201,218	$171,194
Income taxes received	$(86)	$(80)

See accompanying notes to consolidated financial statements.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation ("Sallie Mae," "SLM," the "Company," "we," or "us") 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 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 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, 2016 are not necessarily indicative of the results for the year ending December 31, 2016 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, 2015 (the "2015 Form 10-K").

Correction Recorded in the Current Period

We recognized in the current period adjustments for tax positions relating to historical transactions among entities that are now subsidiaries of Navient Corporation ("Navient") that should have been recorded at the time of the separation of Navient from SLM (the "Spin-Off"), which occurred on April 30, 2014. We have evaluated the quantitative and qualitative materiality of these errors to all of the relevant periods and concluded that the out of period correction to recognize the asset, liabilities and income statement impacts in the quarter ended September 30, 2016 is not material to our consolidated financial statements for any of the relevant periods. The adjustments increased our tax indemnification receivable and income taxes payable by $120 million and increased our other income and income tax expense by $9 million, as we believe we are indemnified by Navient for these additional tax liabilities. Accordingly, there was no effect on equity or net income as a result of these errors in the current or prior periods. Prospectively, these uncertain tax position liabilities and related assets will be accounted for consistent with our existing accounting policies for these kinds of assets and liabilities.

Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions.

We consolidate any variable interest entity ("VIE") where we have determined we are the primary beneficiary. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE.

Loan Interest Income

For loans classified as "held for investment," we recognize interest income as earned, adjusted for the amortization of deferred direct origination costs. This adjustment is recognized based upon the expected yield of the loan over its life after giving effect to prepayments and extensions. We consider our constant prepayment rate ("CPR") estimates a significant accounting assumption used to measure the expected prepayment activity in our education loan portfolio. The estimates are based on a number of factors such as historical prepayment rates for loans with similar loan characteristics, assumptions about portfolio composition and loan terms, and the prepayment curve's tendency to follow a ramp pattern (i.e., the prepayment rate typically increases during the in-school and early repayment periods, then stabilizes). The CPR measures the expected prepayment activity over the life of the loan and is applied as a flat-rate input assumption when used in forecasting.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
1. Significant Accounting Policies (Continued)

Our CPR estimates include the effect of voluntary prepayments, education loan defaults, and consolidation (if the loans are consolidated to third parties), all of which shorten the lives of loans. CPR estimates also consider the utilization of deferment, forbearance, and extended repayment plans, which lengthen the lives of loans. We regularly evaluate the assumptions used to estimate the CPRs. In instances where there are changes to the assumptions, amortization of deferred direct origination costs is adjusted on a cumulative basis to reflect the change since the origination of the loan. We also pay to the U.S. Department of Education (“ED”) an annual 105 basis point Consolidation Loan Rebate Fee on FFELP consolidation loans, which is netted against loan interest income. Additionally, interest earned on education loans reflects potential non-payment adjustments in accordance with our uncollectible interest recognition policy. We do not amortize any adjustments to the basis of education loans when they are classified as “held-for-sale.”

We recognize certain fee income (primarily late fees) on education loans when earned according to the contractual provisions of the promissory notes, as well as our expectation of collectibility. Fee income is recorded when earned in “other non-interest income” in the accompanying consolidated statements of income.

Recently Issued but Not Yet Adopted Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases,” a comprehensive new lease standard which will supersede previous lease guidance. The standard requires a lessee to recognize in its balance sheet assets and liabilities related to long-term leases that were classified as operating leases under previous guidance. An asset will be recognized related to the right to use the underlying asset and a liability will be recognized related to the obligation to make lease payments over the term of the lease. The standard also requires expanded disclosures surrounding leases. The standard is effective for fiscal periods beginning after December 15, 2018, and requires modified retrospective adoption, with early adoption permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock-based compensation, including adjustments to how excess tax benefits and a company’s payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. We continue to evaluate the impact of the adoption of this standard on our consolidated financial statements, and at this time we expect the standard to result in immaterial volatility in earnings caused by the change in the treatment of the tax benefits or deficiencies related to share-based payments at settlement (or expiration) through “income tax expense” in our consolidated statements of income.

On June 16, 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which requires measurement and recognition of expected credit losses for financial assets held. Under this standard, we will be required to hold an allowance equal to the expected life-of-loan losses on our loan portfolio. The standard is effective for fiscal periods beginning after December 15, 2019. While we are currently evaluating the impact of our pending adoption of this standard on our consolidated financial statements, we expect the adoption to have a material impact on our consolidated financial statements and capital ratios.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

2. Loans Held for Investment

Loans held for investment consist of Private Education Loans and FFELP Loans. We use "Private Education Loans" to mean education loans to students or their families that are not made, insured or guaranteed by any state or federal government. Private Education Loans do not include loans insured or guaranteed under the previously existing Federal Family Education Loan Program ("FFELP").

Our Private Education Loans are made largely to bridge the gap between the cost of higher education and the amount funded through financial aid, government loans and customers' resources. Private Education Loans bear the full credit risk of the customer. We manage this risk through risk-performance underwriting strategies and qualified cosigners. Private Education Loans generally carry a variable rate indexed to LIBOR. As of September 30, 2016, 81 percent of all of our Private Education Loans were indexed to LIBOR. We provide incentives for customers to include a cosigner on the loan, and the vast majority of loans in our portfolio are cosigned. We also provide total cost incentives for customers to make payments while in school.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement on all qualifying claims. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying claims. For loans disbursed prior to October 1, 1993, we receive 100 percent reimbursement on all qualifying claims.

Loans held for investment are summarized as follows:

	September 30, 2016	December 31, 2015
Private Education Loans	$13,848,262	$10,596,437
Deferred origination costs	40,327	27,884
Allowance for loan losses	(162,630)	(108,816)
Total Private Education Loans, net	13,725,959	10,515,505
FFELP Loans	1,033,929	1,115,663
Unamortized acquisition costs, net	2,825	3,114
Allowance for loan losses	(2,209)	(3,691)
Total FFELP Loans, net	1,034,545	1,115,086
Loans held for investment, net	$14,760,504	$11,630,591

The estimated weighted average life of education loans in our portfolio was approximately 6.0 years and 6.2 years at September 30, 2016 and December 31, 2015, respectively.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
2. Loans Held for Investment (Continued)

The average balance and the respective weighted average interest rates of education loans in our portfolio are summarized as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
Private Education Loans	$12,881,890	8.00 %	$9,869,025	7.87 %	$12,307,932	8.00 %	$9,563,290	7.96 %
FFELP Loans	1,049,803	3.52	1,161,288	3.27	1,076,394	3.48	1,196,491	3.22
Total portfolio	$13,931,693		$11,030,313		$13,384,326		$10,759,781	

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses

Our provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses in the held-for-investment loan portfolios. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

Allowance for Loan Losses Metrics

	Allowance for Loan Losses Three Months Ended September 30, 2016		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$2,297	$ 142,628	$144,925
Total provision	268	40,502	40,770
Net charge-offs:			
Charge-offs	(356)	(22,072)	(22,428)
Recoveries	—	2,973	2,973
Net charge-offs	(356)	(19,099)	(19,455)
Loan sales[1]	—	(1,401)	(1,401)
Ending Balance	$2,209	$ 162,630	$164,839
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 77,521	$77,521
Ending balance: collectively evaluated for impairment	$2,209	$ 85,109	$87,318
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 503,632	$503,632
Ending balance: collectively evaluated for impairment	$1,033,929	$ 13,344,630	$14,378,559
Net charge-offs as a percentage of average loans in repayment (annualized)[2]	0.18 %	0.91 %	
Allowance as a percentage of the ending total loan balance	0.21 %	1.17 %	
Allowance as a percentage of the ending loans in repayment[2]	0.28 %	1.83 %	
Allowance coverage of net charge-offs (annualized)	1.55	2.13	
Ending total loans, gross	$1,033,929	$ 13,848,262	
Average loans in repayment[2]	$791,296	$ 8,420,625	
Ending loans in repayment[2]	$795,665	$ 8,905,812	

(1) Represents fair value adjustments on loans sold.
(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses Three Months Ended September 30, 2015		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$4,556	$ 87,310	$91,866
Total provision	143	27,354	27,497
Net charge-offs:			
Charge-offs	(529)	(14,121)	(14,650)
Recoveries	—	1,361	1,361
Net charge-offs	(529)	(12,760)	(13,289)
Loan sales[1]	—	(1,871)	(1,871)
Ending Balance	$4,170	$ 100,033	$104,203
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 43,001	$43,001
Ending balance: collectively evaluated for impairment	$4,170	$ 57,032	$61,202
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 231,286	$231,286
Ending balance: collectively evaluated for impairment	$1,143,595	$ 10,608,975	$11,752,570
Net charge-offs as a percentage of average loans in repayment (annualized)[2]	0.25%	0.83%	
Allowance as a percentage of the ending total loan balance	0.36%	0.92%	
Allowance as a percentage of the ending loans in repayment[2]	0.50%	1.50%	
Allowance coverage of net charge-offs (annualized)	1.97	1.96	
Ending total loans, gross	$1,143,595	$ 10,840,261	
Average loans in repayment[2]	$839,090	$ 6,118,678	
Ending loans in repayment[2]	$836,585	$ 6,657,228	

(1) Represents fair value adjustments on loans sold.
(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses Nine Months Ended September 30, 2016		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$3,691	$ 108,816	$112,507
Total provision	(396)	116,703	116,307
Net charge-offs:			
Charge-offs	(1,086)	(64,979)	(66,065)
Recoveries	—	7,098	7,098
Net charge-offs	(1,086)	(57,881)	(58,967)
Loan sales[1]	—	(5,008)	(5,008)
Ending Balance	$2,209	$ 162,630	$164,839
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 77,521	$77,521
Ending balance: collectively evaluated for impairment	$2,209	$ 85,109	$87,318
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 503,632	$503,632
Ending balance: collectively evaluated for impairment	$1,033,929	$ 13,344,630	$14,378,559
Net charge-offs as a percentage of average loans in repayment (annualized)[2]	0.18 %	0.97 %	
Allowance as a percentage of the ending total loan balance	0.21 %	1.17 %	
Allowance as a percentage of the ending loans in repayment[2]	0.28 %	1.83 %	
Allowance coverage of net charge-offs (annualized)	1.53	2.11	
Ending total loans, gross	$1,033,929	$ 13,848,262	
Average loans in repayment[2]	$795,452	$ 7,952,469	
Ending loans in repayment[2]	$795,665	$ 8,905,812	

(1) Represents fair value adjustments on loans sold.
(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses Nine Months Ended September 30, 2015		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	$5,268	$ 78,574	$83,842
Total provision	1,044	58,629	59,673
Net charge-offs:			
Charge-offs	(2,142)	(36,127)	(38,269)
Recoveries	—	4,529	4,529
Net charge-offs	(2,142)	(31,598)	(33,740)
Loan sales[1]	—	(5,572)	(5,572)
Ending Balance	$4,170	$ 100,033	$104,203
Allowance:			
Ending balance: individually evaluated for impairment	$—	$ 43,001	$43,001
Ending balance: collectively evaluated for impairment	$4,170	$ 57,032	$61,202
Loans:			
Ending balance: individually evaluated for impairment	$—	$ 231,286	$231,286
Ending balance: collectively evaluated for impairment	$1,143,595	$ 10,608,975	$11,752,570
Net charge-offs as a percentage of average loans in repayment (annualized)[2]	0.33 %	0.72 %	
Allowance as a percentage of the ending total loan balance	0.36 %	0.92 %	
Allowance as a percentage of the ending loans in repayment[2]	0.50 %	1.50 %	
Allowance coverage of net charge-offs (annualized)	1.46	2.37	
Ending total loans, gross	$1,143,595	$ 10,840,261	
Average loans in repayment[2]	$868,649	$ 5,848,345	
Ending loans in repayment[2]	$836,585	$ 6,657,228	

(1) Represents fair value adjustments on loans sold.
(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

Troubled Debt Restructurings (“TDRs”)
All of our loans are collectively assessed for impairment, except for loans classified as TDRs (where we conduct individual assessments of impairment). We modify the terms of loans for certain borrowers when we believe such modifications may increase the ability and willingness of a borrower 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. 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. Approximately 25 percent and 23 percent of the loans granted forbearance as of September 30, 2016 and December 31, 2015, respectively, have been classified as TDRs due to their forbearance status. For additional information, see Note 6, “Allowance for Loan Losses” in our 2015 Form 10-K.
Within the Private Education Loan portfolio, loans greater than 90 days past due are considered to be nonperforming. FFELP Loans are at least 97 percent guaranteed as to their principal and accrued interest by the federal government in the event of default and, therefore, we do not deem FFELP Loans as nonperforming from a credit risk perspective at any point in their life cycle prior to claim payment, and continue to accrue interest on those loans through the date of claim.
At September 30, 2016 and December 31, 2015, 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.

	Recorded Investment	Unpaid Principal Balance	Allowance
September 30, 2016			
TDR Loans	$ 510,361	$503,632	$ 77,521
December 31, 2015			
TDR Loans	$ 269,628	$265,831	$ 43,480

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

	Three Months Ended September 30,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
TDR Loans	$454,395	$ 8,116	$210,039	$ 4,198

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

	Nine Months Ended September 30,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
TDR Loans	$373,747	$ 20,396	$150,240	$ 9,314

The following table provides information regarding the loan status of TDR loans.

	September 30, 2016		December 31, 2015	
	Balance	%	Balance	%
TDR loans in in-school/grace/deferment[(1)]	$22,544		$6,869	
TDR loans in forbearance[(2)]	72,386		43,756	
TDR loans in repayment[(3)] and percentage of each status:				
Loans current	366,000	89.6 %	185,936	86.4 %
Loans delinquent 31-60 days[(4)]	21,781	5.3	14,948	6.9
Loans delinquent 61-90 days[(4)]	13,411	3.3	9,239	4.3
Loans delinquent greater than 90 days[(4)]	7,510	1.8	5,083	2.4
Total TDR loans in repayment	408,702	100.0%	215,206	100.0%
Total TDR loans, gross	$503,632		$265,831	

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the 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) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.
(4) 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)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

The following table provides the amount of modified loans (which includes forbearance and reductions in interest rates) that became TDRs in the periods presented. Additionally, for the periods presented, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the relevant period presented and within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure.

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Modified Loans(1)	Charge-offs	Payment-Default	Modified Loans(1)	Charge-offs	Payment-Default
TDR Loans	$116,419	$ 5,925	$ 23,326	$49,975	$ 3,456	$ 16,719

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Modified Loans(1)	Charge-offs	Payment-Default	Modified Loans(1)	Charge-offs	Payment-Default
TDR Loans	$270,266	$ 16,357	$ 70,401	$189,066	$ 5,845	$ 29,895

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

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators
For Private Education Loans, the key credit quality indicators are FICO scores, the existence of a cosigner, the loan status and loan seasoning. The FICO scores are assessed at original approval and periodically refreshed/updated through the loan's term. The following table highlights the gross principal balance of our Private Education Loan portfolio stratified by key credit quality indicators.

