

PART 2 OF 2
TO THE SECOND AMENDED
COMPLAINT

financial reporting process and allowed Defendants to materially misstate SLM's financial results. The material weaknesses in SLM's internal controls arose from, among other things, the Individual Defendants' tone at the top, a tone that encouraged lax underwriting and forbearance practices and resulted in material misstatements in the Company's financial reporting.

175. SLM's lack of internal controls is confirmed by a former employee in SLM's Internal Audit Department. According to CW 14, a former employee in that department who reported directly to a senior executive in the department, during the Class Period, SLM's Internal Audit Department did not effectively conduct internal audits, carry out risk assessments, or create an action plan to limit risks.

176. SLM's management's assessment of internal controls over financial reporting was a critical metric for investors, because it provided assurance that the Company's financial statements were reliable and in compliance with applicable GAAP and SEC regulations. However, during the Class Period, SLM did not in fact properly assess its internal controls over financial reporting and thus violated the laws and regulations cited above.

H. As A Result Of The Foregoing Violations Of GAAP And SEC Regulations, SLM's Financial Statements Issued During The Class Period Were Materially Misstated

177. As a result of SLM's failure to comply with GAAP and SEC regulations, the Company materially understated its allowance for PEL losses by at least \$300 million (or 97%) as of December 31, 2006; \$325 million (or 88%) as of March 31, 2007; \$400 million (or 93%) as of June 30, 2007; and \$500 million (or 110%) as of September 30, 2007.

178. As a result of SLM's failure to record the necessary allowances for PEL losses during the Class Period, SLM materially overstated its reported net interest income after provision for loan losses, net pretax income, and net income. Had SLM recorded the proper

allowance for PEL losses in each of the fiscal periods at issue in the litigation, SLM's income would have been reduced on a quarterly basis by at least \$300 million (or 17.7%) as of December 31, 2006; \$25 million (or 6.2%) as of March 31, 2007; \$75 million (or 7.5%) as of June 30, 2007; and \$100 million (or 38.6%) as of September 30, 2007.

179. Alternatively, because SLM failed to record any of the foregoing adjustments during the Class Period, the chart set forth below summarizes the quarterly and year-to-date cumulative effect of SLM's understatement of its allowance for PEL losses on SLM's financial statements (in thousands):

	12/31/06 YTD	3/31/07 QTR	6/30/07 QTR	6/30/07 YTD	9/30/07 QTR	9/30/07 YTD
Reported Pretax Income	\$1,995,274	\$427,172	\$1,071,891	\$1,499,063	\$-259,234	\$1,239,829
Pretax Income as adjusted for the understatement of allowance for loan losses	\$1,695,274	\$102,172	\$671,891	\$1,099,063	\$-759,234	\$739,829
% Overstatement	17.70%	318.09%	59.53%	36.39%	192.88%	67.58%
Reported PEL Loss Allowance	\$308,346	\$369,072	\$427,904	\$427,904	\$454,100	\$454,100
PEL Loss Allowance as adjusted	\$608,346	\$694,072	\$827,904	\$827,904	\$954,100	\$954,100

	12/31/06 YTD	3/31/07 QTR	6/30/07 QTR	6/30/07 YTD	9/30/07 QTR	9/30/07 YTD
% Understatement of PEL loss allowance	97.29%	88.06%	93.48%	93.48%	110.11%	110.11%
Adjusted allowance as a % of Ending PEL	6.05%	6.79%	7.24%	7.24%	6.75%	6.75%
Reported allowance as a % of Ending PEL	3.06%	3.61%	3.74%	3.74%	3.21%	3.21%

180. The material understatement of SLM's reported allowance for PEL losses, as calculated by Plaintiffs above, is based on the following assumptions: (1) default rates for the non-traditional loans inherent within the PEL portfolio were at least 18%; (2) Defendants suppressed the PEL portfolio's delinquency rates and trends by the indiscriminate use of forbearance, causing an understatement of charge-offs and the allowance for loan losses; (3) Defendants use of a two-year loss emergence period, which included the time borrowers were still in school, caused an understatement of the allowance for loan losses; (4) Defendants' failure to follow sound underwriting standards exposed the PEL portfolio to additional credit risk that was not reserved for; and (5) Defendants failed to consider school and program factors, such as graduation, retention, and earnings potential, in establishing the allowance for PEL losses.

181. After the Class Period, SLM disclosed that its PEL portfolio included outstanding non-traditional PELs in the amounts of \$3.644 billion at the end of 2006, and \$4.580 billion at the end of 2007. This disclosure also revealed that at the end of 2006, SLM's allowance for non-

traditional PEL losses was only 6.8%, and at the end of 2007, the allowance had jumped to 18.7%. The allowance for non-traditional PEL losses has remained around 18.5% since the end of the Class Period.

182. The allowance percentages that SLM has applied to its non-traditional PELs after the Class Period are approximately equal to the historical cumulative default rate for PELs and, under GAAP and SEC regulations, should have been applied during the Class Period. In addition to the reasons set forth above, this conclusion also is supported by the massive charge-offs SLM has taken on the non-traditional PELs after the Class Period. Since the end of the third quarter of 2007, SLM has charged-off as uncollectible more than \$600 million of non-traditional PELs.

183. In conclusion, Defendants knew or recklessly disregarded all the factors necessary to record an adequate allowance for PEL losses at the time SLM issued its financial statements during the Class Period, including the characteristics of non-traditional loans that rendered them higher-risk; that SLM was indiscriminately placing delinquent loans in forbearance to suppress delinquency and default rates in the short term; that historical cumulative cohort default rates for less risky loans were available showing that SLM would likely incur material losses on its significantly riskier PEL portfolio; and that SLM lacked adequate and sound internal controls over its PEL portfolio and lending practices.

VII. ADDITIONAL ALLEGATIONS SUPPORTING DEFENDANTS' SCIENTER

184. As alleged herein, Defendants acted with scienter in that they knew or recklessly disregarded that the public documents and statements issued or disseminated in SLM's name were materially false and misleading; knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public; and knowingly and

substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

185. The inference that Defendants knew or recklessly disregarded the true risks of SLM's PEL business and had the opportunity to act on that knowledge through the knowing manipulation of SLM's publicly reported student loan forbearance and delinquency rates and loan loss reserves is compelling because of the Individual Defendants' receipt of information reflecting the true facts regarding SLM; their control over, receipt, or modification of SLM's allegedly materially misleading misstatements; their associations with the Company which made them privy to confidential proprietary information concerning SLM; and their admissions with respect to the underwriting and forbearance practices used by SLM during the Class Period.

A. Defendants' Scienter Can Be Inferred Because PELs Were Part Of SLM's Core Business

186. PELs were part of SLM's core business during the Class Period. This fact supports a strong inference of scienter against Defendants. Defendants acknowledged in SLM's 2006 10-K that "[o]ur primary business is to originate and hold student loans by providing funding, delivery and servicing support for education loans in the United States through our participation in the Federal Family Education Loan Program ('FFELP') and through offering non-federally guaranteed Private Education Loans." During SLM's October 11, 2007 conference call with investors and securities analysts, Defendant Andrews stated that SLM was focused on growing the PEL side of its loan business and that the PEL sector "is essential to us," as it constituted "our economic engine on the loan side of the business." During the January 23, 2008 conference call with investors and securities analysts, Defendant Lord acknowledged that "our private loan business is now obviously our principle [sic] business."

