



# SALLIE MAE

## ABS East Investor Presentation

SEPTEMBER 2014



## Cautionary Note Regarding Forward-Looking Statements

The following information is current as of September 15, 2014 (unless otherwise noted) and should be read in connection with SLM Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (the "2014 Form 10-Q"), and the audited carve out financial statements filed on Form 8-K on May 6, 2014, and subsequent reports filed with the Securities and Exchange Commission (the "SEC"). Definitions for capitalized terms in this presentation not defined herein can be found in the 2013 Form 10-K filed with the SEC on February 19, 2014.

This Presentation contains forward-looking statements and information based on management's current expectations as of the date of this presentation. Statements that are not historical facts, including statements about the Company's beliefs 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2014; 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 student 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; failures of its operating systems or infrastructure, including those of third-party vendors; failure to implement the recently executed separation of the Company into two separate publicly traded companies, including failure to transition its origination and servicing operations as planned, increased costs in connection with being a stand-alone company, and failure to achieve the expected benefits of the separation; damage to its reputation; 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 its customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of its earning assets vs. its funding arrangements; and changes in general economic conditions. 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 release are qualified by these cautionary statements and are made only as of the date of this release. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement 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. 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-Core Earnings" in the Company's Form 10-Q for the quarter ended June 30, 2014 for a further discussion and a complete reconciliation between GAAP net income and core earnings.**



## The Sallie Mae Brand



- ▶ #1 saving, planning and paying for education company with 40-years of leadership in the education lending market
- ▶ Top ranked brand: 6 out of 10 consumers of education finance recognize the Sallie Mae brand
- ▶ Industry leading market share in private education lending; 52% market share
- ▶ Over 2,400 actively managed university relationships across the U.S.
- ▶ Complementary consumer product offerings
- ▶ Over one million long-term engaged customers across the Sallie Mae brands



## Sallie Mae Summary

### Strategic Focus

*Consumer banking including leading private education loan franchise*

### Key Businesses








- ▶ Largest Private Education Loan Originator
- ▶ Private Education Loan Servicing
- ▶ Deposits
- ▶ Upromise Rewards
- ▶ Insurance Services
- ▶ Credit Card

### Key Financial Statistics

*As of 6/30/2014 (billions)*

Assets	\$11.4
FFELP Loans	\$1.3
Private Loans	\$7.4
Deposits	\$8.9
Secured Debt	\$ –
Preferred Equity	\$0.6
Tangible Common Equity	\$1.2

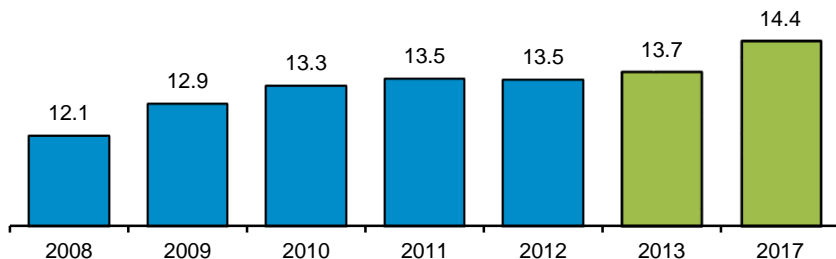
## Sallie Mae Bank Investment Highlights

- |   |   |  |   |
|---|---|--|---|
| 1 | <b>Experienced management team with deep industry knowledge</b> |    | <ul style="list-style-type: none"><li>▶ Average of 30+ years of banking and financial services experience</li></ul>   |
| 2 | <b>Leading brand in the education lending market</b>            |    | <ul style="list-style-type: none"><li>▶ 40+ years serving the education lending market</li><li>▶ 52% private education lending market share</li></ul>   |
| 3 | <b>Simple low cost delivery system</b>                          |    | <ul style="list-style-type: none"><li>▶ Multi-channel delivery system (on-campus, direct)</li><li>▶ 40% customer serialization rate and improving</li></ul>   |
| 4 | <b>Attractive customer base</b>                                 |    | <ul style="list-style-type: none"><li>▶ Higher employment rates for college graduates</li><li>▶ 90% of portfolio has cosigners; 746 average FICO</li></ul>  |
| 5 | <b>Disciplined approach to credit</b>                           |   | <ul style="list-style-type: none"><li>▶ Robust proprietary scorecard</li><li>▶ Strong Smart Option performance; 0.6% '13 charge-offs</li></ul>  |
| 6 | <b>Strong capital position and funding capabilities</b>         |  | <ul style="list-style-type: none"><li>▶ 14%+ Total Capital Ratio; all capital ratios significantly in excess of well capitalized</li><li>▶ Retail direct deposits; future securitizations</li></ul> |
| 7 | <b>Targeting high growth and high return business</b>           |  | <ul style="list-style-type: none"><li>▶ Long-term earnings growth target of 20%+</li><li>▶ Long-term ROE target of 15%+</li></ul>   |