	Private Education Loans Credit Quality Indicators					
	September 30, 2016			December 31, 2015		
Credit Quality Indicators:	Balance[1]	% of Balance		Balance[1]	% of Balance	
Cosigners:						
With cosigner	$12,456,310	90	%	$9,515,136	90	%
Without cosigner	1,391,952	10		1,081,301	10	
Total	$13,848,262	100	%	$10,596,437	100	%
FICO at Original Approval:						
Less than 670	$889,151	6	%	$700,779	7	%
670-699	2,025,444	15		1,554,959	15	
700-749	4,492,235	32		3,403,823	32	
Greater than or equal to 750	6,441,432	47		4,936,876	46	
Total	$13,848,262	100	%	$10,596,437	100	%
Seasoning[2]:						
1-12 payments	$4,307,106	31	%	$3,059,901	29	%
13-24 payments	2,398,396	17		2,096,412	20	
25-36 payments	1,357,242	10		1,084,818	10	
37-48 payments	630,420	4		513,125	5	
More than 48 payments	492,157	4		414,217	4	
Not yet in repayment	4,662,941	34		3,427,964	32	
Total	$13,848,262	100	%	$10,596,437	100	%

(1) Balance represents gross Private Education Loans.
(2) Number of months in active repayment (whether interest only payment, fixed payment, or full principal and interest payment status) for which a scheduled payment was due.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
3. Allowance for Loan Losses (Continued)

The following table provides information regarding the loan status of our Private Education Loans. Loans in repayment include loans making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

	Private Education Loans			
	September 30, 2016		December 31, 2015	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$4,662,941		$3,427,964	
Loans in forbearance[2]	279,509		241,207	
Loans in repayment and percentage of each status:				
Loans current	8,724,365	98.0 %	6,773,095	97.8 %
Loans delinquent 31-60 days[3]	108,591	1.2	91,129	1.3
Loans delinquent 61-90 days[3]	51,029	0.6	42,048	0.6
Loans delinquent greater than 90 days[3]	21,827	0.2	20,994	0.3
Total Private Education Loans in repayment	8,905,812	100.0%	6,927,266	100.0%
Total Private Education loans, gross	13,848,262		10,596,437	
Private Education Loans deferred origination costs	40,327		27,884	
Total Private Education Loans	13,888,589		10,624,321	
Private Education Loans allowance for losses	(162,630)		(108,816)	
Private Education Loans, net	$13,725,959		$10,515,505	
Percentage of Private Education Loans in repayment		64.3 %		65.4 %
Delinquencies as a percentage of Private Education Loans in repayment		2.0 %		2.2 %
Loans in forbearance as a percentage of Private Education Loans in repayment and forbearance		3.0 %		3.4 %

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on the 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)
(Dollars in thousands, unless otherwise noted)
3. 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 Private Education Loan portfolio for all periods presented.

	Private Education Loan Accrued Interest Receivable		
	Total Interest Receivable	Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
September 30, 2016	$773,967	$ 803	$ 3,562
December 31, 2015	$542,919	$ 791	$ 3,332

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

4. Deposits

The following table summarizes total deposits at September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Deposits - interest bearing	$12,941,020	$11,487,006
Deposits - non-interest bearing	325	701
Total deposits	$12,941,345	$11,487,707

Interest Bearing

Interest bearing deposits as of September 30, 2016 and December 31, 2015 consisted of retail non-maturity savings deposits, retail and brokered non-maturity money market deposits ("MMDAs") and brokered and retail certificates of deposit ("CDs"). Included in these accounts are what we consider to be core deposits from various sources. Our deposit products are serviced by third-party providers. Placement fees associated with the brokered CDs are amortized into interest expense using the effective interest rate method. We recognized placement fee expense of $2.6 million and $2.7 million in the three months ended September 30, 2016 and 2015, respectively, and placement fee expense of $7.8 million and $8.0 million in the nine months ended September 30, 2016 and 2015, respectively. Fees paid to third-party brokers related to brokered CDs were $1.1 million and $0.5 million for the three months ended September 30, 2016 and 2015, respectively, and $4.0 million and $0.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Interest bearing deposits at September 30, 2016 and December 31, 2015 are summarized as follows:

	September 30, 2016			December 31, 2015		
	Amount	Qtr.-End Weighted Average Stated Rate[1]		Amount	Year-End Weighted Average Stated Rate[1]	
Money market	$5,859,986	1.20	%	$4,886,299	1.19	%
Savings	660,099	0.82		669,254	0.82	
Certificates of deposit	6,420,935	1.24		5,931,453	0.98	
Deposits - interest bearing	$12,941,020			$11,487,006		

(1) Includes the effect of interest rate swaps in effective hedge relationships.

As of September 30, 2016 and December 31, 2015, there were $363.2 million and $709.9 million, respectively, of deposits exceeding Federal Deposit Insurance Corporation ("FDIC") insurance limits. Accrued interest on deposits was $24.9 million and $15.7 million at September 30, 2016 and December 31, 2015, respectively.

Non-Interest Bearing

Non-interest bearing deposits were $0.3 million and $0.7 million as of September 30, 2016 and December 31, 2015, respectively. For both periods, these were comprised of money market accounts related to our Employee Stock Purchase Plan account.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

5. Borrowings

Outstanding borrowings consist of secured borrowings issued through our term asset-backed securitization ("ABS") program and our asset-backed commercial paper ("ABCP") funding facility (the "ABCP Facility"). The following table summarizes our secured borrowings at September 30, 2016 and December 31, 2015.

	September 30, 2016			December 31, 2015		
	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
Secured borrowings:						
Private Education Loan term securitization	$—	$1,577,689	$1,577,689	$—	$579,101	$579,101
ABCP Facility	350,000	—	350,000	500,175	—	500,175
Total	$350,000	$1,577,689	$1,927,689	$500,175	$579,101	$1,079,276

Short-term Borrowings

Asset-Backed Commercial Paper Funding Facility

On December 19, 2014, we closed on a $750.0 million ABCP Facility. We retained a 5 percent or $37.5 million participation interest in the ABCP Facility, resulting in $712.5 million of funds available for us to draw under the ABCP Facility. During 2015, we incurred financing costs under the ABCP Facility of approximately 0.40 percent on average on unused borrowing capacity and approximately 3-month LIBOR plus 0.80 percent on outstandings under the ABCP Facility.

On February 25, 2016, we amended and extended the maturity of our ABCP Facility. The amended ABCP Facility is a $750.0 million ABCP Facility, in which we no longer hold a participation interest. As a result, the full $750.0 million is available for us to draw. We hold 100 percent of the residual interest in the ABCP Facility trust. Under the amended ABCP Facility, we incur financing costs of between 0.35 percent and 0.45 percent on unused borrowing capacity and approximately 3 month LIBOR plus 1.00 percent on outstandings. The amended ABCP Facility extends the revolving period, during which we may borrow, repay and reborrow funds, until February 23, 2017. The scheduled amortization period, during which amounts outstanding under the ABCP Facility must be repaid, ends on February 23, 2018 (or earlier, if certain material adverse events occur). At September 30, 2016, $350 million was outstanding under the ABCP Facility. At September 30, 2016, $428.7 million of our Private Education Loans were encumbered to support outstandings under the ABCP Facility.

Short-term borrowings have a remaining term to maturity of one year or less. The ABCP Facility's contractual maturity is two years from the date of inception or renewal (one year revolving period plus a one year amortization period); however, we classify advances under our ABCP Facility as short-term borrowings because it is our intention to repay those advances within one year.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
5. Borrowings (Continued)

Long-term Borrowings

On May 26, 2016, we executed our $551 million SMB Private Education Loan Trust 2016-A term ABS transaction, which was accounted for as an on-balance sheet secured financing. We retained a 100 percent or $50 million interest in the Class B notes and 100 percent of the residual certificates issued in the securitization. $501 million of Class A notes from the securitization were sold to third parties, raising $501 million of gross proceeds. The Class A notes had a weighted average life of 4.01 years and priced at a weighted average LIBOR equivalent cost of 1-month LIBOR plus 1.38 percent. At September 30, 2016, $571 million of our Private Education Loans were encumbered as a result of this transaction.
On July 21, 2016, we executed our $657 million SMB Private Education Loan Trust 2016-B term ABS transaction, which was accounted for as an on-balance sheet secured financing. We retained a 100 percent or $50 million interest in the Class B notes and 100 percent of the residual certificates issued in the securitization. $607 million of Class A notes from the securitization were sold to third parties, raising $607 million of gross proceeds. The Class A notes had a weighted average life of 4.01 years and priced at a weighted average LIBOR equivalent cost of 1-month LIBOR plus 1.36 percent. At September 30, 2016, $692 million of our Private Education Loans were encumbered as a result of this transaction.

Secured Financings at Issuance

Issue	Date Issued	Total Issued	Weighted Average Cost of Funds[1]	Weighted Average Life (in years)
Private Education:				
2015-B	July 2015	$630,800	1-month LIBOR plus 1.53%	4.82
Total notes issued in 2015		$630,800		
Total loan and accrued interest amount securitized at inception in 2015		$745,580		
2016-A	May 2016	$501,000	1-month LIBOR plus 1.38%	4.01
2016-B	July 2016	$607,000	1-month LIBOR plus 1.36%	4.01
Total notes issued in 2016		$1,108,000		
Total loan and accrued interest amount securitized at inception in 2016		$1,364,481		

[1] Represents LIBOR equivalent cost of funds for floating and fixed rate bonds, excluding issuance costs.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
5. Borrowings (Continued)

Consolidated Funding Vehicles

We consolidate our financing entities that are VIEs as a result of our being the entities' primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. We consolidate the following financing VIEs as of September 30, 2016 and December 31, 2015, respectively:

	September 30, 2016						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short-Term	Long-Term	Total	Loans	Restricted Cash	Other Assets(1)	Total
Secured borrowings:							
Private Education Loan term securitization	$—	$1,577,689	$1,577,689	$1,901,146	$27,597	$133,896	$2,062,639
ABCP Facility	350,000	—	350,000	428,706	6,682	29,413	464,801
Total	$350,000	$1,577,689	$1,927,689	$2,329,852	$34,279	$163,309	$2,527,440

(1) Other assets primarily represent accrued interest receivable.

	December 31, 2015						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short-Term	Long-Term	Total	Loans	Restricted Cash	Other Assets(1)	Total
Secured borrowings:							
Private Education Loan term securitization	$—	$579,101	$579,101	$687,298	$9,996	$45,566	$742,860
ABCP Facility	500,175	—	500,175	923,687	12,443	58,095	994,225
Total	$500,175	$579,101	$1,079,276	$1,610,985	$22,439	$103,661	$1,737,085

(1) Other assets primarily represent accrued interest receivable.

Other Borrowing Sources

We maintain discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $100 million at September 30, 2016. The interest rate we are charged on these lines of credit is priced at Fed Funds plus a spread at the time of borrowing, and is payable daily. We did not utilize these lines of credit in the three and nine months ended September 30, 2016 and in the year ended December 31, 2015.

We established an account at the Federal Reserve Bank ("FRB") to meet eligibility requirements for access to the Primary Credit borrowing facility at the FRB's Discount Window (the "Window"). The Primary Credit borrowing facility is a lending program available to depository institutions that are in generally sound financial condition. All borrowings at the Window must be fully collateralized. We can pledge to the FRB asset-backed and mortgage-backed securities, as well as FFELP Loans and Private Education Loans, as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At September 30, 2016 and December 31, 2015, the value of our pledged collateral at the FRB totaled $2.5 billion and $1.7 billion, respectively. The interest rate charged to us is the discount rate set by the FRB. We did not utilize this facility in the three and nine months ended September 30, 2016 and in the year ended December 31, 2015.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

6. Private Education Loan Term Securitizations

We securitize Private Education Loan assets by selling these assets to securitization trusts. If a transfer of loans qualifies as a sale, we derecognize the loan and recognize a gain or loss as the difference between compensation received and the carrying basis of the loans sold and liabilities retained. We recognize the results of a transfer of loans based upon the settlement date of the transaction. If we have a variable interest in a VIE (e.g., a securitization trust) and have determined that we are the primary beneficiary, then we will consolidate the VIE and the transfer is accounted for as a financing as opposed to a sale.

On May 26, 2016, we executed a $551 million Private Education Loan Trust term ABS transaction that was accounted for as a secured financing. We retained a 100 percent or $50 million interest in the Class B notes and 100 percent of the residual certificates issued in the securitization. $501 million of Class A notes from the securitization were sold to third parties, raising $501 million of gross proceeds. At September 30, 2016, $571 million of our Private Education Loans were encumbered as a result of this transaction.

On July 21, 2016, we executed a $657 million Private Education Loan Trust term ABS transaction that was accounted for as a secured financing. We retained a 100 percent or $50 million interest in the Class B notes and 100 percent of the residual certificates issued in the securitization. $607 million of Class A notes from the securitization were sold to third parties, raising $607 million of gross proceeds. At September 30, 2016, $692 million of our Private Education Loans were encumbered as a result of this transaction.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

7. Derivative Financial Instruments

We maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate changes. Our goal is to manage interest rate sensitivity by modifying the repricing frequency and underlying index characteristics of certain balance sheet liabilities so any adverse impacts related to movements in interest rates are managed within low to moderate limits. As a result of interest rate fluctuations, hedged liabilities will appreciate or depreciate in market value or create variability in cash flows. Income or loss on the derivative instruments linked to the hedged item will generally offset the effect of this unrealized appreciation or depreciation or volatility in cash flows for the period the item is being hedged. We view this strategy as a prudent management of interest rate risk. Please refer to Note 11, “Derivative Financial Instruments” in our 2015 Form 10-K for a full discussion of our risk management strategy.

Although we use derivatives to reduce the risk of interest rate changes, the use of derivatives does expose us to both market and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates and market liquidity. Credit risk is the risk that a counterparty will not perform its obligations under a contract and it is limited to the loss of the fair value gain in a derivative that the counterparty owes us less collateral held and plus collateral posted. When the fair value of a derivative contract less collateral held and plus collateral posted is negative, we owe the counterparty and, therefore, we have no credit risk exposure to the counterparty; however, the counterparty has exposure to us. We minimize the credit risk in derivative instruments by entering into transactions with highly-rated counterparties that are reviewed regularly by our Credit Department. We also maintain a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement. Depending on the nature of the derivative transaction, bilateral collateral arrangements are required as well. When we have more than one outstanding derivative transaction with the counterparty, and there exists legally enforceable netting provisions with the counterparty (i.e., a legal right to offset receivable and payable derivative contracts), the “net” mark-to-market exposure, less collateral held and plus collateral posted, represents exposure with the counterparty. When there is a net negative exposure, we consider our exposure to the counterparty to be zero.

