

SLM CORP
Form 10-Q
April 22, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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 (I.R.S. Employer
incorporation or organization) 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 No

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Class	Outstanding at March 31, 2015
Common Stock, \$0.20 par value	425,180,591 shares

SLM CORPORATION

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

	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$875,622	\$2,359,780
Available-for-sale investments at fair value (cost of \$168,964 and \$167,740, respectively)	170,831	168,934
Loans held for investment (net of allowance for losses of \$89,805 and \$83,842, respectively)	10,909,014	9,509,786
Other interest-earning assets	62,383	77,283
Accrued interest receivable	541,355	469,697
Premises and equipment, net	79,822	78,470
Acquired intangible assets, net	2,855	3,225
Tax indemnification receivable	227,157	240,311
Other assets	64,485	64,757
Total assets	\$12,933,524	\$12,972,243
Liabilities		
Deposits	\$10,467,753	\$10,540,555
Income taxes payable, net	194,345	191,499
Upromise related liabilities	285,104	293,004
Other liabilities	120,409	117,227
Total liabilities	11,067,611	11,142,285
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: 428 million and 425 million shares issued, respectively	85,587	84,961
Additional paid-in capital	1,106,415	1,090,511
Accumulated other comprehensive loss (net of tax benefit of \$13,012 and \$7,186, respectively)	(20,584)	(11,393)
Retained earnings	154,824	113,066
Total SLM Corporation stockholders' equity before treasury stock	1,891,242	1,842,145
Less: Common stock held in treasury at cost: 3 million and 1 million shares, respectively	(25,329)	(12,187)
Total equity	1,865,913	1,829,958
Total liabilities and equity	\$12,933,524	\$12,972,243

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2015	2014
Interest income:		
Loans	\$ 197,856	\$ 160,035
Investments	2,720	968
Cash and cash equivalents	780	866
Total interest income	201,356	161,869
Interest expense:		
Deposits	29,570	22,591
Other interest expense	832	40
Total interest expense	30,402	22,631
Net interest income	170,954	139,238
Less: provisions for loan losses	16,618	39,159
Net interest income after provisions for loan losses	154,336	100,079
Noninterest income:		
Gains on sales of loans, net	—	33,888
Gains (losses) on derivatives and hedging activities, net	3,292	(764)
Other	8,007	8,136
Total noninterest income	11,299	41,260
Expenses:		
Compensation and benefits	41,203	29,667
Other operating expenses	39,984	34,004
Total operating expenses	81,187	63,671
Acquired intangible asset amortization expense	370	1,767
Restructuring and other reorganization expenses	4,657	229
Total expenses	86,214	65,667
Income before income tax expense	79,421	75,672
Income tax expense	31,722	28,658
Net income	47,699	47,014
Less: net loss attributable to noncontrolling interest	—	(434)
Net income attributable to SLM Corporation	47,699	47,448
Preferred stock dividends	4,823	—
Net income attributable to SLM Corporation common stock	\$42,876	\$47,448
Basic earnings per common share attributable to SLM Corporation	\$0.10	\$0.11
Average common shares outstanding	424,428	426,717
Diluted earnings per common share attributable to SLM Corporation	\$0.10	\$0.11
Average common and common equivalent shares outstanding	432,302	434,650

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		
	March 31,		
	2015	2014	
Net income	\$47,699	\$47,014	
Other comprehensive income (loss):			
Unrealized gains on investments	673	1,406	
Unrealized losses on cash flow hedges	(15,689)) —	
Total unrealized gains (losses)	(15,016)) 1,406	
Income tax (expense) benefit	5,825	(534))
Other comprehensive income (loss), net of tax benefit (expense)	(9,191)) 872	
Comprehensive income	38,508	47,886	
Less: comprehensive loss attributable to noncontrolling interest	—	(434))
Total comprehensive income attributable to SLM Corporation	\$38,508	\$48,320	

See accompanying notes to consolidated financial statements.