187. Defendants explained the shift toward the PEL business in SLM's 2006 10-K,

stating that “[o]ver the last several years, the growth of Private Education Loans has accelerated due to tuition increasing faster than the rate of inflation coupled with stagnant FFELP lending limits. This rapid growth combined with the relatively higher spreads has led to Private Education Loans contributing a higher percentage of our net interest margin in each of the last four years. We expect this trend to continue in the foreseeable future.” PELs ultimately contributed 17%, 23%, and 36% to SLM’s reported “Core Earnings” in 2005, 2006, and 2007, respectively. Given the centrality of PELs to SLM’s core operations and the significance of PELs to SLM’s balance sheet and income statement, Defendants’ scienter can be inferred with respect to the allegations concerning SLM’s PEL business and practices.

B. The Individual Defendants Were Aware Of Or Recklessly Disregarded The Relaxation Of Underwriting Standards For PELs And The Manipulation Of SLM’s Forbearance Policies

188. The Individual Defendants closely monitored the PEL business and were therefore aware of or recklessly disregarded both the relaxation of underwriting standards and the manipulation of forbearance policies and practices concerning those loans. For instance, CW 13 created a monthly report that went to Defendant Andrews and others that listed the raw number of loans, their dollar amounts, and the number of days the loans were past due. CW said that regular reports on originations (number, dollar volume, and days delinquent) went “electronically” to executives including Lord. In addition, during the merger negotiations with the Flowers group, the Individual Defendants received *ad hoc* reports on loans “charged-off” SLM’s books due to default. These reports showed, among other things, increased levels of charge-offs and delinquencies. According to CW 13, the Individual Defendants were interested in the charge-offs, because that number reduced SLM’s reported earnings per share. According to CW 15, a risk analysis report which showed delinquency trends and historical borrower

default information was requested by the Individual Defendants more than once a month beginning around September 2007.

189. Defendants Andrews and Lord also made repeated site visits to SLM call centers where PEL collections took place. CW 16 was a research analyst in the Gilbert, Arizona facility from 2002 until February 2008. CW 4 and CW 16 recalled quarterly visits to the Las Vegas, Nevada and Gilbert, Arizona call centers by Lord and Andrews.

190. Defendants Lord and Andrews acted as the Company's main spokespersons regarding the PEL business throughout the Class Period, and spoke knowledgeably and in detail about all aspects of the PEL business, including underwriting and creditworthiness of borrowers, forbearance practices and rates, delinquency and default rates, and the manner in which SLM's allowance for PEL losses was calculated.

191. Defendant Lord stated on a December 19, 2007 conference call with investors and securities analysts that default rates on PELs were "a very high priority of mine." Lord also later acknowledged his role in the relaxation of SLM's underwriting standards, stating that "[i]t was obviously a mistake and I'm not going to step away from responsibility because I was either chairman or CEO when those loans were made."

192. Defendant Andrews, when asked about SLM's PEL forbearance practices on the January 18, 2007 conference call with investors and securities analysts, stated that "we monitor that very closely." Andrews reiterated this point during the October 11, 2007 conference call with investors and securities analysts, saying "...it's a conscious decision whether a loan goes into forbearance" and "...we monitor it closely."

C. The Individual Defendants Were Aware Of Or Recklessly Disregarded SLM's GAAP Violations And False Financial Reporting

193. The magnitude of the false financial reporting during the Class Period and the

nature, number, and timing of the GAAP violations that occurred at SLM give rise to a compelling inference that Defendants Andrews and Lord were aware of or recklessly disregarded SLM's GAAP violations and false financial reporting. In addition, the Individual Defendants were intimately involved in overseeing the preparation of, approving, and publicly explaining SLM's financial statements and results of operations.

194. As SLM's CFO during most of the Class Period, Defendant Andrews signed the Company's materially false and misleading 2006 10-K and first quarter 2007 10-Q. He also signed the SOX certifications accompanying these SEC filings, along with the SOX certifications accompanying SLM's 10-Qs for the second and third quarters of 2007. By signing these filings, Andrews certified that the filings were, among other things, prepared in accordance with GAAP. Defendant Andrews also signed the Company's materially false and misleading Form 8-Ks announcing SLM's fourth-quarter and year-end 2006 results and first-quarter 2007 results. Finally, Andrews was quoted in the Company's false and misleading press releases discussing SLM's financial results and was a principal participant in the conferences and conference calls with securities analysts and investors described herein.

195. Defendant Lord signed the Company's materially false and misleading 2006 10-K, and was a principal participant in the conferences and conference calls with securities analysts and investors described herein.

196. As set forth in ¶ 123 above, during the Class Period, SLM's allowance for PEL losses was understated by 50% on average, resulting in an overstatement of SLM's net income by hundreds of millions of dollars each quarter during the Class Period. The GAAP violations that led to the false financial reporting were pervasive and obvious to Defendants, occurred over multiple fiscal periods, and could not have been the result of an inadvertent error or mistake.

Moreover, the GAAP provisions that were violated were neither new nor complicated.

D. The Individual Defendants Had A Strong Motive To Mislead Investors To Ensure The Completion Of The Merger With The Flowers Group, Because The Merger Would Have Enabled Them To Cash Out Their Personal Holdings Of SLM Stock And Options

197. The Individual Defendants had a strong motive to mislead investors and to falsify the information which they caused to be disseminated to the investing public, in the form of the cash-out opportunity represented by the possible merger with the Flowers group.

198. On April 16, 2007, the Company issued a press release announcing that the Flowers group had agreed to purchase SLM for approximately \$25 billion, or \$60 per share of common stock. The price offered by the Flowers group represented a significant premium over SLM's share price at the time, which, in the days prior to the announcement was trading in the low \$40s per share.

199. On May 25, 2007, SLM filed its Preliminary Proxy Statement for the merger. The Proxy Statement disclosed that SLM's officers and directors (including the Individual Defendants) had certain interests in the merger that were different from the interests of the Company's shareholders, including the potential to receive substantial cash payments upon consummation of the merger and indemnity agreements which would protect the executives from past misconduct.

200. The cash payments were to be based upon the conversion of the officers' and directors' equity interests in the Company at the completion of the merger, including the automatic vesting of all outstanding stock options. Defendant Lord was to receive a cash payment of approximately \$225 million, and Defendant Andrews was to receive \$16.1 million.

201. Moreover, Defendants Andrews's and Lord's Statements of Changes in Beneficial Ownership filed on Form 4 with the SEC reflect that each had a significant number of stock

options that were tied to exercise prices above the market price of SLM stock at the time, so they could not exercise the shares at that time. If the merger occurred, however, they would receive a cash payment equal to the number of option shares multiplied by the amount by which \$60 exceeded the applicable exercise price. On January 1, 2006, Defendant Andrews received stock options for 25,000 shares that could not be exercised until SLM's share price reached \$66.98 or above for five consecutive trading days, or until 2014. On May 19, 2005, Defendant Lord acquired stock options for 300,000 shares that could not be exercised until SLM's share price reached \$58.61 or above for five consecutive trading days, or until 2010. With the market price of SLM stock below these exercise prices, Defendants Andrews and Lord had a significant motive to see the merger consummated so that they would receive immediate payment on these otherwise out-of-the-money options.

202. For the merger to be consummated, SLM had to satisfy a number of closing conditions, including conditions tied to its financial performance. The Individual Defendants thus had a motive to portray the Company in a positive light and report seemingly favorable financial results, to ensure that the merger conditions tied to the Company's financial performance were fulfilled and to foster the Flowers group's belief the Company was worth buying at \$60 per share of common stock.