## Favorable Student Loan Market Trends

### Enrollment at Four-Year Degree Granting Institutions

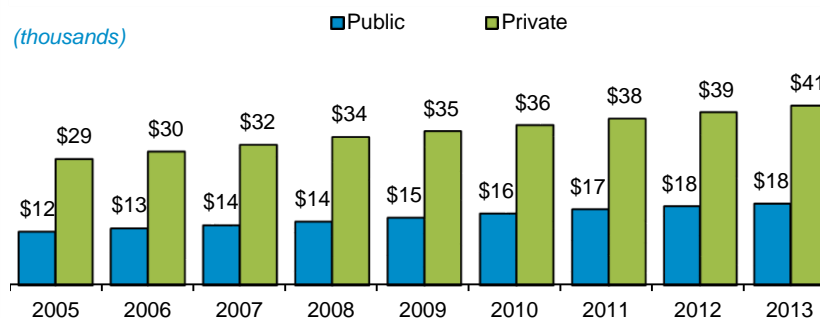
(millions)



Source: U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2022

### Annual Cost of Education

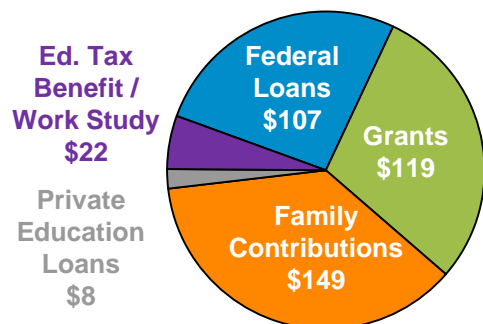
(thousands)



Source: Trends in College Pricing.© 2013 The College Board., [www.collegeboard.org](http://www.collegeboard.org).

### Estimated Total Cost of Education – 2014 / 2015 AY

(billions)

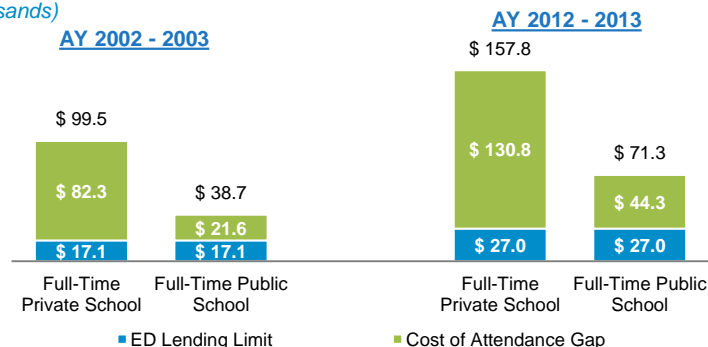


**Total Estimated Cost: \$405bn**

Sources derived from: Department of Education, College Board, MeasureOne, National Student Clearinghouse, Company Analysis

### Cost of College (Based on a Four-Year Term)

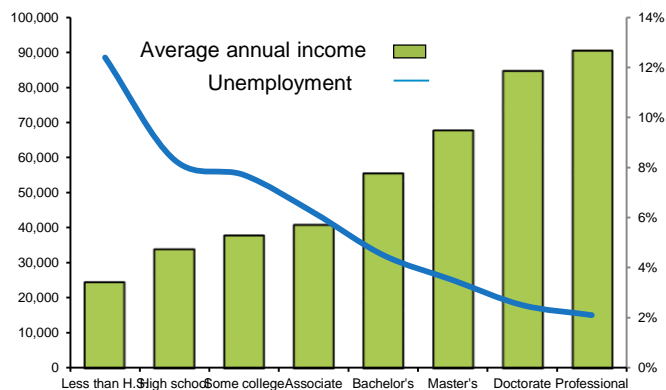
(thousands)