Title VII of the Dodd-Frank Act requires all standardized derivatives, including most interest rate swaps, to be submitted for clearing to central counterparties to reduce counterparty risk. As of September 30, 2016, $5.6 billion notional of our derivative contracts were cleared on the Chicago Mercantile Exchange and the London Clearing House. All derivative contracts cleared through an exchange require collateral to be exchanged based on the fair value of the derivative. Our exposure is limited to the value of the derivative contracts in a gain position less any collateral held and plus any collateral posted. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At September 30, 2016 and December 31, 2015, we had a net positive exposure (derivative gain positions to us, less collateral held by us and plus collateral posted with counterparties) related to derivatives of $47.6 million and $50.1 million, respectively.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact
The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2016 and December 31, 2015, and their impact on earnings and other comprehensive income for the three and nine months ended September 30, 2016 and 2015. Please refer to Note 11, "Derivative Financial Instruments" in our 2015 Form 10-K for a full discussion of cash flow hedges, fair value hedges, and trading activities.

Impact of Derivatives on the Consolidated Balance Sheet

		Cash Flow Hedges		Fair Value Hedges		Trading		Total	
		September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Fair Values[1]	Hedged Risk Exposure								
Derivative Assets:[2]									
Interest rate swaps	Interest rate	$—	$—	$42,996	$15,231	$414	$83	$43,410	$15,314
Derivative Liabilities:[2]									
Interest rate swaps	Interest rate	(52,197)	(27,512)	(187)	(2,339)	(194)	(646)	(52,578)	(30,497)
Total net derivatives		$(52,197)	$(27,512)	$42,809	$12,892	$220	$(563)	$(9,168)	$(15,183)

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net positive or negative position.

(2) The following table reconciles gross positions with the impact of master netting agreements to the balance sheet classification:

	Other Assets		Other Liabilities	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Gross position[1]	$43,410	$15,314	$(52,578)	$(30,497)
Impact of master netting agreement	(14,111)	(9,278)	14,111	9,278
Derivative values with impact of master netting agreements (as carried on balance sheet)	29,299	6,036	(38,467)	(21,219)
Cash collateral (held) pledged	(12,101)	(1,070)	47,283	54,845
Net position	$17,198	$4,966	$8,816	$33,626

(1) Gross position amounts are exclusive of accrued interest.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

	Cash Flow		Fair Value		Trading		Total	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Notional Values								
Interest rate swaps	$1,078,709	$1,109,933	$3,767,045	$3,080,167	$1,267,694	$1,305,757	$6,113,448	$5,495,857

Impact of Derivatives on the Consolidated Statements of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Fair Value Hedges				
Interest rate swaps:				
Hedge ineffectiveness gains (losses) recorded in earnings[(1)]	$3,199	$(1,843)	$2,000	$(929)
Realized gains recorded in interest expense	6,944	7,531	21,593	22,512
Total	$10,143	$5,688	$23,593	$21,583
Cash Flow Hedges				
Interest rate swaps:				
Hedge ineffectiveness losses recorded in earnings[(1)]	$(843)	$(273)	$(1,524)	$(542)
Realized losses recorded in interest expense	(4,381)	(5,411)	(13,588)	(16,157)
Total	$(5,224)	$(5,684)	$(15,112)	$(16,699)
Trading				
Interest rate swaps:				
Interest reclassification	$537	$853	$1,897	$2,846
Change in fair value of future interest payments recorded in earnings	(1,525)	716	783	2,972
Total[(1)]	(988)	1,569	2,680	5,818
Total	$3,931	$1,573	$11,161	$10,702

(1) Amounts included in “gains on derivatives and hedging activities, net” in the consolidated statements of income.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
7. Derivative Financial Instruments (Continued)

Impact of Derivatives on the Statements of Changes in Stockholders' Equity

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Amount of gain (loss) recognized in other comprehensive income (loss)	$4,943	$(27,162)	$(37,370)	$(35,441)
Less: amount of (loss) gain reclassified in interest expense[1]	(4,381)	5,411	(13,588)	16,157
Total change in other comprehensive income (loss) for unrealized gains (losses) on derivatives, before income tax benefit	$9,324	$(21,751)	$(23,782)	$(19,284)

(1) Amounts included in "realized losses recorded in interest expense" in the "Impact of Derivatives on the Consolidated Statements of Income" table.

Cash Collateral

Cash collateral held related to derivative exposure between the Company and its derivatives counterparties was $12.1 million and $1.1 million at September 30, 2016 and December 31, 2015, respectively. Collateral held is recorded in "Other Liabilities" on the consolidated balance sheets. Cash collateral pledged related to derivative exposure between the Company and its derivatives counterparties was $47.3 million and $54.8 million at September 30, 2016 and December 31, 2015, respectively. Collateral pledged is recorded in "Other interest-earning assets" on the consolidated balance sheets.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

8. Stockholders' Equity

The following table summarizes our common share repurchases and issuances.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares and per share amounts in actuals)	2016	2015	2016	2015
Shares repurchased related to employee stock-based compensation plans[1][2]	371,165	136,173	1,763,0[illegible]	2,200,266
Average purchase price per share	$7.22	$ 8.88	$6.35	$ 9.76
Common shares issued[3]	561,100	361,779	3,727,557	5,469,853

(1) Comprised of shares withheld from stock option exercises and vesting of restricted stock for employees' tax withholding obligations and shares tendered by employees to satisfy option exercise costs.
(2) At the present time, we do not intend to initiate a publicly announced share repurchase program.
(3) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on September 30, 2016 was $7.47.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

9. Earnings per Common Share

Basic earnings per common share ("EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Numerator:				
Net income	$56,965	$45,724	$180,085	$184,439
Preferred stock dividends	5,316	4,913	15,698	14,606
Net income attributable to SLM Corporation common stock	$51,649	$40,811	$164,387	$169,833
Denominator:				
Weighted average shares used to compute basic EPS	428,077	426,019	427,711	425,384
Effect of dilutive securities:				
Dilutive effect of stock options, restricted stock and restricted stock units and Employee Stock Purchase Plan ("ESPP")[1][2]	5,446	6,528	4,368	7,147
Weighted average shares used to compute diluted EPS	433,523	432,547	432,079	432,531
Basic earnings per common share attributable to SLM Corporation	$0.12	$0.10	$0.38	$0.40
Diluted earnings per common share attributable to SLM Corporation	$0.12	$0.09	$0.38	$0.39

(1) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

(2) For the three months ended September 30, 2016 and 2015, securities covering approximately 1 million and 2 million shares, respectively, and for the nine months ended September 30, 2016 and 2015, securities covering approximately 1 million and 2 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

10. Fair Value Measurements

We use estimates of fair value in applying various accounting standards for our financial statements.

We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. For additional information regarding our policies for determining fair value and the hierarchical framework, see Note 2, "Significant Accounting Policies - Fair Value Measurement" in our 2015 Form 10-K.

During the three and nine months ended September 30, 2016, there were no significant transfers of financial instruments between levels or changes in our methodology or assumptions used to value our financial instruments.

The following table summarizes the valuation of our financial instruments that are marked to fair value on a recurring basis.

	Fair Value Measurements on a Recurring Basis							
	September 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Mortgage-backed securities	$—	$213,176	$—	$213,176	$—	$195,391	$—	$195,391
Derivative instruments	—	43,410	—	43,410	—	15,314	—	15,314
Total	$—	$256,586	$—	$256,586	$—	$210,705	$—	$210,705
Liabilities								
Derivative instruments	$—	$(52,578)	$—	$(52,578)	$—	$(30,497)	$—	$(30,497)
Total	$—	$(52,578)	$—	$(52,578)	$—	$(30,497)	$—	$(30,497)

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
10. Fair Value Measurements (Continued)

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

	September 30, 2016			December 31, 2015		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
Loans held for investment, net	$16,130,066	$14,760,504	$1,369,562	$12,343,726	$11,630,591	$713,135
Cash and cash equivalents	1,454,938	1,454,938	—	2,416,219	2,416,219	—
Available-for-sale investments	213,176	213,176	—	195,391	195,391	—
Accrued interest receivable	805,647	805,647	—	564,496	564,496	—
Tax indemnification receivable	276,543	276,543	—	186,076	186,076	—
Derivative instruments	43,410	43,410	—	15,314	15,314	—
Total earning assets	$18,923,780	$17,554,218	$1,369,562	$15,721,222	$15,008,087	$713,135
Interest-bearing liabilities						
Money-market and savings accounts	$6,520,085	$6,520,085	$—	$5,556,254	$5,556,254	$—
Certificates of deposit	6,445,848	6,420,935	(24,913)	5,928,450	5,931,453	3,003
Short-term borrowings	350,000	350,000	—	500,175	500,175	—
Long-term borrowings	1,608,985	1,577,689	(31,296)	567,468	579,101	11,633
Accrued interest payable	26,587	26,587	—	16,385	16,385	—
Derivative instruments	52,578	52,578	—	30,497	30,497	—
Total interest-bearing liabilities	$15,004,083	$14,947,874	$(56,209)	$12,599,229	$12,613,865	$14,636
Excess of net asset fair value over carrying value			$1,313,353			$727,771

Please refer to Note 15, “Fair Value Measurements” in our 2015 Form 10-K for a full discussion of the methods and assumptions used to estimate the fair value of each class of financial instruments.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

11. Arrangements with Navient Corporation

In connection with the separation of Navient from SLM in the Spin-Off, we entered into a separation and distribution agreement (the “Separation and Distribution Agreement”) and other ancillary agreements with Navient. Please refer to Note 16, “Arrangements with Navient Corporation” in our 2015 Form 10-K for a full discussion of these agreements.

Amended Loan Participation and Purchase Agreement

Prior to the Spin-Off, Sallie Mae Bank, a Utah industrial bank subsidiary of the Company (the “Bank”), sold substantially all its Private Education Loans to several former affiliates, now subsidiaries of Navient (collectively, the “Purchasers”), pursuant to a Loan Participation and Purchase Agreement. This agreement predated the Spin-Off, but was significantly amended and reduced in scope in connection with the Spin-Off. Post-Spin-Off, the Bank retains only the right to require the Purchasers to purchase loans (at fair value) for which the borrower also has a separate lending relationship with Navient (“Split Loans”) when the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At September 30, 2016, we held approximately $71 million of Split Loans.

During the three months ended September 30, 2016, the Bank sold loans to the Purchasers in the amount of $3.6 million in principal and $0.1 million in accrued interest income. During the three months ended September 30, 2015, the Bank sold loans to the Purchasers in the amount of $6.6 million in principal and $0.2 million in accrued interest income.

During the nine months ended September 30, 2016, the Bank sold loans to the Purchasers in the amount of $13.1 million in principal and $0.3 million in accrued interest income. During the nine months ended September 30, 2015, the Bank sold loans to the Purchasers in the amount of $21.1 million in principal and $0.4 million in accrued interest income.

There was no gain as a result of the loans sold to the Purchasers in the three and nine months ended September 30, 2016 and September 30, 2015. Total write-downs to fair value for loans sold with a fair value lower than par totaled $1.4 million and $1.9 million in the three months ended September 30, 2016 and September 30, 2015, respectively. Total write-downs to fair value for loans sold with a fair value lower than par totaled $5.0 million and $5.6 million in the nine months ended September 30, 2016 and September 30, 2015, respectively. Navient is the servicer for all of these loans.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

12. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our business, results of operation and financial condition. Under the Basel III capital framework ("U.S. Basel III") and the regulatory framework for prompt corrective action, the Bank must meet specific capital standards that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and its classification under the prompt corrective action framework are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

As of January 1, 2015, the Bank was required to report regulatory capital and ratios in accordance with U.S. Basel III. Among other things, U.S. Basel III establishes Common Equity Tier 1 as a new tier of capital, modifies methods for calculating risk-weighted assets, introduces a new capital conservation buffer, and revises the capital thresholds of the prompt corrective action framework, including the "well capitalized" standard.

"Well capitalized" regulatory requirements are the quantitative measures established by regulation to ensure capital adequacy. To qualify as "well capitalized," the Bank must maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1 and Total capital to risk-weighted assets and of Tier 1 capital to average assets. The following capital amounts and ratios are based upon the Bank's assets.

	Actual		"Well Capitalized" Regulatory Requirements	
	Amount	Ratio	Amount	Ratio
As of September 30, 2016:				
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$1,928,979	12.4%	$1,012,748	>6.5 %
Tier 1 Capital (to Risk-Weighted Assets)	$1,928,979	12.4%	$1,246,459	>8.0 %
Total Capital (to Risk-Weighted Assets)	$2,095,397	13.4%	$1,558,074	>10.0%
Tier 1 Capital (to Average Assets)	$1,928,979	11.6%	$828,962	>5.0 %
As of December 31, 2015:				
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$1,734,315	14.4%	$781,638	>6.5 %
Tier 1 Capital (to Risk-Weighted Assets)	$1,734,315	14.4%	$962,017	>8.0 %
Total Capital (to Risk-Weighted Assets)	$1,848,528	15.4%	$1,202,521	>10.0%
Tier 1 Capital (to Average Assets)	$1,734,315	12.3%	$704,979	>5.0 %

Bank Dividends

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the FDIC. The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. The Bank paid no dividends for the three and nine months ended September 30, 2016 and September 30, 2015.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)

13. Commitments, Contingencies and Guarantees

Commitments

When we approve a Private Education Loan at the beginning of an academic year, that approval may cover the borrowing for the entire academic year. As such, we do not always disburse the full amount of the loan at the time of such approval, but instead have a commitment to fund a portion of the loan at a later date (usually at the start of the second semester or subsequent trimesters). At September 30, 2016, we had $1.8 billion of outstanding contractual loan commitments which we expect to fund during the remainder of the 2016/2017 academic year. At September 30, 2016, we had a $1.6 million reserve recorded in "Other Liabilities" to cover expected losses that we conclude are probable to occur during the one year loss emergence period on these unfunded commitments.

Regulatory Matters

At the time of this filing, the Bank remains subject to a Consent Order, Order to Pay Restitution and Order to Pay Civil Money Penalty dated May 13, 2014 issued by the FDIC (the "FDIC Consent Order") and a Consent Order (the "DOJ Consent Order") issued by the Department of Justice (the "DOJ"). On May 13, 2014, the Bank reached a settlement with the DOJ regarding compliance issues with the Servicemembers' Civil Relief Act ("SCRA"). At the same time, the Bank reached a settlement with the FDIC regarding disclosures and assessments of certain late fees, as well as compliance with the SCRA. Under the FDIC Consent Order, the Bank paid $3.3 million in fines and oversaw the refund of up to $30 million in late fees, funded by Navient as required by the terms of the Separation and Distribution Agreement, assessed on loans owned or originated by the Bank since its inception in November 2005. The DOJ Consent Order was approved by the U.S. District Court for the District of Delaware on September 29, 2014.

Under the DOJ Consent Order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

We believe the Bank has complied with all the requirements of the FDIC Consent Order and the DOJ Consent Order. This includes implementing new SCRA policies, procedures and training, updated billing statement disclosures, steps to ensure its third-party service providers are also fully compliant in these regards, and overseeing Navient's restitution responsibilities. Notwithstanding the assumption by the Consumer Financial Protection Bureau (the "CFPB") of the role of the Bank's primary consumer compliance regulator in January 2015, the FDIC will continue to monitor the Bank's improved compliance management system, policies and procedures until it is satisfied the Bank has demonstrated its ability to sustain the enhancements and additions implemented in response to the FDIC Consent Order. Pursuant to the terms of the DOJ Consent Order, the Bank will remain subject to certain DOJ reporting and record-keeping requirements until September 29, 2018.