E. SLM Needed To Maintain Its Stock Price To Avoid Paying Billions Of Dollars Under Its Equity Forward Contracts

203. As discussed in Section V.B.2(c) above, Defendants were further motivated by an extraordinary need to increase or maintain SLM's stock price to avoid the multi-billion dollar contingent liability arising under SLM's equity forward contracts. As Defendant Lord later admitted, the equity forward contracts were struck in a way that was extraordinarily accretive to investors who did not buy SLM stock, but dilutive to current owners of SLM stock when the

stock price went down.

204. As of December 31, 2006, SLM had outstanding equity forward contracts to purchase 48.2 million shares of its common stock at prices ranging from \$46.30 to \$54.74 per share, with trigger prices ranging from \$20.84 to \$35.58 per share. The amount SLM would have to pay in settling the contracts constituted a contingent liability of over \$2 billion.

205. In February 2007, the trigger prices were amended. As of February 28, 2007, SLM had outstanding equity forward contracts to purchase 48.2 million shares of its common stock at prices ranging from \$46.30 to \$54.74 per share, with trigger prices ranging from \$23.93 to \$30.11 per share.

206. The desire to avoid SLM's having to pay up to \$2 billion or more under the equity forward contracts gave Defendants a particular motive to keep the market price of its stock as high as possible. Defendants thus had a material incentive to engage in conduct that resulted in overstatement of SLM's financial results, as favorable financial results typically have a positive effect on the market price of an issuer's stock.

207. Defendants' motive to keep SLM's stock price as high as possible was heightened by the federal loan subsidy cuts announced in February 5, 2007 that resulted in a drop in SLM's stock price. The subsidy cuts depressed the stock price to a level perilously close to the trigger price under the equity forward contracts.

208. Despite amending the trigger prices again in early December, by the end of the Class Period, most of the trigger prices set by SLM's equity forward contracts had been reached, meaning that Defendants had lost their bet on SLM's share value and that SLM would be required to settle its equity forward contracts at great expense to the shareholders of the Company.

209. On January 3, 2008, SLM filed a report on Form 8-K with the SEC in which it disclosed that the Company intended to use approximately \$2 billion of funds from recent offerings to settle the outstanding equity forward contracts.

F. Defendant Lord Sold Millions Of Dollars Of SLM Stock In Unusual Amounts And At Suspicious Times

1. February 2007 Stock Sales

210. The inference that Defendant Lord knowingly participated in the fraudulent scheme alleged herein is particularly compelling given the series of suspicious stock transactions Lord executed, arranged, or otherwise acquiesced to in 2007 to avoid millions of dollars in losses as SLM's share value declined over the course of the Class Period. Lord's sales took place when he was in the possession of material, non-public, proprietary information of SLM.

211. The first of three suspicious transactions occurred on February 1 and 2, 2007, when Defendant Lord sold 400,000 shares of SLM stock for an average price of \$45.80 per share, for \$18.3 million in insider trading proceeds. Lord's stock sale came days before the public release of President Bush's budget proposal on February 5, 2007. The President's budget proposed cutting student lender rate subsidies and increasing lender risk at the same time that SLM was expanding its PEL lending, including the non-traditional lending as to which the risks were being concealed from the market. Lord knew that further erosion of federally guaranteed lending would focus more analyst attention on the quality of the PEL portfolios.

212. An internal SLM document entitled "Federal Government Relations Strategy," dated December 5, 2006, showed that the Company sought a meeting with President Bush's budget office approximately two months before Lord sold his shares. House of Representatives Education Committee Chairman George Miller later said the document "shows that Sallie Mae intended to have discussions with the administration about the president's budget before it was

released to the public. That raises the question of what information Lord had, when he had it, and what he did with it." *See Congress Probes Sallie Mae, Bush Budget Meeting Reuters*. Kevin Drawbaugh, May 24, 2007.

2. Options Exercise And Stock Sales In August And December 2007

213. On August 3, 2007, SLM issued a press release announcing that several members of the Company's Board of Directors planned to exercise their options to acquire SLM stock, because those options were set to expire August 13, 2007. Defendant Lord exercised options for 1,663,448 shares on August 9, 2007, at exercise prices ranging from \$18.33 to \$26.62 per share, and opted to tender 1,139,510 shares to SLM at fair market value, which was \$49.33 per share at the time. Lord used the sale of the 1.1 million shares to pay the exercise price of the options and associated taxes. Lord retained the remaining 523,938 shares, the minimum allowable given the restriction on stock sales in effect at the time.

214. In an August 15, 2007, article entitled "Sallie Buyout May Move On," The New York Post reported:

Sallie Mae's shares rose as much as 3 percent yesterday on news that Albert Lord, the company's chairman, exercised stock options to buy 1.7 million shares of Sallie Mae.

He immediately sold 1.1 million shares to pay the exercise price of the options and related taxes, but held onto the rest, which gave some investors confidence that Lord thinks the deal will go through.

But some analysts said Lord's decision to sell some of his stock now, when he could have likely borrowed the cash to fund the deal, shows that he believes the deal could be in jeopardy.

Banks were willing to finance exercise price if Lord didn't want to sell the stock immediately, sources said.

Zachery Kouwe, *Sallie Buyout May Move On*, N.Y. Post, Aug. 15, 2007.

215. As described above, on October 2, 2007, just weeks after Lord's August options

exercise, the Flowers group announced that it interpreted the federal subsidy cuts and rising borrowing costs in the credit markets as a “material adverse event” and would not proceed with the merger.

216. On December 14, 2007, Defendant Lord sold 1,265,401 shares of stock, or 97% of his position in SLM, for an average price of \$27.36 per share, for \$34.6 million in insider trading proceeds. The stock sale by Lord, which he claimed was the result of a margin call executed by his bank, came days before SLM would host a conference call during which it disclosed it might be facing higher financing costs and would need to raise additional capital. The news revealed in the conference call resulted in a decline 21% in SLM’s share price. The timing of these stock sales prompted another investigation by the SEC into the Company’s disclosures in December 2007, both before and after its executives and directors traded their stock.

217. Defendant Lord reportedly claimed that his “bank sold [him] out.” A December 18, 2007 article in the Washington Post reported that:

The value of Sallie Mae Chairman Albert L. Lord’s stake in his firm declined sharply since the unraveling of his months-long effort to sell the student loan company to a group of private investors.

Lord’s remaining stock options, which would have produced a gain of \$162.5 million if the \$60-a-share sale had gone through as planned, were worth only \$2 million at yesterday’s closing price of \$27.90.

Lord had also been sitting on 1,309,988 shares, but he was forced to sell 1,265,401 of them Friday –96.6 percent – to cover an unspecified obligation.

* * *

At \$60 a share, the buyout would have enabled Lord and other shareholders and employees to cash in their interests for much more than the \$40.75 per share price at which Sallie Mae stock was trading before news of the deal was reported.

* * *

In the news release, Sallie Mae said the shares Lord sold Friday represented “approximately 10 percent of his equity units.”

A review of regulatory filings shows, however, that the stock represented the vast majority of the Sallie Mae interests that Lord had the ability to liquidate.

David S. Hilzenrath, *A Reversal of Fortune for Sallie Mae Chairman*, WASHINGTON POST Dec. 18, 2007, at D01.

VIII. DEFENDANTS’ MATERIALLY FALSE AND MISLEADING STATEMENTS

A. The January 18, 2007 Form 8-K And Press Release

218. On January 18, 2007, SLM filed a report on Form 8-K and related press release with the SEC, announcing the Company’s financial results for the fourth fiscal quarter of 2006 and for the entire 2006 fiscal year. The 8-K was signed by Defendant Andrews.