Source: Trends in College Pricing.© 2013 The College Board., [www.collegeboard.org](http://www.collegeboard.org), U.S. Department of Education 2013

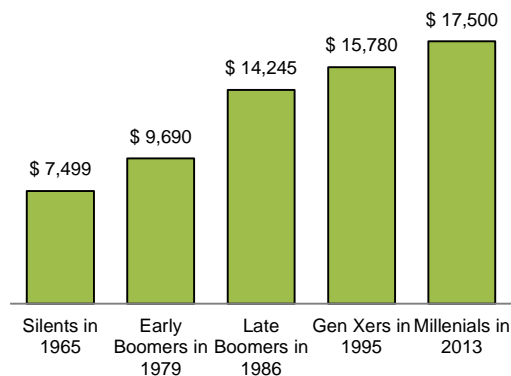
## Higher Education Value Proposition

### Relationship Between Higher Education, Income and Employment



Source: U.S. Bureau of Labor Statistics, Current Population Survey, 2012 Annual Social and Economic Supplement. Represents median earnings for a full time, year-round worker over age 25. Unemployment data as of Annual Average 2012. Represents unemployment for civilian non-institutional population over age 25.

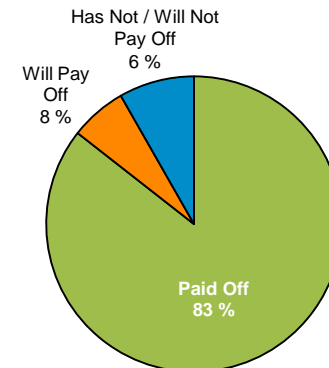
### Widening Earnings Gap of Young Adults by Educational Attainment



The difference in median annual earnings of college and high school graduates when members of each generation were ages 25 to 32