In May 2014, the Bank received a Civil Investigative Demand ("CID") from the CFPB as part of the CFPB's separate investigation relating to customer complaints, fees and charges assessed in connection with the servicing of student loans and related collection practices of pre-Spin-Off SLM Corporation ("pre-Spin-Off SLM") by entities now subsidiaries of Navient during a time period prior to the Spin-Off. Two state attorneys general have provided the Bank identical CIDs and others have become involved in the inquiry over time. To the extent requested, we have been cooperating fully with the CFPB and the attorneys general but are not in a position at this time to predict the duration or outcome of the investigation. Given the timeframe covered by this demand and the focus on practices and procedures previously conducted by Navient and its servicing subsidiaries, Navient is leading the response to this investigation and has accepted responsibility for all costs, expenses, losses or remediation that may arise from this investigation.

SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, unless otherwise noted)
13. Commitments, Contingencies and Guarantees (Continued)

Contingencies
In the ordinary course of business, we and our subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage may be asserted against us and our subsidiaries.
It is common for the Company, our subsidiaries and affiliates to receive information and document requests and investigative demands from state attorneys general, legislative committees, and administrative agencies. These requests may be for informational or regulatory purposes and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. Our practice has been and continues to be to cooperate with these bodies and be responsive to any such requests.
We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.
Based on current knowledge, management does not believe there are loss contingencies, if any, arising from pending investigations, litigation or regulatory matters for which reserves should be established.

14. Subsequent Event
On October 12, 2016, we executed our $674 million SMB Private Education Loan Trust 2016-C term ABS transaction, which will be accounted for as an on-balance sheet secured financing. We sold $674 million of notes to third parties and retained a 100 percent interest in the residual certificates issued in the securitization, raising approximately $673 million of gross proceeds. This transaction will be reflected in our fourth quarter 2016 results.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information is current as of October 19, 2016 (unless otherwise noted) and should be read in connection with SLM Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 (filed with the Securities and Exchange Commission (the "SEC") on February 26, 2016) (the "2015 Form 10-K"), and subsequent reports filed with the SEC. Definitions for capitalized terms used in this report not defined herein can be found in the 2015 Form 10-K.

References in this Form 10-Q to "we," "us," "our," "Sallie Mae," "SLM" and the "Company" refer to SLM Corporation and its subsidiaries, except as otherwise indicated or unless the context otherwise requires.

This report contains "forward-looking" statements and information based on management's current expectations as of the date of this report. Statements that are not historical facts, including statements about the Company's beliefs, opinions or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Item 1A "Risk Factors" and elsewhere in the Company's 2015 Form 10-K and subsequent filings with the SEC; increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which the Company is a party; credit risk associated with the Company's exposure to third-parties, including counterparties to the Company's derivative transactions; and changes in the terms of education loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). The Company could also be affected by, among other things: changes in its funding costs and availability; reductions to its credit ratings; failures or breaches of its operating systems or infrastructure, including those of third-party vendors; damage to its reputation; failures to successfully implement cost-cutting and restructuring initiatives and adverse effects of such initiatives on the Company's business; risks associated with restructuring initiatives; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; changes in banking rules and regulations, including increased capital requirements; increased competition from banks and other consumer lenders; the creditworthiness of the Company's customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of the Company's earning assets versus the Company's funding arrangements; rates of prepayment on the loans that the Company makes; changes in general economic conditions and the Company's ability to successfully effectuate any acquisitions; and other strategic initiatives. The preparation of the Company's consolidated financial statements also requires management to make certain estimates and assumptions, including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this quarterly report on Form 10-Q are qualified by these cautionary statements and are made only as of the date of this report. The Company does not undertake any obligation to update or revise these forward-looking statements to conform such statements to actual results or changes in its expectations.

The Company reports financial results on a GAAP basis and also provides certain core earnings performance measures. The difference between the Company's "Core Earnings" and GAAP results for the periods presented were the unrealized, mark-to-market gains/losses on derivative contracts (excluding current period accruals on the derivative instruments), net of tax. These are recognized in GAAP, but not in "Core Earnings" results. The Company provides "Core Earnings" measures because this is what management uses when making management decisions regarding the Company's performance and the allocation of corporate resources. The Company's "Core Earnings" are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. For additional information, see "Key Financial Measures" and "GAAP Consolidated Earnings Summary - 'Core Earnings' " in this Form 10-Q for the quarter ended September 30, 2016 for a further discussion and a complete reconciliation between GAAP net income and “Core Earnings.”

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

Selected Financial Information and Ratios

(In thousands, except per share data and percentages)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income attributable to SLM Corporation common stock	$51,649	$40,811	$164,387	$169,833
Diluted earnings per common share attributable to SLM Corporation	$0.12	$0.09	$0.38	$0.39
Weighted average shares used to compute diluted earnings per share	433,523	432,547	432,079	432,531
Return on assets	1.4 %	1.3 %	1.5 %	1.9 %
Non-GAAP operating efficiency ratio(1)	40.6 %	50.3 %	40.8 %	48.3 %
Other Operating Statistics				
Ending Private Education Loans, net	$13,725,959	$10,766,511	$13,725,959	$10,766,511
Ending FFELP Loans, net	1,034,545	1,142,637	1,034,545	1,142,637
Ending total education loans, net	$14,760,504	$11,909,148	$14,760,504	$11,909,148
Average education loans	$13,931,693	$11,030,313	$13,384,326	$10,759,781

(1) A GAAP-based operating efficiency ratio would compare total non-interest expenses to net revenue (which consists of net interest income, before provisions for credit losses, plus non-interest income). Our operating efficiency ratio is a non-GAAP measure because we adjust (a) the non-interest expense numerator by deducting restructuring and other reorganization expenses, and (b) the net revenue denominator by deducting gains on sales of loans, net. We believe doing so provides useful information to investors because it is a measure used by our management team to monitor our effectiveness in managing operating expenses. Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate our ratio. Accordingly, our non-GAAP operating efficiency ratio may not be comparable to similar measures used by other companies.

Recent Development

On October 12, 2016, we executed our $674 million SMB Private Education Loan Trust 2016-C term ABS transaction, which will be accounted for as an on-balance sheet secured financing. We sold $674 million of notes to third parties and retained a 100 percent interest in the residual certificates issued in the securitization, raising approximately $673 million of gross proceeds. This transaction will be reflected in our fourth quarter 2016 results.

Overview

The following discussion and analysis presents a review of our business and operations as of and for the three and nine months ended September 30, 2016.

Key Financial Measures

Our operating results are primarily driven by net interest income from our Private Education Loan portfolio, provision expense for credit losses, and operating expenses. The growth of our business and the strength of our financial condition are primarily driven by our ability to achieve our annual Private Education Loan origination goals while sustaining credit quality and maintaining cost-efficient funding sources to support our originations. A brief summary of our key financial measures (net interest income; loan sales and secured financings, net; allowance for loan losses; charge-offs and delinquencies; operating expenses; “Core Earnings;” Private Education Loan originations; and funding sources) can be found in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2015 Form 10-K.

2016 Management Objectives

For 2016, we have set out the following major goals for ourselves: (1) prudently grow our Private Education Loan assets and revenues; (2) maintain our strong capital position; (3) enhance our customers' experience by further improving the delivery of our products and services; (4) sustain the consumer protection improvements we have made to our policies, procedures and compliance management system since the Spin-Off and further enhance our risk oversight infrastructure; (5) successfully launch one or more complementary new products to increase the level of engagement we have with our customers; and (6) manage operating expenses while improving efficiency. Here is how we plan to achieve these objectives:

Prudently Grow Private Education Loan Assets and Revenues

We will continue to pursue managed growth in our Private Education Loan portfolio in 2016 by leveraging our Sallie Mae and Upromise brands and our relationship with more than two thousand colleges and universities. We recently expanded our campus-focused sales force to provide deeper support for universities in all regions of the United States and, as a result, we expect to be able to continue to increase originations through this effort. We are determined to maintain overall credit quality and cosigner rates in our Smart Option Student Loan originations. On April 26, 2016, we introduced a Private Education Loan product permitting parents to borrow and fund their children's education without a student co-borrower ("Parent Loans"). As our business, capital and balance sheet continue to grow, we also expect to be able to achieve our annual Private Education Loan origination targets for the year without having to sell loans to third-parties. Originations were 8 percent higher in the first nine months of 2016 compared with the year-ago period. The average FICO scores at approval and the cosigner rates for originations in the nine months ended September 30, 2016 were 748 and 89.4 percent, compared with 749 and 89.8 percent in the nine months ended September 30, 2015, respectively.

Maintain Our Strong Capital Position

We intend to maintain levels of capital at the Bank that significantly exceed those necessary to be considered "well capitalized" by the FDIC. The Company is a source of strength for the Bank and will obtain or provide additional capital as, and if, necessary to the Bank. We regularly evaluate the quality of assets, stability of earnings, and adequacy of our allowance for loan losses, and we continue to believe our existing capital levels are sufficient to support the Bank's plan for significant growth over the next several years while remaining "well capitalized." As our balance sheet grows in 2016, these ratios will decline but will remain significantly in excess of the capital levels required to be considered "well capitalized" by our regulators. As of September 30, 2016, the Bank had a Common Equity Tier 1 risk-based capital ratio of 12.4 percent, a Tier 1 risk-based capital ratio of 12.4 percent, a Total risk-based capital ratio of 13.4 percent and a Tier 1 leverage ratio of 11.6 percent, all exceeding the current regulatory guidelines for "well capitalized" institutions by a significant amount. We do not plan to pay a common stock dividend or repurchase shares in 2016 (except to repurchase common stock acquired as a result of taxes withheld in connection with award exercises and vesting under our employee stock-based compensation plans).

Enhance Customers' Experience By Further Improving Delivery of Products and Services

The Spin-Off provided us the opportunity to redesign our processes, procedures and customer experiences exclusively around our Private Education Loan products, rather than accommodating the servicing of those products as well as FFELP and Direct Student Loans serviced under direction of the Department of Education ("DOE"). In 2016, we continue to focus on our new servicing platform and processes to specifically target further simplifications in our customers' Private Education Loan experience. Recent enhancements include:

- All servicing is now conducted by in-house Sallie Mae associates;
- Additional customer service sites have opened to provide redundancy during key processing periods;
- We continue to provide agents with new procedures and technology;
- We increased our efforts to further clarify and simplify customer communications on important topics, such as payment options, by seeking to standardize information across platforms; and
- We continue to expand functionality and information available to our customers online.

We continue to implement customer feedback processes and gain insights from key points in our customers' experience.

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Sustain Consumer Protection Improvements Made Since the Spin-Off and Further Enhance Our Risk Oversight Infrastructure

Since the Spin-Off, we have continued to undertake significant work to establish that all customer protection policies, procedures and compliance management systems are sufficient to meet or exceed currently applicable regulatory standards. Our redesigned SCRA processes and procedures have the approval of the DOJ and all required restitution activities under the FDIC Consent Order and DOJ Consent Order have been completed. In 2014, we engaged a third-party firm to conduct independent audits of consumer protection processes and procedures, including our own compliance management system. At this time, that engagement is ongoing and we are nearing the end of our second full cycle of those audits. To date, these audits have produced no high risk findings. Our goal is to sustain the improvements implemented to date and consistently comply with or exceed regulatory standards while continuing to improve our customers' experience and satisfaction levels.

During 2016, we continued the development of our Enterprise Risk Management capability, including significant advances in the Model Risk Management area and enhancements to our Governance, Risk and Compliance platform. These programs contributed to our successful DFAST submission during the third quarter. Additionally, the Manager's Assessment of Risk and Controls has entered its second year of use and is proving effective in assisting the first lines of defense in the management of their internal controls.

Successfully Launch One or More Complementary New Products to Increase Level of Engagement With Customers

In 2015, our management team began to consider expanding the suite of products we provide to customers. Given our limited time and experience with our new originations platform and servicing capabilities, we prioritized opportunities to focus first on those that can leverage our core competencies and capabilities, rather than require the development or acquisition of new or alternative ones. For example, in the first quarter of 2016, we leveraged our experience with our Smart Option Student Loan products by launching a Parent Loan program designed for parents who wish to separately finance their children's education, rather than cosign loans with their children. We believe there is a market for this product that is separate from the Smart Option Student Loan market, and we believe our product will be a competitive alternative to PLUS loans being offered by the DOE. This product complements our portfolio of Private Education Loan offerings, but is not expected to have a material impact on 2016 earnings.

We will also be exploring other product opportunities in 2016. In this process, we also place a high premium on designing and launching products that will be easily understood and attractive to our customers. Any activity in 2016 will focus on success of implementation, and we are not forecasting significant contributions to our originations, revenues or net income from any potential new products in 2016.

Manage Operating Expenses While Improving Efficiency

We will continue to measure our effectiveness in managing operating expenses by monitoring our non-GAAP operating efficiency ratio. A GAAP-based operating efficiency ratio would compare total non-interest expenses to net revenue (which consists of net interest income, before provisions for credit losses, plus non-interest income). Our operating efficiency ratio is a non-GAAP measure because we adjust (a) the non-interest expense numerator by deducting restructuring and other reorganization expenses, and (b) the net revenue denominator by deducting gains on sales of loans, net. We believe doing so provides useful information to investors because it is a measure used by our management team to monitor our effectiveness in managing operating expenses. Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way we calculate our ratio. Accordingly, our non-GAAP operating efficiency ratio may not be comparable to similar measures used by other companies.

This ratio was 40.6 percent for the three months ended September 30, 2016, compared with 50.3 percent for the three months ended September 30, 2015. This ratio was 40.8 percent for the first nine months of 2016, compared with 48.3 percent for the first nine months of 2015. The large improvement in the non-GAAP operating efficiency ratio in the three months ended September 30, 2016 compared with the year-ago quarter was partially due to a $9 million increase in other income as a result of an increase in the tax indemnification receivable related to uncertain tax positions. The large improvement in the non-GAAP operating efficiency ratio in the nine months ended September 30, 2016 compared with the year-ago period was partially due to a $9 million increase in other income as a result of an increase in the tax indemnification receivable related to uncertain tax positions and the one-time $10 million change in reserve estimates related to our Upromise rewards business recorded in the first quarter of 2016. We expect this ratio to decline steadily from the full-year 2015 operating efficiency ratio of 46.8 perc

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ent over the next several years as the number of loans on which we earn either net interest income or servicing revenue grows to a level commensurate with our loan origination platform and we control the growth of our expense base.

GAAP Results of Operations

We present the results of operations below first on a consolidated basis in accordance with GAAP.