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

	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Total SLM Corporation Equity	Non-controlling interest	Total Equity
Balance at December 31, 2013	\$1,164,495	\$ (3,024)	\$ 1,161,471	\$ 4,672	\$1,166,143
Net income (loss)	47,448	—	47,448	(434)	47,014
Other comprehensive income, net of tax	—	872	872	—	872
Total comprehensive income (loss)	—	—	48,320	(434)	47,886
Net transfers from affiliate	17,244	—	17,244	—	17,244
Balance at March 31, 2014	\$1,229,187	\$ (2,152)	\$ 1,227,035	\$ 4,238	\$1,231,273

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	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Preferred Stock Shares	Issued	Treasury	Outstanding						
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	\$0
Net income	—	—	—	—	—	—	—	—	47,699	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(9,191)	—	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A (\$0.87 per share)	—	—	—	—	—	—	—	—	(2,875)	—
Preferred Stock, series B (\$0.49 per share)	—	—	—	—	—	—	—	—	(1,948)	—
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	1,118	—	(1,118)	—
Issuance of common shares	—	3,130,839	—	3,130,839	—	626	4,050	—	—	—
Tax benefit related to employee	—	—	—	—	—	—	4,596	—	—	—

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stock-based compensation										
Stock-based compensation expense	—	—	—	—	—	—	6,140	—	—	—
Shares repurchased related to employee stock-based compensation plans										
Balance at March 31, 2015	7,300,000	427,934,964	(2,754,373)	425,180,591	\$565,000	\$85,587	\$1,106,415	\$(20,584)	\$154,824	\$(1,000,000)

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March, 31	
	2015	2014
Operating activities		
Net income	\$47,699	\$47,014
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	16,618	39,159
Tax provision	31,722	28,658
Amortization of brokered deposit placement fee	2,695	2,750
Amortization of deferred loan origination costs and fees, net	641	298
Net amortization of discount on investments	324	88
Depreciation of premises and equipment	1,659	1,182
Amortization and impairment of acquired intangibles	370	1,767
Stock-based compensation expense	6,140	7,248
Unrealized (gains)/losses on derivative and hedging activities, net	(2,417)	1,107
Gains on sale of loans, net	—	(33,888)
Changes in operating assets and liabilities:		
Net decrease in loans held for sale	55	5,426
Origination of loans held for sale	(55)	(5,426)
Increase in accrued interest receivable	(121,815)	(76,069)
Decrease (increase) in other interest-earning assets	14,900	(21,257)
Decrease in tax indemnification receivable	13,154	—
(Increase) decrease in other assets	(2,079)	3,999
Decrease in income tax payable, net	(23,049)	(122,829)
Increase in accrued interest payable	6,541	3,907
Decrease in payable due to entity that is a subsidiary of Navient	(1,655)	—
(Decrease) increase in other liabilities	(10,629)	(1,381)
Total adjustments	(66,880)	(165,261)
Total net cash used in operating activities	(19,181)	(118,247)
Investing activities		
Loans acquired and originated	(1,663,149)	(1,524,455)
Net proceeds from sales of loans held for investment	6,387	679,023
Proceeds from claim payments	46,442	27,303
Net decrease in loans held for investment	243,990	183,590
Purchases of available-for-sale securities	(8,178)	(25,190)
Proceeds from sales and maturities of available-for-sale securities	6,630	1,510
Total net cash used in investing activities	(1,367,878)	(658,219)
Financing activities		
Net decrease in certificates of deposit	(74,457)	(324,487)
Net (decrease) increase in other deposits	(22,415)	135,628
Net decrease in deposits with entity that is a subsidiary of Navient	—	(3,631)

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Net capital contributions from entity that is a subsidiary of Navient	—	21,230
Excess tax benefit from the exercise of stock-based awards	4,596	—
Preferred stock dividends paid	(4,823)	—
Net cash provided by financing activities	(97,099)	(171,260)
Net decrease in cash and cash equivalents	(1,484,158)	(947,726)
Cash and cash equivalents at beginning of period	2,359,780	2,182,865
Cash and cash equivalents at end of period	\$875,622	\$1,235,139
Cash disbursements made for:		
Interest	\$25,368	\$16,180
Income taxes paid	\$17,811	\$99,267
See accompanying notes to consolidated financial statements.		

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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 (“we,” “us,” “our,” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries 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 months ended March 31, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 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, 2014 (the “2014 Form 10-K”).

On April 30, 2014, we completed our plan to legally separate into two distinct publicly traded entities - an education loan management, servicing and asset recovery business, Navient Corporation (“Navient”), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the “Spin-Off”) was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business.