Source: PEW Research Center

### Most Graduates Say College Has Paid Off

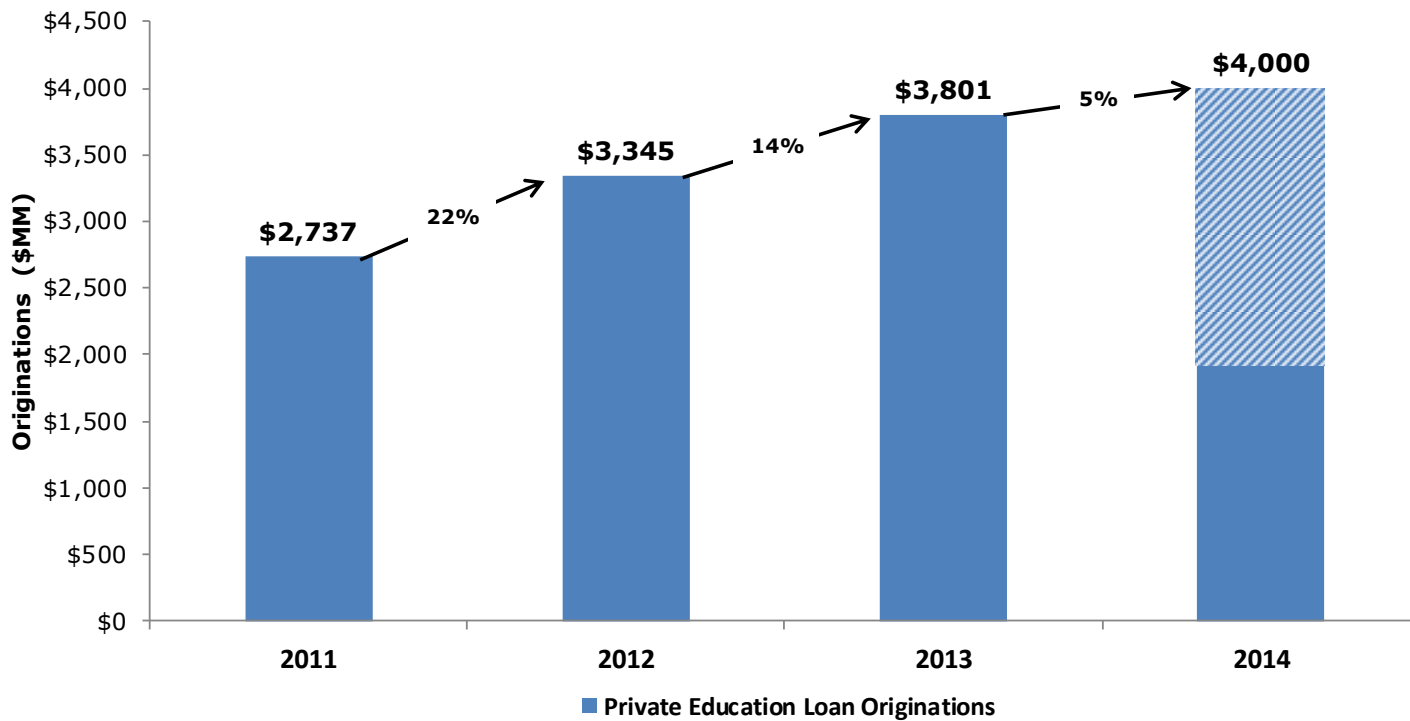


% who say that considering what they and their family paid for their undergraduate education

Source: PEW Research Center

- ▶ 18 to 24 year olds with a college degree have a 50% lower unemployment rate than those without a degree
- ▶ ~ 60% of students graduate with student loans
- ▶ Average borrowings of \$26,500, with 70% of student loan borrowers' balances less than \$25,000

## High Quality Private Student Loan Originations Growth





## Unique Smart Option Product Leads Private Education Lending Market

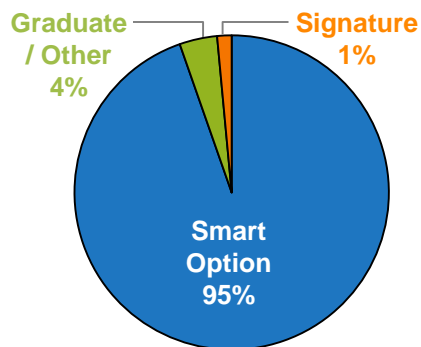
- ▶ Smart Option student loan product first introduced in 2009
- ▶ Offers three repayment options designed to help borrowers balance their goals and budget while in school
  - Interest Only: requires interest only payment during in-school period
  - Fixed Repayment: requires \$25 monthly payments during in-school period
  - Deferred Repayment: allows the customer to defer payments while in-school
- ▶ Variable and fixed interest rate options
- ▶ Repayment term is driven by cumulative amount borrowed and grade level
- ▶ All loans are school-certified and school-disbursed
- ▶ Regular communication with customers and cosigners during in-school period
- ▶ Full collection activities are employed at both the customer and cosigner level

## Attractive Customer Base

- |                                   |   |
|-----------------------------------|---|
| ✓ <b>Top tier schools</b>         | <ul style="list-style-type: none"><li>▶ 82% of customers from non-profit 4 year institutions</li><li>▶ 11% of customers from for profit 4 year institutions</li></ul>   |
| ✓ <b>Strong credit history</b>    | <ul style="list-style-type: none"><li>▶ 78% of customers have FICOs &gt;700</li><li>▶ Average FICO of 746 at origination</li></ul>  |
| ✓ <b>Co-signer involvement</b>    | <ul style="list-style-type: none"><li>▶ 90% of borrowers have co-signers</li></ul>  |
| ✓ <b>Attractive demographics</b>  | <ul style="list-style-type: none"><li>▶ Average unemployment rate of 4.4% for individuals with some college vs. 10.4% for individuals with no college</li><li>▶ Average income of \$63,000 for individuals with some college vs. \$29,000 for individuals with no college</li></ul> |
| ✓ <b>High serialization rates</b> | <ul style="list-style-type: none"><li>▶ 40.8% of private education loan borrowers are repeat customers, obtaining loans in the following academic year</li></ul>  |
| ✓ <b>Cross sell opportunities</b> | <ul style="list-style-type: none"><li>▶ 5.1% conversion rate of Upromise members to student loan customers</li><li>▶ 6.7% of Sallie Mae depositors have private education loans</li></ul>   |