GAAP Statements of Income (Unaudited)

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
(In millions, except per share data)	2016	2015	$	%	2016	2015	$	%
Interest income:								
Loans	$268	$205	$63	31 %	$765	$598	$167	28 %
Investments	2	3	(1)	(33)	7	8	(1)	(13)
Cash and cash equivalents	2	1	1	100	5	3	2	67
Total interest income	272	209	63	30	777	609	168	28
Total interest expense	49	34	15	44	131	94	37	39
Net interest income	223	175	48	27	646	515	131	25
Less: provisions for credit losses	42	27	14	52	116	60	56	93
Net interest income after provisions for credit losses	181	148	33	22	530	455	75	16
Non-interest income:								
Gains on sales of loans, net	—	—	—	—	—	77	(77)	(100)
Gains (losses) on derivatives and hedging activities, net	1	(1)	2	(200)	3	4	(1)	(25)
Other income	22	11	11	100	56	29	27	93
Total non-interest income	23	10	13	130	59	110	(51)	(46)
Non-interest expenses:								
Total operating expenses	100	93	7	8	287	264	23	9
Acquired intangible asset amortization expense	—	—	—	—	1	1	—	—
Restructuring and other reorganization expenses	—	1	(1)	(100)	—	6	(6)	(100)
Total non-interest expenses	100	94	6	6	288	271	17	6
Income before income tax expense	104	64	40	63	301	294	7	2
Income tax expense	47	18	29	161	121	110	11	10
Net income	57	46	11	24	180	184	(4)	(2)
Preferred stock dividends	5	5	—	—	16	14	2	14
Net income attributable to SLM Corporation common stock	$52	$41	$11	27 %	$164	$170	$(6)	(4)%
Basic earnings per common share attributable to SLM Corporation	$0.12	$0.10	$0.02	20 %	$0.38	$0.40	$(0.02)	(5)%
Diluted earnings per common share attributable to SLM Corporation	$0.12	$0.09	$0.03	33 %	$0.38	$0.39	$(0.01)	(3)%

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GAAP Consolidated Earnings Summary

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

For the three months ended September 30, 2016, net income was $57 million, or $.12 diluted earnings per common share, compared with net income of $46 million, or $.09 diluted earnings per common share for the three months ended September 30, 2015. Net income was affected by a $48 million increase in net interest income and a $13 million increase in total non-interest income, which were offset by a $14 million increase in provisions for credit losses, a $6 million increase in total non-interest expenses, and a $29 million increase in income tax expense.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

•Net interest income increased by $48 million in the current quarter compared with the year-ago quarter primarily due to a $3.0 billion increase in average Private Education Loans outstanding. Net interest margin increased by 22 basis points primarily as a result of an increase in the ratio of higher yielding Private Education Loans relative to our other interest earning assets, which more than offset a 20 basis point increase in our cost of funds. The yields on our interest earning assets and our cost of funds increased primarily as a result of an increase in LIBOR rates that occurred in late 2015.

•Provisions for credit losses increased $14 million compared with the year-ago quarter. This increase was primarily the result of an increase in charge-offs in the third quarter of 2016, an increase in the Private Education Loan delinquency rate as a percentage of loans in repayment from 1.9 percent at September 30, 2015 to 2.0 percent at September 30, 2016, and a $56 million increase in loans becoming classified as TDRs (where we provide for life-of-loan losses) in the third quarter of 2016 compared with loans becoming classified as TDRs in the third quarter of 2015.

•Gains (losses) on derivatives and hedging activities, net, resulted in a net gain of $1 million in the third quarter of 2016, from a net loss of $1 million in the year-ago quarter.

•Other income increased $11 million compared with the year-ago quarter, primarily as a result of a $9 million increase in the tax indemnification receivable related to uncertain tax positions.

•Third-quarter 2016 operating expenses (including acquired intangible asset amortization expense) were $100 million compared with $93 million in the year-ago quarter. The increase in operating expenses was primarily the result of increased marketing costs, FDIC assessment fees and personnel and technology costs, largely driven by growth in our loan portfolio.

•Income tax expense increased $29 million compared with the year-ago quarter. The effective tax rate increased in the third-quarter 2016 to 45.5 percent from 28.2 percent in the year-ago quarter. The prior year quarter included a benefit resulting from a release of reserves for uncertain tax positions related to a favorable state tax ruling. The effective tax rate in the current quarter was higher because of an additional $9 million recorded related to uncertain tax positions and due to an increase in state taxes. The uncertain tax positions contributing to the increase in our effective tax rate had no impact on earnings per share, as we recorded the matching offset in other income. Managing our uncertain tax positions will add volatility to our reported effective tax rate, but should not impact our expected cash tax liability. For additional information regarding the uncertain tax positions, see “Correction Recorded in the Current Period” in this quarterly report on Form 10-Q.

Nine Months Ended September 30, 2016 Compared with Nine Months Ended September 30, 2015

For the nine months ended September 30, 2016, net income was $180 million, or $.38 diluted earnings per common share, compared with net income of $184 million, or $.39 diluted earnings per common share for the nine months ended September 30, 2015. Net income was affected by a $77 million decrease in gains on sales of loans, a $56 million increase in provisions for credit losses and a $17 million increase in total non-interest expenses, which were offset by a $131 million increase in net interest income and a $27 million increase in other income that included a one-time $10 million change in reserve estimates related to our Upromise rewards business.

The primary contributors to each of the identified drivers of changes in net income for the first nine months of 2016 compared with the year-ago period are as follows:

•Net interest income increased by $131 million in the first nine months compared with the year-ago period primarily due to a $2.7 billion increase in average Private Education Loans outstanding. Net interest margin increased by 24 basis points primarily as a result of an increase in the ratio of higher yielding Private Education Loans relative to our other interest earning

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assets, which more than offset a 15 basis point increase in our cost of funds. The yields on our interest earning assets and our cost of funds increased primarily as a result of an increase in LIBOR rates that occurred in late 2015.

•Provisions for credit losses increased $56 million compared with the year-ago period. This increase was primarily the result of an additional $471 million of loans entering repayment in the nine months ended September 30, 2016, compared with loans entering repayment in the year-ago period, an increase in the Private Education Loan delinquency rate as a percentage of loans in repayment from 1.9 percent at September 30, 2015 to 2.0 percent at September 30, 2016, and a $90 million increase in loans becoming classified as TDRs (where we provide for life-of-loan losses) in the nine months ended September 30, 2016 compared with loans becoming classified as TDRs in the year-ago period.

•Gains on sales of loans, net, decreased $77 million as there were no loan sales in the first nine months of 2016.

•Gains on derivatives and hedging activities, net, resulted in a net gain of $3 million in the first nine months of 2016 compared with a net gain of $4 million in the year-ago period. The primary factors affecting the change were interest rates and whether derivatives qualified for hedge accounting treatment. In the first nine months of 2016, we used fewer derivatives to economically hedge risk that did not qualify for hedge accounting treatment than in the year-ago period.

•Other income increased $27 million compared with the year-ago period. Of this increase, $10 million relates to a one-time gain resulting from a change in reserve estimates for our Upromise rewards program. Also contributing to this increase is an increase in the tax indemnification receivable related to uncertain tax positions and an increase in third-party servicing income.

•Operating expenses (including acquired intangible asset amortization expense) for the nine months ended September 30, 2016 were $288 million compared with $265 million in the year-ago period. The increase in operating expenses was primarily the result of increased marketing costs, FDIC assessment fees and personnel and technology costs, largely driven by growth in our loan portfolio.

•Income tax expense increased $11 million compared with the year-ago period. The increase in the first nine months of 2016 effective tax rate to 40.2 percent from 37.3 percent in the year-ago period was primarily as a result of a benefit recorded in the prior year resulting from a release of reserves for uncertain tax positions from a favorable state tax ruling and an additional $9 million recorded in the current year related to uncertain tax positions. For additional information regarding the uncertain tax positions, see "Correction Recorded in the Current Period" in this quarterly report on Form 10-Q.

Correction Recorded in the Current Period

We recognized in the current period adjustments for tax positions relating to historical transactions among entities that are now subsidiaries of Navient that should have been recorded at the time of the Spin-Off, which occurred on April 30, 2014. We have evaluated the quantitative and qualitative materiality of these errors to all of the relevant periods and concluded that the out of period correction to recognize the asset, liabilities and income statement impacts in the quarter ended September 30, 2016 is not material to our consolidated financial statements for any of the relevant periods. The adjustments increased our tax indemnification receivable and income taxes payable by $120 million and increased our other income and income tax expense by $9 million, as we believe we are indemnified by Navient for these additional tax liabilities. Accordingly, there was no effect on equity or net income as a result of these errors in the current or prior periods. Prospectively, these uncertain tax position liabilities and related assets will be accounted for consistent with our existing accounting policies for these kinds of assets and liabilities.

"Core Earnings"

We prepare financial statements in accordance with GAAP. However, we also produce and report our after-tax earnings on a separate basis that we refer to as "Core Earnings." While pre-Spin-Off SLM also reported a metric by that name, what we now report and what we describe below is significantly different and should not be compared to any Core Earnings reported by pre-Spin-Off SLM. The difference between our "Core Earnings" and GAAP results for periods presented generally is driven by the unrealized, mark-to-market gains (losses) on derivatives contracts recognized in GAAP, but not in "Core Earnings."

"Core Earnings" recognizes the difference in accounting treatment based upon whether a derivative qualifies for hedge accounting treatment and eliminates the earnings impact associated with hedge ineffectiveness and derivatives we use as an economic hedge but which do not qualify for hedge accounting treatment. We enter into derivatives instruments to economically hedge interest rate and cash flow risk associated with our portfolio. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. Those derivative instruments that qualify for hedge accounting treatment have their related cash flows recorded in interest income or interest expense along with the hedged item. Hedge ineffectiveness related to these derivatives is recorded in “Gains (losses) on derivatives and hedging activities, net.” Some of our derivatives do not qualify for hedge accounting treatment and the stand-alone derivative must be marked-to-fair value in the income statement with no consideration for the corresponding change in fair value of the hedged item. These gains and losses, recorded in “Gains (losses) on derivative and hedging activities, net,” are primarily caused by interest rate volatility and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment. Cash flows on derivative instruments that do not qualify for hedge accounting are not recorded in interest income and interest expense; they are recorded in non-interest income: “Gains (losses) on derivative and hedging activities, net.”

The adjustments required to reconcile from our “Core Earnings” results to our GAAP results of operations, net of tax, relate to differing treatments for our derivative instruments used to hedge our economic risks that do not qualify for hedge accounting treatment or that do qualify for hedge accounting treatment but result in ineffectiveness, net of tax. The amount recorded in “Gains (losses) on derivative and hedging activities, net” includes (a) the accrual of the current payment on the interest rate swaps that do not qualify for hedge accounting treatment, (b) the change in fair values related to future expected cash flows for derivatives that do not qualify for hedge accounting and (c) ineffectiveness on derivatives that receive hedge accounting treatment. For purposes of “Core Earnings”, we are including in GAAP earnings the current period accrual amounts (interest reclassification) on the swaps and excluding the remaining ineffectiveness. “Core Earnings” is meant to represent what earnings would have been had these derivatives qualified for hedge accounting and there was no ineffectiveness.

“Core Earnings” are not a substitute for reported results under GAAP. We provide a “Core Earnings” basis of presentation because (i) earnings per share computed on a “Core Earnings” basis is one of several measures we utilize in establishing management incentive compensation and (ii) we believe it better reflects the financial results for derivatives that are economic hedges of interest rate risk but which do not qualify for hedge accounting treatment.

GAAP provides a uniform, comprehensive basis of accounting. Our “Core Earnings” basis of presentation differs from GAAP in the way it treats derivatives as described above.

The following table shows the amount in “Gains on derivatives and hedging activities, net” that relates to the interest reclassification on the derivative contracts.

(Dollars in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Hedge ineffectiveness gains (losses)	$2,356	$(2,116)	$476	$(1,471)
Unrealized (losses) gains on instruments not in a hedging relationship	(1,525)	716	783	2,972
Interest reclassification	537	853	1,897	2,846
Gains (losses) on derivatives and hedging activities, net	$1,368	$(547)	$3,156	$4,347

The following table reflects adjustments associated with our derivative activities.

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
"Core Earnings" adjustments to GAAP:				
GAAP net income	$56,965	$45,724	$180,085	$184,439
Preferred stock dividends	5,316	4,913	15,698	14,606
GAAP net income attributable to SLM Corporation common stock	$51,649	$40,811	$164,387	$169,833
Adjustments:				
Net impact of derivative accounting[(1)]	(831)	1,400	(1,259)	(1,501)
Net tax effect[(2)]	(320)	529	(483)	(587)
Total "Core Earnings" adjustments to GAAP	(511)	871	(776)	(914)
"Core Earnings" attributable to SLM Corporation common stock	$51,138	$41,682	$163,611	$168,919
GAAP diluted earnings per common share	$0.12	$0.09	$0.38	$0.39
Derivative adjustments, net of tax	—	0.01	—	—
"Core Earnings" diluted earnings per common share	$0.12	$0.10	$0.38	$0.39

(1) Derivative Accounting: "Core Earnings" exclude periodic unrealized gains and losses caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP, as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. Under GAAP, for our derivatives held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0.

(2) "Core Earnings" tax rate is based on the effective tax rate at the Bank where the derivative instruments are held.

Financial Condition

Average Balance Sheets - GAAP

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

	Three Months Ended September 30,				Nine Months Ended September30,			
	2016		2015		2016		2015	
(Dollars in thousands)	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets								
Private Education Loans	$12,881,890	8.00%	$9,869,025	7.87%	$12,307,932	8.00%	$9,563,290	7.96%
FFELP Loans	1,049,803	3.52	1,161,288	3.27	1,076,394	3.48	1,196,491	3.22
Taxable securities	388,886	2.24	388,539	2.70	383,844	2.49	397,577	2.60
Cash and other short-term investments	1,599,913	0.50	1,574,396	0.25	1,300,208	0.50	1,373,333	0.25
Total interest-earning assets	15,920,492	6.81%	12,993,248	6.38%	15,068,378	6.89%	12,530,691	6.50%
Non-interest-earning assets	800,567		693,311		757,336		667,718	
Total assets	$16,721,059		$13,686,559		$15,825,714		$13,198,409	
Average Liabilities and Equity								
Brokered deposits	$7,311,591	1.32%	$6,554,349	1.20%	$7,104,453	1.31%	$6,598,090	1.20%
Retail and other deposits	5,091,021	1.08	3,848,379	0.95	4,805,039	1.05	3,828,775	0.95
Other interest-bearing liabilities(1)	1,602,760	2.78	670,660	2.63	1,231,972	2.62	227,426	4.60
Total interest-bearing liabilities	14,005,372	1.40%	11,073,388	1.20%	13,141,464	1.33%	10,654,291	1.18%
Non-interest-bearing liabilities	488,198		637,724		510,652		626,476	
Equity	2,227,489		1,975,447		2,173,598		1,917,642	
Total liabilities and equity	$16,721,059		$13,686,559		$15,825,714		$13,198,409	
Net interest margin		5.58%		5.36%		5.73%		5.49%

(1) For the three and nine months ended September 30, 2016, includes the average balance of our secured borrowings and amortization expense of transaction costs related to our ABCP Facility.

Rate/Volume Analysis - GAAP

The following rate/volume analysis shows the relative contribution of changes in interest rates and asset volumes.