219. The January 18, 2007 press release represented, among other things, the following with respect to SLM’s financial results for the fourth quarter of 2006 and for the entire 2006 fiscal year:

“Core earnings” net income was \$326 million, or \$.74 per diluted share, for the 2006 fourth quarter, compared to \$284 million, or \$.63 per diluted share, in the year-ago quarter. For the full-year 2006, “core earnings” net income was \$1.3 billion, or \$2.83 per diluted share, up from \$1.1 billion, or \$2.51 per diluted share, for 2005.

* * *

Fourth-quarter 2006 GAAP net income was \$18 million, or \$.02 per diluted share, compared to \$431 million, or \$.96 per diluted share, in the year-ago quarter. GAAP net income for 2006 totaled \$1.2 billion, compared to \$1.4 billion in 2005.

220. The representations set forth in the January 18, 2007 press release concerning SLM’s income and earnings for the fourth quarter of 2006 and for the entire 2006 fiscal year were materially false and misleading because the Company’s understatement of its allowance for

PEL losses resulted in a material overstatement of SLM's income and earnings in 2006. *See* Sections VI.C and VI.H above.

221. With respect to SLM's PELs, the January 18, 2007 press release represented that interest income for the fourth quarter of 2006 was \$291 million and \$1 billion for all of 2006. The press release represented that SLM's allowance for PEL losses was \$308 million as of December 31, 2006.

222. The representations set forth in the January 18, 2007 press release concerning the 2006 income from SLM's PEL business and the amount of SLM's allowance for PEL losses at the end of 2006 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material overstatement of SLM's income and earnings in 2006. *See* Sections VI.C and VI.H above.

B. The January 18, 2007 Conference Call

223. On January 18, 2007, Defendant Andrews, Steven McGarry (SLM's Director of Investor Relations) and Thomas Fitzpatrick (SLM's CEO at the time) conducted a conference call with securities analysts and investors to discuss SLM's fourth-quarter and year-end 2006 results and its future business prospects.

224. During the call, SLM CEO Fitzpatrick stated, among other things, as follows:

Moving quickly over to private credit, we have had an excellent year in our private education credit. Overall our originations were up 19% for the year. Specifically our Tuition Answer product grew 31% for the full year, after a very strong fourth quarter.

And we certainly are quite pleased with this product, after just two years we now have in excess of \$2 billion of direct-to-consumer loans in our portfolio and they certainly are helping us expand into the student loan marketplace on the indirect basis.

On the delinquency side, we have seen a trend upward in our 90 day and over delinquencies. They moved up modestly over quarter three from 2.9 to 3.0,

still within our range, as we had modeled out on these portfolios. Our 90 days year-over-year stood at a 3% comparison to the record low level of 1.7% a year ago. A number that we reminded you was not going to be sustainable level of 90 day and over accounts.

225. Fitzpatrick's statements during the January 18, 2007 conference call concerning SLM's PEL business were materially false and misleading when made. Fitzpatrick's statement that SLM had an excellent year and that originations were up 19% in the PEL business failed to disclose that SLM had abandoned its underwriting standards and was writing risky, non-traditional loans to increase PEL originations, or that SLM was manipulating its forbearance practices to cover up increases in delinquencies in the PEL portfolio. *See* Sections V.B.3 and V.B.4 above. Fitzpatrick's representations about SLM's delinquency rates and trends for the PEL portfolio were materially false and misleading because SLM was manipulating its forbearance practices to cover up increases in delinquencies, thus materially understating SLM's true delinquency rates and trends for its PEL business. *See* Sections V.B.4 and VI.D above.

226. During the conference call, Defendant Andrews stated, among other things, as follows:

As Tim mentioned, we are very pleased with the fourth quarter performance as our EPS grew a very healthy 16% to \$0.74 per share. Year-end EPS was \$2.79 per share which is a 17% growth rate.

Both the quarter as well as the year-end results reflect the strength and depth of our business. We continue with our consistent and simple formula. We generate strong long-term loan growth while maintaining our student loan spread which supplement the interest income with strong and recurring fee income and we optimize our operating leverage to control expenses.

* * *

Next, our private lending activities. At December 31st our private managed education portfolio totaled \$23 billion, or 16% of the manages loan portfolio. Net charge-offs for the private loan portfolio equaled \$60 million or an annualized 2.3% of loans in repayment for the quarter.

Net charge-offs totaled 1.9% in the year ago quarter. For the full year, net charge-offs were \$161 million or 1.6% of the portfolio in repayment versus 137 million or 1.9% of the portfolio in repayment in the prior year.

Private loans past due 90 days or more were 3% of loans in repayment compared to 1.7% in the year ago fourth quarter. The increase in the 90-day delinquency rate from the unsustainably low levels in 2005 was primarily from seasoning and mix of the portfolio. In addition, loans in forbearance totaled 1.2 billion at quarter end or 9.2% of loans in repayment and forbearance, a decline from 11.5% for the third quarter and 9.9% a year ago. Taking normal seasonality into account, the overall forbearance levels are well within our expectations.

The loan loss provision for private education loans was 79 million for the fourth quarter versus 72 million in the third quarter. The increase over the third quarter is principally due to the increases in net charge-offs and delinquencies. The increases in the 90-day past due levels will cost charge-offs to continue above the 2% annualized level as they did in the fourth quarter. The higher charge offs combined with increases in our repayment portfolio will result in increased provision levels to at least the first half of 2007. Again, as Tim said, we believe that the 2% sort of charge-off level is well in line with the guidance we have given historically on our portfolio. The provision brings our private loan allowance at December 31 to \$394 million or 3.4% of the loans in repayment and approximately 1.6 times the fourth quarter annualized net charge offs. During the full year of 2006, we were able to increase our reserves by \$112 million.

* * *

Now, just turning briefly to an update on our outlook, to expand upon Tim's comments. We just finished a strong year, and are well positioned for 2007. We expect that our internal brands in 2007 will grow in excess of the market growth rates and we expect our total managed student loan assets to grow in the mid teens.

We also expect to grow revenue 15% in our fee income businesses and grow our EPS around the 15% guidance that Tim gave. We expect that our student loan spread will average in the low-to-mid 180s across the four quarters of 2007. We continue to have confidence in our ability to generate earnings growth over the long run.

227. Defendant Andrews's statements set forth above during the January 18, 2007 conference call were materially false and misleading when made. Andrews's statements about the strength and depth of SLM's business and that SLM was continuing with a consistent and simple formula based on generating strong long-term loan growth were false and misleading

because SLM had abandoned its long-term, conservative business model to generate short-term growth and short-term profits in its PEL business by relaxing underwriting standards and writing non-traditional loans. *See* Section V.B. above. Andrews's statements about SLM's PEL business, including statements about forbearance rates and trends, charge-off rates and trends, delinquency rates and trends and the allowance for PEL losses were false and misleading because SLM was manipulating its forbearance practices and forbearance and delinquency rates and materially understating its allowance for PEL losses. *See* Sections V.B.4, VI.C and VI.D above. Finally, Andrews's statements about SLM's outlook for 2007 were false and misleading because they failed to disclose that SLM's growth was based on the abandonment of its underwriting practices and the writing of non-traditional loans, or that SLM's financial statements were materially overstated in violation of GAAP and SEC regulations. *See* Sections V.B and VI above.

228. In response to an analyst's question during the conference call about SLM's forbearance practices, Defendant Andrews stated, among other things, as follows:

Just trying to relate the forbearance trends and the growth – all right. So forbearance is at year end what transpired, they had actually gone down slightly in dollar total relative to the third quarter and gone down significantly percentage wise relative to the third quarter and gone down percentage wise relative to the same quarter a year ago, year-end of '05.