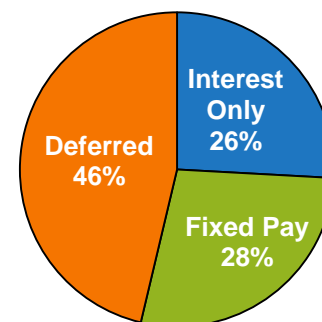
## High Quality Private Education Loan Portfolio

Portfolio by Product



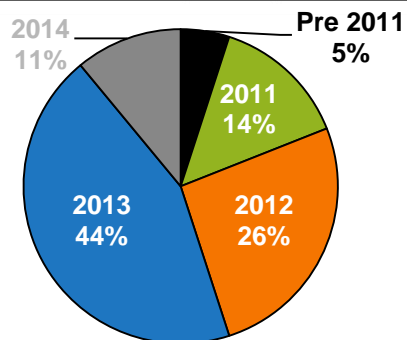
4Q 2013 Private Education Loans: \$7.4bn

Smart Option Payment Type



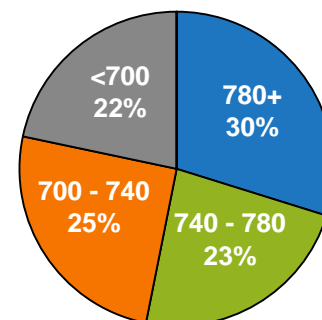
4Q 2013 Smart Option Loans: \$7.1bn

Portfolio by Vintage



Weighted Average Age of Loan: ~1.5 years

Customer FICO at Origination



Weighted Average FICO: 745

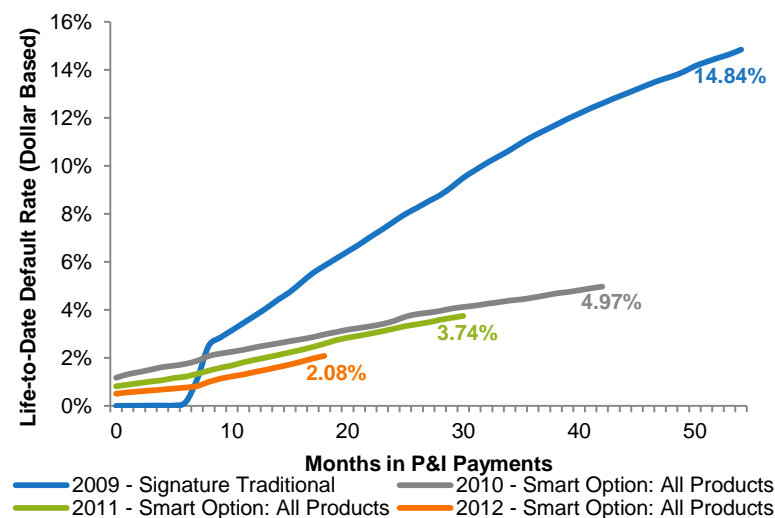
## Smart Option Credit Outperforming

- ▶ Smart Option products outperform prior private education loan products due to more stringent underwriting standards and tailored product options
- ▶ Performance of newer vintage loans driven by focused marketing on high quality borrowers, better data and product management and an improving macroeconomic environment

### Smart Option Performance Trends<sup>1</sup>

	2011	2012	2013
Smart Option Loans	\$4,769	\$7,501	\$10,514
Smart Option Loans in Repayment	4,195	5,774	7,728
% Charge-Offs <sup>2</sup>	0.3%	0.5%	0.6%
% Delinquencies <sup>2</sup>	2.8%	2.9%	3.0%
% 90+ Day Delinquencies <sup>2</sup>	0.8%	1.0%	1.1%
% in Forbearance <sup>2</sup>	0.3%	2.1%	2.5%
% with Co-Signer <sup>2</sup>	94%	93%	92%
Average FICO at Origination <sup>2</sup>	746	746	746

### Smart Option Outperforms Legacy Signature



<sup>1</sup> The performance trends and defaults rates below include Sallie Mae and Navient owned Smart Option loans. As Navient and Sallie Mae use different charge-off and delinquency policies, future performance may not be comparable.

<sup>2</sup> Percentage of loans in repayment.