(Dollars in thousands)	Increase (Decrease)	Change Due To[1] Rate	Volume
Three Months Ended September 30, 2016 vs. 2015			
Interest income	$ 63,636	$ 14,827	$ 48,809
Interest expense	15,803	6,152	9,651
Net interest income	$ 47,833	$ 7,512	$ 40,321
Nine Months Ended September 30, 2016 vs. 2015			
Interest income	$ 168,502	$ 38,781	$ 129,721
Interest expense	37,251	13,342	23,909
Net interest income	$ 131,251	$ 22,776	$ 108,475

(1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

Summary of Our Education Loan Portfolio

Ending Education Loan Balances, net

(Dollars in thousands)	September 30, 2016 Private Education Loans	FFELP Loans	Total Portfolio	December 31, 2015 Private Education Loans	FFELP Loans	Total Portfolio
Total education loan portfolio:						
In-school[1]	$ 3,269,759	$ 409	$ 3,270,168	$ 2,823,035	$ 582	$ 2,823,617
Grace, repayment and other[2]	10,578,503	1,033,520	11,612,023	7,773,402	1,115,081	8,888,483
Total, gross	13,848,262	1,033,929	14,882,191	10,596,437	1,115,663	11,712,100
Deferred origination costs and unamortized premium	40,327	2,825	43,152	27,884	3,114	30,998
Allowance for loan losses	(162,630)	(2,209)	(164,839)	(108,816)	(3,691)	(112,507)
Total education loan portfolio	$ 13,725,959	$ 1,034,545	$ 14,760,504	$ 10,515,505	$ 1,115,086	$ 11,630,591
% of total	93 %	7 %	100 %	90 %	10 %	100 %

(1) Loans for customers still attending school and who are not yet required to make payments on the loan.

(2) Includes loans in deferment or forbearance.

Average Education Loan Balances (net of unamortized premium/discount)

(Dollars in thousands)	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Private Education Loans	$12,881,890	92 %	$9,869,025	89 %	$12,307,932	92 %	$9,563,290	89 %
FFELP Loans	1,049,803	8	1,161,288	11	1,076,394	8	1,196,491	11
Total portfolio	$13,931,693	100 %	$11,030,313	100 %	$13,384,326	100 %	$10,759,781	100 %

Education Loan Activity

(Dollars in thousands)	Three Months Ended September 30, 2016 Private Education Loans	FFELP Loans	Total Portfolio	Three Months Ended September 30, 2015 Private Education Loans	FFELP Loans	Total Portfolio
Beginning balance	$12,183,293	$1,062,133	$13,245,426	$9,245,259	$1,177,649	$10,422,908
Acquisitions and originations	1,838,076	—	1,838,076	1,716,574	—	1,716,574
Capitalized interest and deferred origination cost premium amortization	57,315	8,158	65,473	42,866	9,194	52,060
Sales	(2,176)	—	(2,176)	(4,613)	—	(4,613)
Loan consolidation to third parties	(54,950)	(11,847)	(66,797)	(20,376)	(12,459)	(32,835)
Repayments and other	(295,599)	(23,899)	(319,498)	(213,199)	(31,747)	(244,946)
Ending balance	$13,725,959	$1,034,545	$14,760,504	$10,766,511	$1,142,637	$11,909,148

(Dollars in thousands)	Nine Months Ended September 30, 2016 Private Education Loans	FFELP Loans	Total Portfolio	Nine Months Ended September 30, 2015 Private Education Loans	FFELP Loans	Total Portfolio
Beginning balance	$10,515,505	$1,115,086	$11,630,591	$8,246,647	$1,263,139	$9,509,786
Acquisitions and originations	4,072,631	—	4,072,631	3,786,946	—	3,786,946
Capitalized interest and deferred origination cost premium amortization	158,111	26,873	184,984	118,653	30,316	148,969
Sales	(7,912)	—	(7,912)	(713,220)	—	(713,220)
Loan consolidation to third parties	(143,968)	(34,896)	(178,864)	(41,858)	(34,263)	(76,121)
Repayments and other	(868,408)	(72,518)	(940,926)	(630,657)	(116,555)	(747,212)
Ending balance	$13,725,959	$1,034,545	$14,760,504	$10,766,511	$1,142,637	$11,909,148

Private Education Loan Originations

The following table summarizes our Private Education Loan originations. Originations represent loans that were funded or acquired during the period presented.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in thousands)	2016	%	2015	%	2016	%	2015	%
Smart Option - interest only[(1)]	$468,237	26 %	$425,903	25 %	$1,033,009	25 %	$933,029	25 %
Smart Option - fixed pay[(1)]	542,504	30	545,089	32	1,225,650	30	1,164,326	31
Smart Option - deferred[(1)]	795,305	43	737,574	43	1,770,804	44	1,656,859	44
Smart Option - principal and interest	4,306	—	410	—	6,634	—	1,344	—
Parent Loan	20,968	1	—	—	22,478	1	—	—
Total Private Education Loan originations	$1,831,320	100%	$1,708,976	100%	$4,058,575	100%	$3,755,558	100%
Percentage of loans with a cosigner	90 %		91 %		89 %		90 %	
Average FICO at approval	749		749		748		749	

(1) Interest only, fixed pay and deferred describe the payment option while in school or in grace period.

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Allowance for Loan Losses

Education Loan Allowance for Loan Losses Activity

(Dollars in thousands)	Three Months Ended September 30, 2016 Private Education Loans	2016 FFELP Loans	2016 Total Portfolio	2015 Private Education Loans	2015 FFELP Loans	2015 Total Portfolio
Beginning balance	$142,628	$2,297	$144,925	$87,310	$4,556	$91,866
Less:						
Charge-offs	(22,072)	(356)	(22,428)	(14,121)	(529)	(14,650)
Loan sales[(1)]	(1,401)	—	(1,401)	(1,871)	—	(1,871)
Plus:						
Recoveries	2,973	—	2,973	1,361	—	1,361
Provision for loan losses	40,502	268	40,770	27,354	143	27,497
Ending balance	$162,630	$2,209	$164,839	$100,033	$4,170	$104,203
Troubled debt restructurings[(2)]	$503,632	$—	$503,632	$231,286	$—	$231,286

(Dollars in thousands)	Nine Months Ended September 30, 2016 Private Education Loans	2016 FFELP Loans	2016 Total Portfolio	2015 Private Education Loans	2015 FFELP Loans	2015 Total Portfolio
Beginning balance	$108,816	$3,691	$112,507	$78,574	$5,268	$83,842
Less:						
Charge-offs	(64,979)	(1,086)	(66,065)	(36,127)	(2,142)	(38,269)
Loan sales[(1)]	(5,008)	—	(5,008)	(5,572)	—	(5,572)
Plus:						
Recoveries	7,098	—	7,098	4,529	—	4,529
Provision for loan losses	116,703	(396)	116,307	58,629	1,044	59,673
Ending balance	$162,630	$2,209	$164,839	$100,033	$4,170	$104,203
Troubled debt restructurings[(2)]	$503,632	$—	$503,632	$231,286	$—	$231,286

(1) Represents fair value adjustments on loans sold.
(2) Represents the unpaid principal balance of loans classified as troubled debt restructurings.

Private Education Loan Allowance for Loan Losses

In establishing the allowance for Private Education Loan losses as of September 30, 2016, we considered several factors with respect to our Private Education Loan portfolio, in particular, credit quality and delinquency, forbearance and charge-off trends.

Private Education Loan provision for loan losses increased $14 million in the third quarter of 2016 compared with the year-ago period. This increase was primarily the result of an increase in charge-offs in the third quarter of 2016, an increase in the delinquency rate as a percentage of loans in repayment from 1.9 percent at September 30, 2015 to 2.0 percent at September 30, 2016, and a $56 million increase in loans becoming classified as TDRs (where we provide for life-of-loan losses) in the third quarter of 2016, compared with loans becoming classified as TDRs in the third quarter of 2015.

In the nine months ended September 30, 2016, we had a $58 million increase in Private Education Loan provisions for credit losses compared with the year-ago period. This increase was primarily the result of an additional $471 million of loans entering repayment in the nine months ended September 30, 2016, compared with loans entering repayment in the year-ago period, an increase in the Private Education Loan delinquency rate as a percentage of loans in repayment from 1.9 percent at September 30, 2015 to 2.0 percent at September 30, 2016, and a $90 million increase in loans becoming classified as TDRs (where we provide for life-of-loan losses) in the nine months ended September 30, 2016 compared with loans becoming classified as TDRs in the year-ago period.

For a more detailed discussion of our policy for determining the collectibility of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Allowance for Loan Losses” in the 2015 Form 10-K.

Prior to the Spin-Off, the Bank sold substantially all its Private Education Loans to several former affiliates, now subsidiaries of Navient (collectively, the “Purchasers”), pursuant to a Loan Participation and Purchase Agreement. In connection with the Spin-Off, the agreement under which the Bank previously made loan sales was amended so the Bank now only has the right to require the Purchasers to purchase loans (at fair value) for which the borrower has a lending relationship with both the Bank and Navient (“Split Loans”) when the Split Loans either (1) are more than 90 days past due; (2) have been restructured; (3) have been granted a hardship forbearance or more than six months of administrative forbearance; or (4) have a borrower or cosigner who has filed for bankruptcy. At September 30, 2016, we held approximately $71 million of Split Loans.

The table below presents our Private Education Loan delinquency trends. Loans in repayment include loans making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

	Private Education Loans September 30,			
	2016		2015	
(Dollars in thousands)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$4,662,941		$3,971,392	
Loans in forbearance[2]	279,509		211,641	
Loans in repayment and percentage of each status:				
Loans current	8,724,365	98.0 %	6,529,855	98.1 %
Loans delinquent 31-60 days[3]	108,591	1.2	79,794	1.2
Loans delinquent 61-90 days[3]	51,029	0.6	34,743	0.5
Loans delinquent greater than 90 days[3]	21,827	0.2	12,836	0.2
Total Private Education Loans in repayment	8,905,812	100.0%	6,657,228	100.0%
Total Private Education Loans, gross	13,848,262		10,840,261	
Private Education Loan deferred origination costs	40,327		26,283	
Total Private Education Loans	13,888,589		10,866,544	
Private Education Loan allowance for losses	(162,630)		(100,033)	
Total Private Education Loans, net	$13,725,959		$10,766,511	
Percentage of Private Education Loans in repayment		64.3 %		61.4 %
Delinquencies as a percentage of Private Education Loans in repayment		2.0 %		1.9 %
Loans in forbearance as a percentage of Private Education Loans in repayment and forbearance		3.0 %		3.1 %

(1) Deferment includes customers who have returned to school or are engaged 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).

(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.

Changes in allowance for Private Education Loan Losses
The following table summarizes changes in the allowance for Private Education Loan losses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Allowance at beginning of period	$142,628	$87,310	$108,816	$78,574
Provision for Private Education Loan losses	40,502	27,354	116,703	58,629
Net charge-offs:				
Charge-offs	(22,072)	(14,121)	(64,979)	(36,127)
Recoveries	2,973	1,361	7,098	4,529
Net charge-offs	(19,099)	(12,760)	(57,881)	(31,598)
Loan sales[(1)]	(1,401)	(1,871)	(5,008)	(5,572)
Allowance at end of period	$162,630	$100,033	$162,630	$100,033
Allowance as a percentage of ending total loans	1.17%	0.92%	1.17%	0.92%
Allowance as a percentage of ending loans in repayment[(2)]	1.83%	1.50%	1.83%	1.50%
Allowance coverage of net charge-offs (annualized)	2.13	1.96	2.11	2.37
Net charge-offs as a percentage of average loans in repayment (annualized)[(2)]	0.91%	0.83%	0.97%	0.72%
Delinquencies as a percentage of ending loans in repayment[(2)]	2.04%	1.91%	2.04%	1.91%
Loans in forbearance as a percentage of ending loans in repayment and forbearance[(2)]	3.04%	3.09%	3.04%	3.09%
Ending total loans, gross	$13,848,262	$10,840,261	$13,848,262	$10,840,261
Average loans in repayment[(2)]	$8,420,625	$6,118,678	$7,952,469	$5,848,345
Ending loans in repayment[(2)]	$8,905,812	$6,657,228	$8,905,812	$6,657,228

(1) Represents fair value adjustments on loans sold.

(2) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

As part of concluding on the adequacy of the allowance for loan losses, we review key allowance and loan metrics. The most significant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages. The allowance as a percentage of ending total loans and ending loans in repayment increased at September 30, 2016 compared with September 30, 2015 because of an increase in our TDRs (for which we hold a life-of-loan allowance) and an increase in the percentage of loans in full principal and interest repayment status.

Use of Forbearance as a Private Education Loan Collection Tool

Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a customer's unique situation, including historical information and judgments. We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

Forbearance may be granted to customers who are exiting their grace period to provide additional time to obtain employment and income to support their obligations, or to current customers who are faced with a hardship and request forbearance time to provide temporary payment relief. In these circumstances, a customer's loan is placed into a forbearance status in limited monthly increments and is reflected in the forbearance status at month-end during this time. At the end of their granted forbearance period, the customers will enter repayment status as current and are expected to begin making their scheduled monthly payments on a go-forward basis.

Forbearance may also be granted to customers who are delinquent in their payments. If specific requirements are met, the forbearance can cure the delinquency and the customer is returned to a current repayment status. In more limited instances, delinquent customers will also be granted additional forbearance time.

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). Active repayment status includes loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period. Our experience shows that the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At September 30, 2016, loans in forbearance status as a percentage of total loans in repayment and forbearance were 2 percent for Private Education Loans that have been in active repayment status for fewer than 25 months. Approximately 78 percent of our Private Education Loans in forbearance status have been in active repayment status fewer than 25 months.

(Dollars in millions) September 30, 2016	Private Education Loans Monthly Scheduled Payments Due					Not Yet in Repayment	Total
	0 to 12	13 to 24	25 to 36	37 to 48	More than 48		
Loans in-school/grace/deferment	$—	$—	$—	$—	$ —	$ 4,663	$4,663
Loans in forbearance	172	46	31	17	14	—	280
Loans in repayment - current	4,040	2,314	1,303	601	466	—	8,724
Loans in repayment - delinquent 31-60 days	56	23	15	8	7	—	109
Loans in repayment - delinquent 61-90 days	28	10	6	2	4	—	50
Loans in repayment - delinquent greater than 90 days	11	5	3	2	1	—	22
Total	$4,307	$2,398	$1,358	$630	$ 492	$ 4,663	13,848
Deferred origination costs							41
Allowance for loan losses							(163)
Total Private Education Loans, net							$13,726
Loans in forbearance as a percentage of total Private Education Loans in repayment and forbearance	1.87 %	0.50 %	0.34 %	0.18 %	0.15 %	— %	3.04 %

(Dollars in millions) September 30, 2015	Private Education Loans Monthly Scheduled Payments Due					Not Yet in Repayment	Total
	0 to 12	13 to 24	25 to 36	37 to 48	More than 48		
Loans in-school/grace/deferment	$—	$—	$—	$—	$ —	$ 3,971	$3,971
Loans in forbearance	129	35	24	15	9	—	212
Loans in repayment - current	3,374	1,669	832	388	265	—	6,528
Loans in repayment - delinquent 31-60 days	44	16	10	6	5	—	81
Loans in repayment - delinquent 61-90 days	20	7	4	2	2	—	35
Loans in repayment - delinquent greater than 90 days	7	2	2	1	1	—	13
Total	$3,574	$1,729	$872	$412	$ 282	$ 3,971	10,840
Deferred origination costs							27
Allowance for loan losses							(100)
Total Private Education Loans, net							$10,767
Loans in forbearance as a percentage of total Private Education Loans in repayment and forbearance	1.88 %	0.51 %	0.35 %	0.22 %	0.13 %	— %	3.09 %

Private Education Loan Types

The following table provides information regarding the repayment balance by loan type at September 30, 2016 and December 31, 2015.