I think that is, you can look at forbearance, we have disclosed a lot around forbearance in terms of the aging of it. The flow of it and that sort of thing and we monitor that very closely as part of our overall portfolio management. So when you see forbearance either staying flat while the portfolio is growing, or even declining while the portfolio is growing, that is a good leading indicator if you will in terms of future – potential future aging of the portfolio.

So that is a positive, in terms of thinking about the performance of the portfolio, the fact that forbearance actually declined in absolute dollars slightly, declined substantially on a percentage basis. I would consider that, we consider that a positive trend as it pertains to overall past due management.

Our 90 days are up, which is also an important trend and that's why I said, in the next quarter or so, those 90 days will move through their various buckets and that will cause in the first half of the years some increased charge-off activity certainly. But the forbearance trend, we are pleased with where that stood at year end.

229. Defendant Andrews's statements about SLM's PEL forbearance practices and trends during the January 18, 2007 conference call were materially false and misleading when made because SLM was manipulating its forbearance practices and misrepresenting the Company's actual forbearance trends and rates. *See* Sections V.B.4 and VI.D above.

C. The Annual Report On Form 10-K For 2006

230. On March 1, 2007, SLM filed its Annual Report on Form 10-K for 2006 with the SEC ("2006 10-K"). Defendants Lord and Andrews signed the 2006 10-K on behalf of themselves and SLM.

231. As SLM's CFO at the time, Defendant Andrews also signed the SOX certification falsely stating that the Company's 2006 10-K did not contain any material misstatements or omit material information, that the report fairly presented, in all material respects, the Company's financial condition and results of operations, that its internal controls over financial reporting were sufficient to provide reasonable assurance of the reliability of the Company's financial reporting, and that SLM's financial statements were prepared in accordance with GAAP. *See* Section VI.G above.

232. The 2006 10-K described SLM's PEL business, in relevant part, as follows:

Private Education Loans consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers' resources, and (2) those that are used to meet the needs of students in alternative learning programs such as career training, distance learning and lifelong learning programs. Most higher education Private Education Loans are made in conjunction with a FFELP Stafford loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans,

Private Education Loans are subject to the full credit risk of the borrower. We manage this additional risk through clearly-defined loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate us for the higher risk. As a result, we earn higher spreads on Private Education Loans than on FFELP loans. Private Education Loans will continue to be an important driver of future earnings growth as the demand for post-secondary education grows and costs increase much faster than increases in federal loan limits.

233. The description of SLM's PEL business set forth in the 2006 10-K was materially false and misleading because SLM had abandoned its underwriting standards for the PEL business and was writing risky, non-traditional loans. *See* Section V.B above. Furthermore, SLM was not managing the additional risk that these loans entailed, and instead was understating its allowance for PEL losses to increase reported net income. *See* Sections VI.C, VI.E and VI.G above. This description was also false and misleading because it failed to disclose SLM's non-traditional loan business, which represented a material undisclosed concentration of risk and a material undisclosed threat to the Company's financial position. *See* Sections V.B and VI.E above.

234. The 2006 10-K represented that SLM had "clearly-defined" underwriting practices in place for PELs to manage the additional risk that these loans entailed. The 2006 10-K stated, in relevant part, as follows:

Since we bear the full credit risk for Private Education Loans, they are underwritten and priced according to credit risk based upon standardized consumer credit scoring criteria. We mitigate some of this credit risk by providing price and eligibility incentives for students to obtain a credit-worthy co-borrower, and approximately 50 percent of our Private Education Loans have a co-borrower. Due to their higher risk profile, Private Education Loans earn higher spreads than their FFELP loan counterparts. In 2006, Private Education Loans earned an average "Core Earnings" spread, before provisions for loan losses, of 5.13 percent versus an average "Core Earnings" spread of 1.26 percent for FFELP loans, excluding the impact of the Wholesale Consolidation portfolio.

* * *

Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. We manage this additional risk through clearly-defined loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate us for the higher risk. As a result, we earn higher spreads on Private Education Loans than on FFELP loans. Private Education Loans will continue to be an important driver of future earnings growth as the demand for post-secondary education grows and costs increase much faster than increases in federal loan limits.

235. The representations about SLM's underwriting practices for PELs set forth in the 2006 10-K were materially false and misleading because SLM had abandoned those underwriting practices and was writing non-traditional loans, including loans to borrowers attending non-traditional schools. *See* Section V.B.3 above. Furthermore, SLM was not managing the additional risk that these loans entailed, and instead was understating its allowance for PEL losses to increase reported net income. *See* Sections VI.C, VI.E and VI.H above.

236. The 2006 10-K represented that SLM also had well-established forbearance practices for PELs and that these practices were a positive collection tool for the Company. The 2006 10-K stated, in relevant part, as follows:

For borrowers that need more time or experience other hardships, we permit additional delays in payment or partial payments (both referred to as forbearances) when we believe additional time will improve the borrowers' ability to repay the loan. Forbearance is also granted to borrowers who may experience temporary hardship after entering repayment, when we believe that it will increase the likelihood of ultimate collection of the loan. Forbearance can be requested by the borrower or initiated by the Company and is granted within established policies that include limits on the number of forbearance months granted consecutively and limits on the total number of forbearance months granted over the life of the loan. In some instances of forbearance, we require good-faith payments or continuing partial payments. Exceptions to forbearance policies are permitted in limited circumstances and only when such exceptions are judged to increase the likelihood of ultimate collection of the loan.

* * *

Forbearance is used most heavily immediately after the loan enters repayment. As indicated in the tables below that show the composition and status of the Managed Private Education Loan portfolio by number of months aged from the first date of repayment, the percentage of loans in forbearance decreases the

longer the loans have been in repayment. At December 31, 2006, loans in forbearance as a percentage of loans in repayment and forbearance is 11.7 percent for loans that have been in repayment one to twenty-four months. The percentage drops to 3.4 percent for the loans that have been in repayment more than 48 months. The percentage drops to 3.4 percent for loans that have been in repayment more than 48 months. Approximately 76 percent of our Managed Private Education Loans in forbearance have been in repayment less than 24 months. These borrowers are essentially extending their grace period as they transition to the workforce. Forbearance continues to be a positive collection tool for Private Education Loans as we believe it can provide the borrower with sufficient time to obtain employment and income to support his or her obligation. We consider the potential impact of forbearance in the determination of the loan loss reserves.

237. The representations about SLM's forbearance practices for PELs set forth in the 2006 10-K were materially false and misleading because SLM was manipulating its forbearance practices and forbearance rates. *See* Sections V.B.4 and VI.D above. Furthermore, as a result of the manipulation of SLM's forbearance practices, forbearance was no longer a positive collection tool for the Company. Instead, forbearance became a means for SLM to remove loans from delinquent status and to reduce SLM's allowance for PEL losses, which in turn increased SLM's reported income and earnings. *See* Sections V.B.4 and VI.D above.

238. The 2006 10-K made the following representations, among others, concerning the general manner in which SLM's allowance for losses arising from PELs was calculated:

We maintain an allowance for loan losses at an amount sufficient to absorb losses inherent in our FFELP and Private Education Loan portfolios at the reporting date based on a projection of estimated probable net credit losses. We analyze those portfolios to determine the effects that the various stages of delinquency have on borrower default behavior and ultimate charge-off. We estimate the allowance for loan losses and losses on accrued interest income for our Managed loan portfolio using a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge-off, and is a widely used reserving methodology in the consumer finance industry. We also use the migration analysis to estimate the amount of uncollectible accrued interest on Private Education Loans and write off that amount against current period interest income.