Signature loans represent traditional Signature loans in full P&I repayment that were originated during the 2006-2008 origination years  
Smart Option loans represent Smart Option loans in full P&I repayment that were originated during the 2009-2012 origination years

# Sallie Mae Bank ABS Program

## Sallie Mae Legacy ABS Program

- ▶ Sallie Mae, prior to the company separation, was one of the largest issuers of ABS globally, having issued over \$250 billion in Private and FFELP ABS transactions
- ▶ In recent years, Sallie Mae was the predominant issuer of private education loan ABS
  - ▶ Executed 3 transactions in 2011 totaling \$2.1 billion
  - ▶ Executed 5 transactions in 2012 totaling \$4.2 billion
  - ▶ Executed 4 transactions in 2013 totaling \$3.1 billion
- ▶ After the separation, the capital markets team primarily responsible for Sallie Mae's private loan ABS program was retained by Sallie Mae Bank
- ▶ Sallie Mae Bank completed its initial securitization and residual sale in August 2014, under the Bloomberg ticker 'SMB'

## Sallie Mae Bank ABS Funding Plans

► **Term funding / securitization will augment deposit funding for future growth**

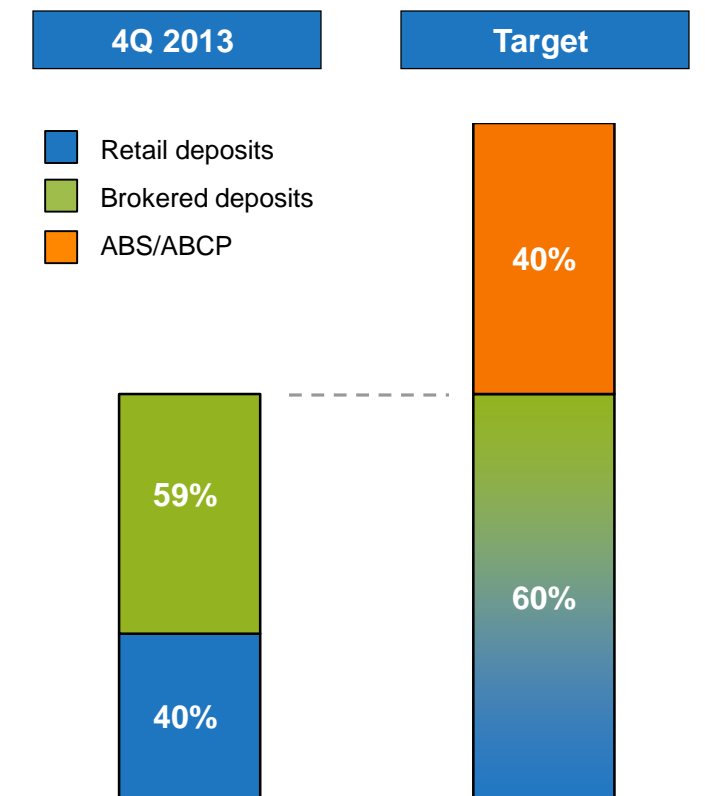
- Retained experienced capital markets team
- Capacity to securitize \$2.0-\$3.0bn of private education loans on balance sheet in 2015

► **Multi-year revolving ABCP Facility**

- Provides seasonal loan funding and backup liquidity
- Commitments for a \$750 mm conduit with 2-year term received from a consortium of banks

► **Whole loan sales used to manage balance sheet growth**

- Targeting \$1.0-\$1.5bn of loan sales annually
- May take the form of either whole loan sales or off-balance sheet securitizations and residual sales



## Sallie Mae Bank vs Legacy Sallie Mae ABS Structures

	<u>SMB 2014-A</u>					<u>SLM 2014-A</u>				
Size	\$382MM					\$676MM				
Pricing Date	July 30, 2014					February 25, 2014				
Collateral	Smart Option Private Education Loans					Smart Option and Legacy Sallie Mae Private Education Loans				
Overcollateralization (1)	12%					16%				
Prepayment Speed <sup>(2)</sup>	4%					4%				
Tranche Structure		<u>Mdy's</u>	<u>Amt</u>	<u>WAL(1)</u>	<u>Pricing(2)</u>		<u>Mdy's</u>	<u>Amt</u>	<u>WAL(1)</u>	<u>Pricing(2)</u>
	A-1	Aaa	\$118	1.7	L+50	A-1	Aaa	\$355	1.7	L+50
	A-2A	Aaa	68	5.5	IntS+115	A-2A	Aaa	77	4.6	IntS+115
	A-2B	Aaa	68	5.5	IntS+115	A-2B	Aaa	77	4.6	IntS+115
	A-3	Aaa	50	8.7	L+150	A-3	Aaa	100	6.4	L+150
	B	A1	36	10.2	IntS+225	B	A3	67	7.2	IntS+225
	C	--	42	11.2	--					

(1) Overcollateralization for rated bonds.