	September 30, 2016				
(Dollars in thousands)	Signature and Other	Parent Loan	Smart Option	Career Training	Total
$ in repayment[(1)]	$166,598	$21,745	$8,701,960	$15,509	$8,905,812
$ in total	$333,744	$21,996	$13,476,655	$15,867	$13,848,262

	December 31, 2015				
(Dollars in thousands)	Signature and Other	Parent Loan	Smart Option	Career Training	Total
$ in repayment[(1)]	$141,900	$ —	$6,769,788	$15,578	$6,927,266
$ in total	$302,949	$ —	$10,277,517	$15,971	$10,596,437

(1) Loans in repayment include loans on which borrowers are making interest only or fixed payments, as well as loans that have entered full principal and interest repayment status after any applicable grace period.

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.

	Private Education Loan Accrued Interest Receivable		
(Dollars in thousands)	Total Interest Receivable	Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
September 30, 2016	$773,967	$ 803	$ 3,562
December 31, 2015	$542,919	$ 791	$ 3,332
September 30, 2015	$606,218	$ 489	$ 2,979

Liquidity and Capital Resources

Funding and Liquidity Risk Management

Our primary liquidity needs include our ongoing ability to fund our businesses throughout market cycles, including during periods of financial stress, our ongoing ability to fund originations of Private Education Loans and servicing our Bank deposits. To achieve these objectives, we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources, such as deposits at the Bank, issuance of secured debt primarily through asset-backed securitizations and other financing facilities. It is our policy to manage operations so liquidity needs are fully satisfied through normal operations to avoid unplanned asset sales under emergency conditions. Our liquidity management is governed by policies approved by our Board of Directors. Oversight of these policies is performed in the Asset and Liability Committee, a management-level committee.

These policies take into account the volatility of cash flow forecasts, expected maturities, anticipated loan demand and a variety of other factors to establish minimum liquidity guidelines.

Key risks associated with our liquidity relate to our ability to access the capital markets and the markets for bank deposits at reasonable rates. This ability may be affected by our performance, the macroeconomic environment and the impact they have on the availability of funding sources in the marketplace.

Sources of Liquidity and Available Capacity

Ending Balances

(Dollars in thousands)	September 30, 2016	December 31, 2015
Sources of primary liquidity:		
Unrestricted cash and liquid investments:		
Holding Company and other non-bank subsidiaries	$21,785	$ 9,817
Sallie Mae Bank[(1)]	1,433,154	2,406,402
Available-for-sale investments	213,176	195,391
Total unrestricted cash and liquid investments	$1,668,115	$ 2,611,610

(1) This amount will be used primarily to originate Private Education Loans at the Bank.

Average Balances

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Sources of primary liquidity:				
Unrestricted cash and liquid investments:				
Holding Company and other non-bank subsidiaries	$22,233	$20,088	$19,242	$16,336
Sallie Mae Bank[(1)]	1,538,485	1,537,203	1,247,498	1,347,228
Available-for-sale investments	209,496	172,566	203,986	170,870
Total unrestricted cash and liquid investments	$1,770,214	$1,729,857	$1,470,726	$1,534,434

(1) This amount will be used primarily to originate Private Education Loans at the Bank.

Deposits

The following table summarizes total deposits.

(Dollars in thousands)	September 30, 2016	December 31, 2015
Deposits - interest bearing	$12,941,020	$11,487,006
Deposits - non-interest bearing	325	701
Total deposits	$12,941,345	$11,487,707

Our total deposits of $12.9 billion were comprised of $7.8 billion in brokered deposits and $5.1 billion in retail and other deposits at September 30, 2016, compared to $11.5 billion, which were comprised of $7.3 billion in brokered deposits and $4.2 billion in retail and other deposits, at December 31, 2015.

Interest Bearing

Interest bearing deposits as of September 30, 2016 and December 31, 2015 consisted of retail non-maturity savings deposits, retail and brokered non-maturity MMDAs and brokered and retail CDs. Included in these accounts are what we consider to be core deposits from various sources. Our deposit products are serviced by third-party providers. Placement fees associated with the brokered CDs are amortized into interest expense using the effective interest rate method. We recognized placement fee expense of $2.6 million and $2.7 million in the three months ended September 30, 2016 and 2015, respectively, and placement fee expense of $7.8 million and $8.0 million in the nine months ended September 30, 2016 and 2015, respectively. Fees paid to third-party brokers related to brokered CDs were $1.1 million and $0.5 million for the three months ended September 30, 2016 and 2015, respectively, and $4.0 million and $0.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Interest bearing deposits at September 30, 2016 and December 31, 2015 are summarized as follows:

	September 30, 2016		December 31, 2015	
(Dollars in thousands)	Amount	Qtr.-End Weighted Average Stated Rate[1]	Amount	Year-End Weighted Average Stated Rate[1]
Money market	$5,859,986	1.20 %	$4,886,299	1.19 %
Savings	660,099	0.82	669,254	0.82
Certificates of deposit	6,420,935	1.24	5,931,453	0.98
Deposits - interest bearing	$12,941,020		$11,487,006	

(1) Includes the effect of interest rate swaps in effective hedge relationships.

As of September 30, 2016 and December 31, 2015, there were $363.2 million and $709.9 million, respectively, of deposits exceeding FDIC insurance limits. Accrued interest on deposits was $24.9 million and $15.7 million at September 30, 2016 and December 31, 2015, respectively.

Non-Interest Bearing

Non-interest bearing deposits were $0.3 million and $0.7 million as of September 30, 2016 and December 31, 2015, respectively. For both periods, these were comprised of money market accounts related to our Employee Stock Purchase Plan account.

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Counterparty Exposure

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us.

Excess cash is generally invested with the FRB on an overnight basis or in the FRB's Term Deposit Facility, minimizing counterparty exposure on cash balances.

Our investment portfolio includes a small portfolio of mortgage-backed securities issued by government agencies and government-sponsored enterprises that are purchased to meet Community Reinvestment Act targets. Additionally, our investing activity is governed by Board-approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. Credit Support Annexes ("CSAs"), or clearinghouses for over-the-counter derivatives. CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our exposure is limited to the value of the derivative contracts in a gain position, less any collateral held by us and plus collateral posted with the counterparty.

Title VII of the Dodd-Frank Act requires all standardized derivatives, including most interest rate swaps, to be submitted for clearing to central intermediaries to reduce counterparty risk. As of September 30, 2016, $5.6 billion notional of our derivative contracts were cleared on the Chicago Mercantile Exchange and the London Clearing House. This represents 91.1 percent of our total notional derivative contracts of $6.1 billion. All derivative contracts cleared through an exchange require collateral to be exchanged based on the fair value of the derivative. Our exposure is limited to the value of the derivative contracts in a gain position, less collateral held by us and plus collateral posted with the counterparty.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties.

The table below highlights exposure related to our derivative counterparties as of September 30, 2016.

(Dollars in thousands)	SLM Corporation and Sallie Mae Bank Contracts	
Exposure, net of collateral	$ 47,633	
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	42.91	%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	—	%

Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by federal and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our business, results of operation and financial condition. Under the U. S Basel III capital framework and the regulatory framework for prompt corrective action, the Bank must meet specific capital standards that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and its classification under the prompt corrective action framework are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

"Well capitalized" regulatory requirements are the quantitative measures established by regulation to ensure capital adequacy. To qualify as "well capitalized," the Bank must maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1 and Total capital to risk-weighted assets and of Tier 1 capital to average assets. The following capital amounts and ratios are based upon the Bank's assets.

	Actual		"Well Capitalized" Regulatory Requirements	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
As of September 30, 2016:				
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$1,928,979	12.4%	$1,012,748	>6.5 %
Tier 1 Capital (to Risk-Weighted Assets)	$1,928,979	12.4%	$1,246,459	>8.0 %
Total Capital (to Risk-Weighted Assets)	$2,095,397	13.4%	$1,558,074	>10.0%
Tier 1 Capital (to Average Assets)	$1,928,979	11.6%	$828,962	>5.0 %
As of December 31, 2015:				
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$1,734,315	14.4%	$781,638	>6.5 %
Tier 1 Capital (to Risk-Weighted Assets)	$1,734,315	14.4%	$962,017	>8.0 %
Total Capital (to Risk-Weighted Assets)	$1,848,528	15.4%	$1,202,521	>10.0%
Tier 1 Capital (to Average Assets)	$1,734,315	12.3%	$704,979	>5.0 %

Capital Management

The Bank seeks to remain "well capitalized" at all times with sufficient capital to support asset growth, operating needs, unexpected credit risks and to protect the interests of depositors and the FDIC - administered Deposit Insurance Fund. The Bank is required by its regulators, the Utah Department of Financial Institutions and the FDIC, to comply with mandated capital ratios. We intend to maintain levels of capital at the Bank that significantly exceed the levels of capital necessary to be considered "well capitalized" by the FDIC. The Company is a source of strength for the Bank and will provide additional capital if necessary. The Board of Directors and management periodically evaluate the quality of assets, the stability of earnings, and the adequacy of the allowance for loan losses for the Bank. We currently believe that current and projected capital levels are appropriate for 2016. As our balance sheet continues to grow in 2016, these ratios will decline but will remain significantly in excess of the capital levels required to be considered "well capitalized" by our regulators. We do not plan to pay dividends on our common stock. We do not intend to initiate share repurchase programs as a means to return capital to shareholders. We only expect to repurchase common stock acquired in connection with taxes withheld as a result of award exercises and vesting under our employee stock-based compensation plans. Our Board of Directors will periodically reconsider these matters.

As of January 1, 2015, the Bank was required to comply with U.S. Basel III, which is aimed at increasing both the quantity and quality of regulatory capital and, among other things, establishes Common Equity Tier 1 as a new tier of capital and modifies methods for calculating risk-weighted assets. Certain aspects of U.S. Basel III, including new deductions from and adjustments to regulatory capital and a new capital conservation buffer, are being phased in over several years. The Bank's Capital Policy requires management to monitor the new capital standards. The Bank is subject to the following minimum capital ratios under U.S. Basel III: a Common Equity Tier 1 risk-based capital ratio of 4.5 percent, a Tier 1 risk-based capital ratio of 6.0 percent, a Total risk-based capital ratio of 8.0 percent, and a Tier 1 leverage ratio of 4.0 percent. In addition, the Bank is subject to a Common Equity Tier 1 capital conservation buffer, which will be phased in over three years beginning January 1, 2016: 0.625 percent of risk-weighted assets for 2016, 1.25 percent for 2017, and 1.875 percent for 2018, with the fully phased-in level of greater than 2.5 percent effective as of January 1, 2019. Failure to maintain the buffer will result in restrictions on the Bank's ability to make capital distributions, including the payment of dividends, and to pay discretionary bonuses to executive officers. Including the buffer, by January 1, 2019, the Bank will be required to maintain the following minimum capital ratios: a Common Equity Tier 1 risk-based capital ratio of greater than 7.0 percent, a Tier 1 risk-based capital ratio of greater than 8.5 percent and a Total risk-based capital ratio of greater than 10.5 percent.

U.S. Basel III also revised the capital thresholds for the prompt corrective action framework for insured depository institutions. Effective January 1, 2015, in order to qualify as "well capitalized," the Bank must maintain a Common

Equity Tier

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1 risk-based capital ratio of at least 6.5 percent, a Tier 1 risk-based capital ratio of at least 8.0 percent, a Total risk-based capital ratio of at least 10.0 percent, and a Tier 1 leverage ratio of at least 5.0 percent.

As of September 30, 2016, the Bank had a Common Equity Tier 1 risk-based capital ratio of 12.4 percent, a Tier 1 risk-based capital ratio of 12.4 percent, a Total risk-based capital ratio of 13.4 percent and a Tier 1 leverage ratio of 11.6 percent, which are each well in excess of the current "well capitalized" standard for insured depository institutions. If calculated today based on the fully phased-in U.S. Basel III standards, our ratios would also exceed the capital levels required under U.S. Basel III and the "well capitalized" standard.

Dividends

The Bank is chartered under the laws of the State of Utah and its deposits are insured by the FDIC. The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. The Bank paid no dividends for the three and nine months ended September 30, 2016 and September 30, 2015. For the foreseeable future, we expect the Bank to only pay dividends to the Company as may be necessary to provide for regularly scheduled dividends payable on the Company's Series A and Series B Preferred Stock.

Borrowings

Outstanding borrowings consist of secured borrowings executed through our term ABS program and our ABCP Facility. The issuing entities for those secured borrowings are VIEs and are consolidated for accounting purposes. The following table summarizes our secured borrowings at September 30, 2016 and December 31, 2015, respectively.

	September 30, 2016			December 31, 2015		
(Dollars in thousands)	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
Secured borrowings:						
Private Education Loan term securitization	$—	$1,577,689	$1,577,689	$—	$ 579,101	$579,101
ABCP Facility	350,000	—	350,000	500,175	—	500,175
Total	$350,000	$1,577,689	$1,927,689	$500,175	$ 579,101	$1,079,276

On May 26, 2016, we executed our $551 million SMB Private Education Loan Trust 2016-A term ABS transaction, which was accounted for as an on-balance sheet secured financing. We retained a 100 percent or $50 million interest in the Class B notes and 100 percent of the residual certificates issued in the securitization. $501 million of Class A notes from the securitization were sold to third parties, raising $501 million of gross proceeds. At September 30, 2016, $571 million of our Private Education Loans were encumbered as a result of this transaction.

On July 21, 2016, we executed our $657 million SMB Private Education Loan Trust 2016-B term ABS transaction, which was accounted for as an on-balance sheet secured financing. We retained a 100 percent or $50 million interest in the Class B notes and 100 percent of the residual certificates issued in the securitization. $607 million of Class A notes from the securitization were sold to third parties, raising $607 million of gross proceeds. At September 30, 2016, $692 million of our Private Education Loans were encumbered as a result of this transaction.

Borrowed Funds

The Bank maintains discretionary uncommitted Federal Funds lines of credit with various correspondent banks, which totaled $100 million at September 30, 2016. The interest rate charged to the Bank on these lines of credit is priced at Fed Funds plus a spread at the time of borrowing, and is payable daily. The Bank did not utilize these lines of credit in the three and nine months ended September 30, 2016 and in the year ended December 31, 2015.