When calculating the allowance for loan losses on Private Education Loan loss, we divide the portfolio into categories of similar risk characteristics based on loan program type, loan status (in-school, grace, repayment, forbearance, delinquency), underwriting criteria, existence or absence of a co-borrower, and aging. We then apply default and collection rate projections to each category. Our higher education Private Education Loan programs (90 percent of the Managed Private Education Loan portfolio at December 31, 2006) do not require the borrowers to begin repayment until six months after they have graduated or otherwise left school. Consequently, our loss estimates for these programs are minimal while the borrower is in school. Our career training and alternative Private Education Loan programs (10 percent of the Managed Private Education Loan portfolio at December 31, 2006) generally require the borrowers to start repaying their loans immediately. At December 31, 2006, 46 percent of the principal balance in the higher education Managed Private Education Loan portfolio is related to borrowers who are still in-school and not required to make payments. As the current portfolio ages, an increasing percentage of the borrowers will leave school and be required to begin payments on their loans. The allowance for losses will change accordingly with the percentage of borrowers in repayment.

Our loss estimates are based on a loss emergence period of two years. Similar to the rules governing FFELP payment requirements, our collection policies allow for periods of nonpayment for borrowers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered separately in our allowance of loan losses. The majority of forbearance occurs early in the repayment term when borrowers are starting their careers (see "LENDING BUSINESS SEGMENT – Private Education Loans – *Delinquencies*"). At December 31, 2006, 9 percent of the Managed Private Education Loan portfolio in repayment and forbearance was in forbearance status. The loss emergence period is in alignment with our typical collection cycle and takes into account these periods of nonpayment.

* * *

Management believes that the allowance for loan losses is appropriate to cover probable losses in the student loan portfolio.

239. The representations about the manner in which SLM calculated its allowance for PEL losses and the adequacy of its allowance set forth in the 2006 10-K were materially false and misleading because SLM's allowance for PEL losses was not calculated in accordance with

GAAP and SEC regulations and was materially understated at the end of 2006 in violation of GAAP and SEC regulations. *See* Sections VI.C and VI.H above.

240. The 2006 10-K provided the following explanation as to how SLM's 2006 allowance for PEL losses was calculated and the reasons for the differences between the 2005 allowance and the 2006 allowance:

The allowance for Private Education Loan losses at December 31, 2006 grew 40 percent versus 2005, which was in direct proportion to the 40 percent growth in the balance of loans in repayment, while net charge-offs increased 18 percent year-over-year. This resulted in an improvement in the ratio of net charge-offs to average loans in repayment from 1.89 percent at December 31, 2005 to 1.62 percent at December 31, 2006. The ending balance of the allowance for Private Education Loans at December 31, 2006 resulted in an average coverage of annual net charge-offs ratio of 2.44, which is an 18 percent increase over the December 31, 2005 ratio of 2.06.

The seasoning and the changing mix of loans in the portfolio, coupled with the higher repayment levels associated with the growth in our Private Education Loan portfolio have more recently resulted in higher levels of charge-offs and provision. We expect these levels to continue and likely to increase.

The year-over-year allowance on a Managed Basis increased by \$52 million from 2004 to 2005, exclusive of the adjustments related to the changes in estimate and methodology discussed above. This increase was primarily driven by the 37 percent year-over-year increase in average loans in repayment. As a result of the change in the loan loss and recovery estimates discussed above, the allowance as a percentage of ending loans in repayment decreased from 5.08 percent to 3.40 percent, and consequently the year-over-year growth rate in the provision is less than the growth rate in the portfolio.

241. The explanation set forth in the 2006 10-K as to how SLM's 2006 allowance for PEL losses was calculated and the stated reasons for the differences between the 2005 and 2006 allowances were materially false and misleading because SLM's allowance for PEL losses in 2006 was not calculated in accordance with GAAP and SEC regulations and was materially understated at the end of 2006 in violation of GAAP and SEC regulations. *See* Sections VI.C and VI.H above.

242. The 2006 10-K represented that the increased levels of charge-offs in SLM's PEL portfolio was attributable to the following:

Toward the end of 2006 and in early 2007, we experienced lower collections resulting in increased levels of charge-off activity in our Private Education Loan portfolio. We believe that this is attributable in some degree to a number of operational challenges at our DMO [Debt Management Operations] in performing pre-default and post-default collections on the Company's Private Education Loan Portfolio. In August 2006, we announced that we intended to relocate responsibility for certain Private Education Loan collections from our Nevada call center to a new call center in Indiana. This transfer presented us with unexpected operational challenges that resulted in lower collections that have negatively impacted the Private Education Loan portfolio. Management has taken several remedial actions, including transferring experienced collection personnel to the new call center. In addition, the DMO also revised certain procedures, including its use of forbearance, to better optimize our long-term collection strategies. We expect that these developments will result in increased later stage delinquency levels and associated higher charge-offs in the first and perhaps the second quarters of 2007.

243. The representations about the reasons for the increased level of charge-offs in SLM's PEL portfolio set forth in the 2006 10-K were materially false and misleading because the transfer of the call center from Nevada to Indiana did not create operational difficulties that resulted in lower collections for PELs. In fact, the Indiana call center was setting collections records. *See* Section V.B.5 above.

244. The 2006 10-K represented that SLM had well-defined policies and procedures in place to manage the Company's credit risk arising from its PEL portfolio. The 2006 10-K stated, in relevant part, as follows:

We bear the full risk of borrower and closed school losses experienced in our Private Education Loan portfolio. These loans are underwritten and priced according to risk, generally determined by a commercially available consumer credit scoring system, FICO. Because of the nature of our lending, after an initial decrease, borrower FICO scores will generally improve over time. Additionally, for borrowers who do not meet our lending requirements or who desire more favorable terms, we generally require credit-worthy co-borrowers. Our higher education Private Education Loans are not dischargeable in bankruptcy, except in certain limited circumstances.

We have defined underwriting and collection policies, and ongoing risk monitoring and review processes for all Private Education Loans. Potential credit losses are considered in our risk-based pricing model. The performance of the Private Education Loan portfolio may be affected by the economy, and a prolonged economic downturn may have an adverse effect on its credit performance. Management believes that it has provided sufficient allowances to cover the losses that may be experienced in both the federally guaranteed and Private Education Loan portfolios over the next two years depending on the portfolio.

245. The representations about SLM's credit risk arising from the Company's PEL portfolio set forth in the 2006 10-K were materially false and misleading because SLM had abandoned its underwriting standards for the PEL business and was writing risky, non-traditional loans. *See* Section V.B above. Furthermore, SLM was not managing the additional risk that these loans entailed, and instead was understating its allowance for PEL losses to increase reported net income. *See* Sections VI.C, VI.E and VI.H above. The above description was also materially false and misleading because it failed to disclose SLM's non-traditional loan business, which represented a material undisclosed concentration of risk and a material undisclosed threat to the Company's financial position. *See* Sections V.B and VI.E above.

246. The 2006 10-K also represented that SLM's management had evaluated the Company's disclosure controls and procedures and determined that the controls and procedures in place were effective to ensure that SLM's SEC filings were accurate:

Our management, with the participation of our Chief Executive Officer and Chief 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 December 31, 2006. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2006, 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 (a) recorded, processes, summarized and reported within the time periods specified in the SEC's rules an forms and (b) accumulated and communicated to our management,

including our Chief Executive Office and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

247. The representations about the effectiveness of SLM's disclosure controls and procedures set forth in the 2006 10-K were materially false and misleading because SLM's disclosure controls and procedures were inadequate and not effective to ensure that SLM timely disclosed material information in its filings with the SEC. SLM's disclosure controls and procedures were ineffective in ensuring that SLM disclosed fundamental changes in its business model and business practices (*see* Section V.B above) and that SLM's financial statements were fairly presented in accordance with GAAP and SEC regulations. *See* Section VI.G above.