(2) Estimated based on a variety of assumptions concerning loan repayment behavior. Actual average life may vary significantly from estimates.





## Legacy Sallie Mae vs Sallie Mae Bank Private Education Loan ABS Comparison

	Legacy SLM Private Education Loan ABS												SMB ABS
	11-A	11-B	11-C	12-A	12-B	12-C	12-D	12-E	13-A	13-B	13-C	14-A	2014-A
Total Bond Amount (\$mil)	562	825	721	547	891	1,135	640	976	1,108	1,135	624	676	<b>382</b>
Initial AAA Enhancement (%)	21%	18%	24%	27%	26%	25%	25%	21%	26%	22%	28%	24%	<b>21%</b>
Initial Single-A Enhancement	--	--	--	--	--	--	--	--	15%	13%	20%	15%	<b>12%</b>
Loan Program (%)													
Signature/Law/MBA/Med	88%	91%	71%	61%	48%	43%	37%	35%	26%	29%	26%	19%	<b>0%</b>
Smart Option	--	--	10%	20%	30%	40%	45%	48%	63%	63%	64%	63%	<b>100%</b>
Consolidation	0%	0%	7%	6%	9%	5%	5%	5%	3%	5%	0%	6%	<b>0%</b>
Direct to Consumer	9%	6%	12%	12%	12%	12%	12%	12%	8%	3%	10%	12%	<b>0%</b>
Career Training	3%	3%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	<b>0%</b>
Payment Status (%) <sup>(1)</sup>													
School, Grace, Deferment	55%	55%	45%	37%	38%	40%	39%	44%	59%	62%	63%	49%	<b>91%</b>
Repayment	43%	43%	52%	60%	60%	57%	59%	54%	39%	36%	36%	50%	<b>9%</b>
Forbearance	2%	3%	2%	2%	2%	3%	2%	2%	2%	2%	1%	1%	<b>0%</b>
Wtd Avg Term to Maturity (Mo.)	192	189	182	171	164	151	144	148	144	146	143	150	<b>140</b>
% Loans with Cosigner	72%	75%	71%	75%	77%	79%	80%	80%	80%	80%	81%	82%	<b>93%</b>
% Loans with No Cosigner	28%	25%	29%	25%	23%	21%	20%	20%	20%	20%	19%	18%	<b>7%</b>
Wtd Avg FICO at Origination	737	736	733	735	736	737	740	733	741	740	740	742	<b>747</b>
Wtd Avg Recent FICO at Issuance	723	722	720	724	726	728	730	722	733	734	733	741	<b>745</b>
WA FICO (Cosigner at Origination)	747	745	744	745	745	745	748	741	751	750	749	750	<b>750</b>
WA FICO (Cosigner at Rescored)	736	731	734	732	734	735	738	728	745	746	745	750	<b>748</b>
WA FICO (Borrower at Origination)	709	710	704	705	705	707	710	702	703	702	705	707	<b>708</b>
WA FICO (Borrower at Rescored)	690	695	688	700	700	702	698	696	683	684	682	701	<b>701</b>
Variable Rate Loans	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	<b>85%</b>
Wtd Avg LIBOR Equivalent Margin <sup>(2)</sup>	7.35%	7.17%	6.23%	6.60%	6.86%	7.02%	7.07%	7.34%	6.65%	6.66%	6.90%	6.60%	<b>7.29%</b>

(1) Smart Option loans classified as in Repayment only if borrowers are required to make full interest and principal payments.

(2) Variable rate loans only. Assumes Prime/LIBOR spread of 3.05% for 2013-C, 2013-B and 2013-A and 2.75% for prior transactions.



## Sallie Mae Investor Relations Website

**For more information visit:**

**[www.salliemae.com/investors](http://www.salliemae.com/investors)**