The Bank established an account at the FRB to meet eligibility requirements for access to the Primary Credit borrowing facility at the FRB's Window. The Primary Credit borrowing facility is a lending program available to depository institutions that are in generally sound financial condition. All borrowings at the Window must be fully collateralized. We can pledge to the FRB asset-backed and mortgage-backed securities, as well as FFELP Loans and Private Education Loans, as collateral for borrowings at the Window. Generally, collateral value is assigned based on the estimated fair value of the pledged assets. At September 30, 2016 and December 31, 2015, the value of our pledged collateral at the FRB totaled $2.5 billion and $1.7 billion, respectively. The interest rate charged to us is the discount rate set by the FRB. We did not utilize this facility in the three and nine months ended September 30, 2016 and in the year ended December 31, 2015.

Contractual Loan Commitments

When we approve a Private Education Loan at the beginning of an academic year, that approval may cover the borrowing for the entire academic year. As such, we do not always disburse the full amount of the loan at the time of such approval, but instead have a commitment to fund a portion of the loan at a later date (usually at the start of the second semester or subsequent trimesters). At September 30, 2016, we had $1.8 billion of outstanding contractual loan commitments which we expect to fund during the remainder of the 2016/2017 academic year. At September 30, 2016, we had a $1.6 million reserve recorded in "Other Liabilities" to cover expected losses that we conclude are probable to occur during the one year loss emergence period on these unfunded commitments.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with GAAP. A discussion of our critical accounting policies, which include allowance for loan losses, fair value measurement, transfers of financial assets and the VIE consolidation model, and derivative accounting, can be found in our 2015 Form 10-K. There were no significant changes to these critical accounting policies during the third quarter of 2016.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity Analysis

Our interest rate risk management program seeks to manage and control interest rate risk, thereby reducing our exposure to fluctuations in interest rates and achieving consistent and acceptable levels of profit in any rate environment and sustainable growth in net interest income over the long term. We evaluate and monitor interest rate risk through two primary methods:

•Earnings at Risk ("EAR"), which measures the impact of hypothetical changes in interest rates on net interest income; and

•Economic Value of Equity ("EVE"), which measures the sensitivity or change in the economic value of equity to changes in interest rates.

A number of potential interest rate scenarios are simulated using our asset liability management system. The Bank is the primary source of interest rate risk within the Company. The majority of the Bank's assets are priced off of 1-month LIBOR. Therefore, 1-month LIBOR is considered a core rate in our interest rate risk analysis. Many other interest rate changes are correlated to changes in 1-month LIBOR, with higher or lower correlations based on historical relationships or on management's judgment of future rate trends. Rates are adjusted up or down via a set of scenarios that includes both rate shocks and ramps. Rate shocks represent an immediate and sustained change in 1-month LIBOR with the resulting changes in other indices correlated accordingly. Interest rate ramps represent a linear increase in 1-month LIBOR over the course of 12 months with the resulting changes in other indices correlated accordingly.

The following table summarizes the potential effect on earnings over the next 24 months and the potential effect on fair values of balance sheet assets and liabilities at September 30, 2016 and 2015, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. The EVE sensitivity is applied only to financial assets and liabilities, including hedging instruments that existed at the balance sheet date, and does not take into account new assets, liabilities or hedging instruments that may arise in the future.

In the first quarter of 2016, we made a minor change to our interest rate sensitivity model. As the result of an evaluation of historical data, correlation coefficients between certain short-term rate indices to 1-month LIBOR were increased for interest rate risk modeling purposes, increasing our measured sensitivity to changes in market rates. These rate indices included the Fed Funds effective rate, Prime rate and the 3-month Treasury rate, among others. We believe using higher coefficients will provide improved modeling accuracy. The most significant impact of this change was the impact on the treatment of our cash balances, which are placed at the FRB as excess deposits, earning the Fed Funds discount rate. This change resulted in a slightly higher measure of sensitivity to interest rate changes at September 30, 2016, as measured by the EAR analysis, when compared with the prior year.

	September 30,			
	2016		2015	
	+300 Basis Points	+100 Basis Points	+300 Basis Points	+100 Basis Points
EAR - Shock	+7.2%	+2.3%	+5.6%	+1.8%
EAR - Ramp	+5.0%	+1.6%	+4.6%	+1.4%
EVE	-1.0%	-0.6%	-1.2%	-0.9%

A primary objective in our funding is to manage our sensitivity to changing interest rates by generally funding our assets with liabilities of similar interest rate repricing characteristics. This funding objective is frequently obtained through the use of derivatives. Uncertainty in loan repayment cash flows and the pricing behavior of our non-maturity retail deposits pose challenges in achieving our interest rate risk objectives. In addition to these considerations, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

As part of its suite of financial products, the Bank offers fixed-rate Private Education Loans. As with other Private Education Loans, the term to maturity is lengthy, and the customer has the option to repay the loan faster than the promissory note requires. Asset securitization provides long-term fixed-rate funding for some of these assets. Additionally, a portion of the fixed-rate loans have been hedged with derivatives, which have been used to convert a portion of variable rate funding to fixed-rate to match the anticipated cash flows of these loans. Any unhedged position arising from the fixed-rate loan portfolio is monitored and modeled to ensure that the interest rate risk does not cause the Company to exceed its policy limits for earnings at risk or for the value of equity at risk.

In the preceding tables, the interest rate sensitivity analysis reflects the heavy balance sheet mix of fully variable LIBOR-based loans, which exceeds the mix of fully variable funding, which in turn includes brokered CDs that have been converted to LIBOR through derivative transactions. The analysis does not anticipate that retail MMDAs or retail savings balances, while relatively sensitive to interest rate changes, will reprice to the full extent of interest rate shocks or ramps. Partially offsetting this asset sensitive position, is (i) the impact of FFELP loans, which receive Floor Income in low interest rate environments, and will therefore not reprice fully with interest rate shocks and (ii) the impact of a portion of our fixed-rate loans that have not been fully match-funded through derivative transactions and fixed-rate funding from asset securitization. The overall slightly asset-sensitive position will generally cause net interest income to increase somewhat over the near term when interest rates rise. Over the long term, however, the EVE sensitivity analysis shows a nearly rate neutral position.

Although we believe that these measurements provide an estimate of our interest rate sensitivity, they do not account for potential changes in credit quality, balance sheet mix and size of our balance sheet. They also do not account for other business developments that could affect net income, or for management actions that could affect net income or could be taken to change our risk profile. Accordingly, we can give no assurance that actual results would not differ materially from the estimated outcomes of our simulations. Further, such simulations do not represent our current view of expected future interest rate movements.

Asset and Liability Funding Gap

The table below presents our assets and liabilities (funding) arranged by underlying indices as of September 30, 2016. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest income, as opposed to those reflected in the “gains (losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude. (Note that all fixed-rate assets and liabilities are aggregated into one line item, which does not capture the differences in time due to maturity.)

(Dollars in millions) Index	Frequency of Variable Resets	Assets	Funding [(1)]	Funding Gap
3-month Treasury bill	weekly	$144.8	$—	$144.8
Prime	monthly	6.6	—	6.6
3-month LIBOR	quarterly	—	399.2	(399.2)
1-month LIBOR	monthly	11,272.7	7,218.7	4,054.0
1-month LIBOR	daily	889.1	—	889.1
Non-Discrete reset[(2)]	daily/weekly	1,493.2	2,655.6	(1,162.4)
Fixed Rate[(3)]		3,809.6	7,342.5	(3,532.9)
Total		$17,616.0	$ 17,616.0	$—

(1) Funding (by index) includes the impact of all derivatives that qualify as hedges.

(2) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes liquid retail deposits and the obligation to return cash collateral held related to derivatives exposures.

(3) Assets include receivables and other assets (including premiums and reserves). Funding includes unswapped time deposits, liquid MMDA's swapped to fixed rates and stockholders' equity.

The “Funding Gap” in the above table shows primarily mismatches in the 1-month LIBOR, fixed-rate, 3-month LIBOR and Non-Discrete categories. As changes in 1-month and 3-month LIBOR are generally quite highly correlated, the funding gap associated with 3-month LIBOR is expected to partially offset the 1-month LIBOR gaps. We consider the overall risk to be moderate since the funding in the Non-Discrete bucket is our liquid retail portfolio, which we have significant flexibility to reprice at any time, and the funding in the fixed-rate bucket includes $1.9 billion of equity and $0.5 billion of non-interest bearing liabilities. In addition, the fixed-rate funding position includes $1.3 billion of brokered CDs, which have been swapped to 1-month LIBOR, but do not qualify for hedge accounting.

We use interest rate swaps and other derivatives to achieve our risk management objectives. Our asset liability management strategy is to match assets with debt (in combination with derivatives) that have the same underlying index and reset frequency or have interest rate characteristics that we believe are highly correlated. The use of funding with index types and reset frequencies that are different from our assets exposes us to interest rate risk in the form of basis and repricing risk. This could result in our cost of funds not moving in the same direction or with the same magnitude as the yield on our assets. While we believe this risk is low, as all of these indices are short-term with rate movements that are highly correlated over a long period of time, market disruptions (which have occurred in recent years) can lead to a temporary divergence between indices resulting in a negative impact to our earnings.

Weighted Average Life

The following table reflects the weighted average lives of our earning assets and liabilities at September 30, 2016.

(Averages in Years)	Weighted Average Life
Earning assets	
Education loans	5.98
Cash and investments	0.59
Total earning assets	5.41
Deposits	
Short-term deposits	0.07
Long-term deposits	2.35
Total deposits	0.64
Borrowings	
Short-term borrowings[1]	1.40
Long-term borrowings	4.33
Total borrowings	3.80

(1) Weighted average life of short-term borrowings assumes full contractual term for repayment through February 23, 2018.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2016. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2016, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

Legal Proceedings
We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. It is common for the Company, our subsidiaries and affiliates to receive information and document requests and investigative demands from state attorneys general, legislative committees and administrative agencies. These requests may be for informational or regulatory purposes and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. Our practice has been and continues to be to cooperate with these bodies and be responsive to any such requests.
Pursuant to the terms of the Spin-Off and applicable law, Navient assumed responsibility for all liabilities (whether accrued, contingent or otherwise and whether known or unknown) arising out of or resulting from the conduct of pre-Spin-Off SLM and its subsidiaries' businesses prior to the Spin-Off, other than certain specifically identified liabilities relating to the conduct of our consumer banking business. Nonetheless, given the prior usage of the Sallie Mae and SLM names by entities now owned by Navient, we and our subsidiaries may from time to time be improperly named as defendants in legal proceedings where the allegations at issue are the legal responsibility of Navient. Most of these legal proceedings involve matters that arose in whole or in part in the ordinary course of business of pre-Spin-Off SLM. Likewise, as the period of time since the Spin-Off increases, so does the likelihood any allegations that may be made may be in part for our own actions in a post-Spin-Off time period and in part for Navient's conduct in a pre-Spin-Off time period. We will not be providing information on these proceedings unless there are material issues of fact or disagreement with Navient as to the bases of the proceedings or responsibility therefor that we believe could have a material, adverse impact on our business, assets, financial condition, liquidity or outlook if not resolved in our favor.

For a description of these and other litigation or regulatory proceedings to which we are a party, and for which we have no current updates, see our 2015 Form 10-K.
Regulatory Update

At the time of this filing, the Bank remains subject to the FDIC Consent Order and the DOJ Consent Order. On May 13, 2014, the Bank reached a settlement with the DOJ regarding compliance issues with the SCRA. At the same time, the Bank reached a settlement with the FDIC regarding disclosures and assessments of certain late fees, as well as compliance with the SCRA. Under the FDIC Consent Order, the Bank paid $3.3 million in fines and oversaw the refund of up to $30 million in late fees, funded by Navient as required by the terms of the Separation and Distribution Agreement, assessed on loans owned or originated by the Bank since its inception in November 2005. The DOJ Consent Order was approved by the U.S. District Court for the District of Delaware on September 29, 2014.

Under the DOJ Consent Order, Navient is solely responsible for reimbursing SCRA benefits and related compensation on behalf of both its subsidiary, Navient Solutions, Inc., and the Bank.

We believe the Bank has complied with all the requirements of the FDIC Consent Order and the DOJ Consent Order. This includes implementing new SCRA policies, procedures and training, updated billing statement disclosures, steps to ensure its third-party service providers are also fully compliant in these regards, and overseeing Navient's restitution responsibilities. Notwithstanding the CFPB's assumption of the role of the Bank's primary consumer compliance regulator in January 2015, the FDIC will continue to monitor the Bank's improved compliance management system, policies and procedures until it is satisfied the Bank has demonstrated its ability to sustain the enhancements and additions implemented in response to the FDIC Consent Order. Pursuant to the terms of the DOJ Consent Order, the Bank will remain subject to certain DOJ reporting and record-keeping requirements until September 29, 2018.
In May 2014, the Bank received a CID from the CFPB as part of the CFPB's separate investigation relating to customer complaints, fees and charges assessed in connection with the servicing of student loans and related collection practices of pre-Spin-Off SLM by entities now subsidiaries of Navient during a time period prior to the

Spin-Off. Two state attorneys general

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have provided the Bank identical CIDs and others have become involved in the inquiry over time. To the extent requested, we have been cooperating fully with the CFPB and the attorneys general but are not in a position at this time to predict the duration or outcome of the investigation. Given the timeframe covered by this demand and the focus on practices and procedures previously conducted by Navient and its servicing subsidiaries, Navient is leading the response to this investigation and has accepted responsibility for all costs, expenses, losses or remediation that may arise from this investigation.

Item 1A. Risk Factors

Our business activities involve a variety of risks. In addition to the risk factor below, readers should carefully consider the risk factors disclosed in Item 1A. "Risk Factors" of our 2015 Form 10-K.

Consolidation or refinancing of existing Private Education Loans could have a material adverse effect on our business, results of operations and cash flows.

Since 2010, both the number of bills introduced in the United States Congress to promote Federal financing for consolidation or refinancing of existing student loans, as well as the number of lenders offering similar products, have increased. To date, we have experienced no significant increase in consolidation or refinancing of our existing Private Education Loans. We believe the design of our products, with emphasis on rigorous underwriting, credit-worthy cosigners and variable interest rates, creates sustainable, competitive loan products. However, a prolonged introduction of significant amounts of subsidized funding into the Private Education Loan market at below market interest rates - whether from Federal or private sources - could increase the prepayment rates of our existing Private Education Loans and have a material adverse effect on our business, results of operations and cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

The following table provides information relating to our purchase of shares of our common stock in the three months ended September 30, 2016.

(In thousands, except per share data)	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs[2]
Period:				
July 1 - July 31, 2016	186,943	$ 7.08	—	—
August 1 - August 31, 2016	127,611	$ 7.30	—	—
September 1 - September 30, 2016	56,611	$ 7.47	—	—
Total third-quarter 2016	371,165	$ 7.22	—	

(1) All shares purchased are the shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercises of stock options, and tax withholding obligations in connection with exercises of stock options and vesting of restricted stock and restricted stock units.

(2) At the present time, the Company does not have a publicly announced share repurchase plan or program.

The closing price of our common stock on the NASDAQ Global Select Market on September 30, 2016 was $7.47.

Item 3. Defaults Upon Senior Securities

Nothing to report.

Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
Nothing to report.

Item 6. Exhibits
The following exhibits are furnished or filed, as applicable:

12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SLM CORPORATION
(Registrant)

By: /S/ STEVEN J. MCGARRY
Steven J. McGarry
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
Date: October 19, 2016

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