For periods before the Spin-Off, the financial statements are presented on a basis of accounting that reflects a change in reporting entity and have been adjusted for the effects of the Spin-Off. These carve-out financial statements and selected financial information represent only those operations, assets, liabilities and equity that form Sallie Mae on a stand-alone basis. Because the Spin-Off occurred on April 30, 2014, the balances as of and for the three months ending March 31, 2014 include the carved out financial results.

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.

Recently Issued Accounting Pronouncements

On February 18, 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which amends the current consolidation guidance. The amendments reduce the number of consolidation models through the elimination of the indefinite deferral of ASC 810 and place more emphasis on risk of loss when determining a controlling financial interest. The standard is effective for fiscal periods beginning after December 15, 2015. We do not expect this new guidance to have a material impact to our financial results.

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.

"Private Education Loans" are education loans to students or their families that are not issued, insured or guaranteed by any state or federal government. 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 or customers' resources. Private Education Loans bear the full credit risk of the borrower and any cosigners. We manage this risk through risk-performance underwriting strategies and the addition of qualified cosigners. Our Private Education Loans generally carry a variable interest rate indexed to LIBOR. As of March 31, 2015, 82 percent of all Private Education Loans were indexed to LIBOR. We provide incentives for customers to include a cosigner on our Private Education Loans, and the vast majority of Private Education Loans in our portfolio are cosigned. We also encourage our Private Education Loan customers to make payments while in school.

FFELP Loans are insured by the federal government 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:

	March 31, 2015	December 31, 2014
Private Education Loans	\$9,768,761	\$8,311,376
Deferred origination costs	17,627	13,845
Allowance for loan losses	(85,236) (78,574
Total Private Education Loans, net	9,701,152	8,246,647
FFELP Loans	1,208,977	1,264,807
Unamortized acquisition costs, net	3,454	3,600
Allowance for loan losses	(4,569) (5,268
Total FFELP Loans, net	1,207,862	1,263,139
Loans held for investment, net	\$10,909,014	\$9,509,786

The estimated weighted average life of education loans in our portfolio was approximately 6.4 years and 6.2 years at March 31, 2015 and December 31, 2014, 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 are summarized as follows:

	Three Months Ended			
	March 31,		2014	
	Average	Weighted	Average	Weighted
	Balance	Average	Balance	Average
		Interest		Interest
		Rate		Rate
Private Education Loans	\$9,454,579	8.07	% \$7,419,714	8.14 %
FFELP Loans	1,234,682	3.19	1,404,595	3.19
Total portfolio	\$10,689,261		\$8,824,309	

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 March 31, 2015		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	\$5,268	\$ 78,574	\$83,842
Total provision	435	16,183	16,618
Net charge-offs:			
Charge-offs	(1,134)	(8,727)	(9,861)
Recoveries	—	1,387	1,387
Net charge-offs	(1,134)	(7,340)	(8,474)
Loan sales ⁽¹⁾	—	(2,181)	(2,181)
Ending Balance	\$4,569	\$ 85,236	\$89,805
Allowance:			
Ending balance: individually evaluated for impairment	\$—	\$ 20,105	\$20,105
Ending balance: collectively evaluated for impairment	\$4,569	\$ 65,131	\$69,700
Loans:			
Ending balance: individually evaluated for impairment	\$—	\$ 122,120	\$122,120
Ending balance: collectively evaluated for impairment	\$1,208,977	\$ 9,646,641	\$10,855,618
Net charge-offs as a percentage of average loans in repayment (annualized) ⁽²⁾	0.50	% 0.51	%
Allowance as a percentage of the ending total loan balance	0.38	% 0.87	%
Allowance as a percentage of the ending loans in repayment ⁽²⁾	0.52	% 1.42	%
Allowance coverage of net charge-offs (annualized)	1.01	2.90	
Ending total loans, gross	\$1,208,977	\$ 9,768,761	
Average loans in repayment ⁽²⁾	\$898,360	\$ 5,705,067	
Ending loans in repayment ⁽²⁾	\$872,579	\$ 5,995,121	

⁽¹⁾ Represents fair value write-downs on loans sold.

⁽²⁾ Loans in repayment includes in-school loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status after any applicable grace period.