248. The 2006 10-K included SLM's financial statements and results of operations for 2006. The 2006 10-K represented that the financial statements and results of operations set forth therein were fairly presented in accordance with GAAP and free of material misstatement.

249. SLM's 2006 financial statements were not fairly presented in accordance with GAAP, were not free of material misstatement, and violated certain SEC regulations. SLM's 2006 financial statements understated the Company's allowance for PEL losses, overstated income, misrepresented the Company's forbearance practices and forbearance and delinquency rates, failed to disclose a material concentration of credit risk arising from the non-traditional loans, and failed to disclose known trends and uncertainties in SLM's PEL business. *See* Section VI above.

D. The April 24, 2007 Form 8-K And Press Release

250. On April 24, 2007, SLM filed a report on Form 8-K and related press release with the SEC, announcing the Company's financial results for the first quarter of 2007. The 8-K was signed by Defendant Andrews.

251. The April 24, 2007 press release represented, among other things, the following with respect to SLM's financial results for the first quarter of 2007:

Private education loan originations, a segment of preferred-channel originations, were \$2.4 billion, and included more than \$241 million of direct-to-consumer loans, a 64 percent increase from \$147 million of private education loans originated through this channel in the year-ago quarter.

* * *

Sallie Mae reported first-quarter 2007 GAAP net income of \$116 million, or \$.26 per diluted share, compared to \$152 million, or \$.34 per diluted share, in the year-ago period. Included in these GAAP results are pre-tax losses on derivative and hedging activities of \$(357) million, compared to \$(87) million in the year-ago quarter, servicing and securitization revenue of \$252 million, compared to \$99 million in the year-ago period, and a provision for losses of \$150 million, compared to \$60 million in the year-ago period.

"Core earnings" net income for the quarter was \$251 million, or \$.57 per diluted share, compared to \$287 million, or \$.65 per diluted share in the year-ago quarter. These results include a provision for losses of \$199 million in the first-quarter 2007, compared to \$75 million in the first-quarter 2006. Annualized net charge-offs as a percentage of average private education loans in repayment were 3.4 percent in the first quarter of 2007, compared to 1.3 percent in the year-ago period.

252. The representations set forth in the April 24, 2007 press release concerning SLM's income and earnings for the first quarter of 2007 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material overstatement of SLM's income and earnings in the first quarter of 2007. *See* Sections VI.C and VI.H above.

253. With respect to SLM's PELs, the April 24, 2007 press release represented that interest income for the first quarter of 2007 was \$338 million. The press release represented that, as of March 31, 2007, SLM's allowance for PEL losses was \$369 million.

254. The representations set forth in the April 24, 2007 press release concerning the first quarter 2007 income from SLM's PEL business and the amount of SLM's allowance for

PEL losses at the end of first quarter of 2007 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material overstatement of SLM's income and earnings in the first quarter of 2007. *See* Sections VI.C and VI.H above.

E. The Report On Form 10-Q For The Quarter Ended March 31, 2007

255. On May 10, 2007, SLM filed its quarterly report on Form 10-Q with the SEC for the first quarter of 2007, ended March 31, 2007. The first quarter 2007 10-Q was signed by Defendant Andrews.

256. As SLM's CFO, Defendant Andrews also signed the SOX Certification falsely stating that the Company's first quarter 2007 10-Q did not contain any material misstatements or omit material information, that the report fairly presented in all material respects the Company's financial condition and results of operations, that its internal controls over financial reporting were sufficient to provide reasonable assurance of the reliability of the Company's financial reporting, and that SLM's financial statements were prepared in accordance with GAAP. *See* Section VI.G above.

257. The first quarter 2007 10-Q described SLM's PEL business and underwriting and risk management practices for that business, in relevant part, as follows:

In addition to its federally insured FFELP products, the Company originates and acquires Private Education Loans which consist of two general types (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers' resources, and (2) those that are used to meet the needs of students who attend non-Title IV eligible institutions where FFELP loans are not available (such as career training, distance learning and lifelong learning programs). Most higher education Private Education Loans are made in conjunction with a FFELP Stafford loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through industry-tested loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

258. The description of SLM's PEL business and underwriting and risk management practices set forth in the first quarter 2007 10-Q was materially false and misleading because SLM had abandoned its underwriting standards for the PEL business and was writing risky, non-traditional loans. *See* Section V.B above. Furthermore, SLM was not managing the additional risk that these loans entailed, and instead was understating its allowance for PEL losses in order to increase reported net income. *See* Sections VI.C, VI.E and VI.H above. This description was also false and misleading because it failed to disclose SLM's non-traditional loan business, which represented a material undisclosed concentration of risk and a material undisclosed threat to the Company's financial position. *See* Sections V.B and VI.E above.

259. The first quarter 2007 10-Q repeated the representations set forth in the 2006 10-K with respect to SLM's forbearance practices for PELs. These representations were materially false and misleading for the same reasons as described in ¶ 237 above with respect to the 2006 10-K.

260. The first-quarter 2007 10-Q provided certain information about SLM's PELs in forbearance as of the close of the first quarter of 2007, as follows:

At March 31, 2007 loans in forbearance as a percentage of loans in repayment and forbearance are 16.4 percent for loans that have been in repayment one to twenty-four months. The percentage drops to 3.8 percent for loans that have been in repayment more than 48 months. Approximately 80 percent of our Managed Private Education Loans in forbearance have been in repayment less than 24 months.

* * *

There were \$1.6 billion of loans in forbearance status at March 31, 2007, or 12.3 percent of loans in repayment and forbearance. This is consistent with our expectation of higher forbearances in the first quarter based on the large increase in the number of loans entering repayment in the fourth quarter.

261. The information set forth above concerning the PELs in forbearance as of the close of the first quarter of 2007 was materially false and misleading because SLM was

manipulating its forbearance practices and forbearance rates. *See* Sections V.B.4 and VI.D above.

262. The first-quarter 2007 10-Q represented that “[t]he Company believes that the allowance for student loan losses is appropriate to cover probable losses in the student loan portfolios.” Explaining how the allowance for PEL losses was calculated for the first quarter of 2007, the first-quarter 2007 10-Q stated as follows:

Net interest income after provisions for loan losses decreased by \$63 million versus the first quarter of 2006. The decrease is due to the year-over-year increase in the provision for Private Education Loan losses of \$90 million, which offset the year-over-year \$27 million increase in net interest income. The increase in the provisions for loan losses reflects a further seasoning of the portfolio and an increase in delinquencies and charge-offs related to lower collections caused by operational challenges encountered from the relocation of one of the Company’s call centers. The \$27 million, or 7 percent, year-over-year increase in net interest income is primarily due to a \$19.8 billion increase in average interest earning assets, offset by a 22 basis point decrease in the net interest margin. The year-over-year decrease in the net interest margin is due to higher average interest rates which reduced Floor Income by \$10 million, a higher provision for interest reserves as a result of the increase in delinquencies noted above, and an increase in the average balance of cash and investments.

263. The representations about the manner in which SLM calculated its allowance for PEL losses and the adequacy of its allowance set forth in the first quarter 2007 10-Q were materially false and misleading because SLM’s allowance for PEL losses was not calculated in accordance with GAAP and SEC regulations and was materially understated at the end of the first quarter of 2007 in violation of GAAP and SEC regulations. *See* Sections VI.C and VI.H above.

264. As noted in ¶ 242 above, the first-quarter 2007 10-Q attributed the first-quarter 2007 increase in SLM’s allowance for PEL losses at least in part to the same “operational challenges” described in the 2006 10-K concerning the relocation of one of SLM’s call centers. The first-quarter 2007 10-Q repeated the representations set forth in the 2006 10-K with respect

to these “operational challenges.” These representations were materially false and misleading for the same reasons as described in ¶ 243 above with respect to the 2006 10-K.

265. The first-quarter 2007 10-Q also repeated the representation set forth in the 2006 10-K that SLM’s management had evaluated the Company’s disclosure controls and procedures and determined that the controls and procedures in place were effective to ensure that SLM’s SEC filings were accurate. This representation was materially false and misleading for the same reasons as described in ¶ 247 above with respect to the 2006 10-K.

266. The first-quarter 2007 10-Q included SLM’s financial statements and results of operations for the first quarter of 2007. The first-quarter 2007 10-Q represented that SLM’s financial statements and results of operations set forth therein were fairly presented in accordance with GAAP and free of material misstatement.

267. SLM’s first-quarter 2007 financial statements were not fairly presented in accordance with GAAP, were not free of material misstatement, and violated certain SEC regulations. SLM’s first-quarter 2007 financial statements understated the Company’s allowance for PEL losses, overstated income, misrepresented the Company’s forbearance practices and forbearance and delinquency rates, failed to disclose a material concentration of credit risk arising from the non-traditional loans, and failed to disclose known trends and uncertainties in SLM’s PEL business. *See* Section VI above.

F. The July 17, 2007 Form 8-K And Press Release

268. On July 17, 2007, SLM filed a report on Form 8-K and related press release with the SEC, announcing the Company’s financial results for the second quarter and first half of 2007, ended June 30, 2007.

269. The July 17, 2007 press release represented, among other things, the following

with respect to SLM's financial results for the second quarter and first half of 2007:

Sallie Mae reported second-quarter 2007 GAAP net income of \$996 million, or \$1.03 per diluted share, compared to \$724 million, or \$1.52 per diluted share, in the year-ago period. Included in these GAAP results are pre-tax gains on derivative and hedging activities of \$822 million in the second-quarter 2007, compared to \$123 million in the year-ago quarter, and a decrease of \$671 million in gains on student loan securitizations. Second-quarter 2007 GAAP diluted earnings per share were reduced by \$1.21 due to the reversal of unrealized gains on dilutive outstanding equity-forward contracts as required by the GAAP diluted earnings per share calculation.

"Core earnings" net income for the second-quarter 2007 was \$189 million, or \$.43 per diluted share, down from \$320 million, or \$.72 per diluted share, in the year-ago quarter. These second-quarter 2007 results include a provision for losses of \$247 million and \$51 million in expenses related to the company's previously announced acquisition. Annualized net charge-offs as a percentage of average private education loans in repayment were 3.5 percent in the second-quarter 2007, compared to 3.4 percent in the prior quarter. For the first half of 2007, "core earnings" net income was \$440 million, compared to \$607 million in the first half of 2006.

270. The representations set forth in the July 17, 2007 press release concerning SLM's income and earnings for the second quarter of 2007 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material overstatement of SLM's income and earnings in the second quarter of 2007 and for the first six months of 2007. *See* Sections VI.C and VI.H above.

271. With respect to SLM's PELs, the July 17, 2007 press release represented that interest income for the second quarter of 2007 was \$329 million. As of June 30, 2007, the press release represented that SLM's allowance for PEL losses was \$428 million.

272. The representations set forth in the July 17, 2007 press release concerning the second quarter 2007 income from SLM's PEL business and the amount of SLM's allowance for PEL losses at the end of the second quarter of 2007 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material

overstatement of SLM's income and earnings in the second quarter of 2007 and for the first six months of 2007. *See* Sections VI.C and VI.H above.

G. The Report On Form 10-Q For The Quarter Ended June 30, 2007

273. On August 7, 2007, SLM filed its quarterly report on Form 10-Q with the SEC for the second quarter and first half of 2007, ended June 30, 2007.

274. As SLM's CEO, Defendant Andrews signed the SOX Certification falsely stating that the Company's second quarter 2007 10-Q did not contain any material misstatements or omit material information, that the report fairly presented in all material respects the Company's financial condition and results of operations, that its internal controls over financial reporting were sufficient to provide reasonable assurance of the reliability of the Company's financial reporting, and that SLM's financial statements were prepared in accordance with GAAP. *See* Section VI.G above.

275. The second-quarter 2007 10-Q repeated the description of SLM's PEL business and underwriting and risk management practices for that business set forth in the first-quarter 2007 10-Q. This description was materially false and misleading for the same reasons described in ¶ 258 above with respect to the first-quarter 2007 10-Q.

276. The second-quarter 2007 10-Q also repeated the representations set forth in the 2006 10-K with respect to SLM's forbearance practices for PELs. These representations were materially false and misleading for the same reasons as described in ¶¶ 237 and 243 above with respect to the 2006 10-K.

277. The second-quarter 2007 10-Q provided certain information about SLM's PELs in forbearance as of the close of the second quarter of 2007, as follows:

At June 30, 2007 loans in forbearance as a percentage of loans in repayment and forbearance are 14.0 percent for loans that have been in repayment one to twenty-

four months. The percentage drops to 4.4 percent for loans that have been in repayment more than 48 months. Approximately 75 percent of our Managed Private Education Loans in forbearance have been in repayment less than 24 months.

278. The information set forth above concerning the PELs in forbearance as of the close of the second quarter of 2007 was materially false and misleading because SLM was manipulating its forbearance practices and forbearance rates. *See* Section V.B.4 and VI.D above.

279. The second-quarter 2007 10-Q represented that “[t]he Company believes that the allowance for student loan losses is appropriate to cover probable losses in the student loan portfolios.” Explaining how the allowance for loan losses was calculated for the second quarter and first six months of 2007, the second-quarter 2007 10-Q stated as follows:

Net interest income after provisions for loan losses decreased by \$38 million versus the second quarter of 2006. The decrease is due to the year-over-year increase in the provision for Private Education Loan losses of \$80 million, which offset the year-over-year \$42 million increase in net interest income. The decrease in net income is also due to \$14 million in interim financing costs (commitment and liquidity fees) associated with the Merger (see “RECENT DEVELOPMENTS – Merger-Related Developments – *Financing Considerations Related to the Transaction*”). The increase in the provision predominantly reflects a further seasoning and mix of the portfolio and an increase in delinquencies and charge-offs related in part to operational challenges encountered from a call center move.

* * *

Net interest income after provisions for loan losses decreased by \$103 million versus the six months ended June 30, 2006. The decrease is due to the year-over-year increase in the provision for Private Education Loan losses of \$171 million, which offset the year-over-year \$68 million increase in net interest income. The increase in the provision predominately reflects a further seasoning and mix of the portfolio and an increase in delinquencies and charge-offs related in part to operational challenges encountered from a call center move.

280. The representations about the manner in which SLM calculated its allowance for PEL losses and the adequacy of its allowance set forth in the second-quarter 2007 10-Q were materially false and misleading because SLM’s allowance for PEL losses was not calculated in

accordance with GAAP and SEC regulations and was materially understated at the end of the second quarter of 2007 in violation of GAAP and SEC regulations. *See* Sections VI.C and VI.H above.

281. As noted in ¶ 279 above, the second-quarter 2007 10-Q attributed the second-quarter 2007 increase in SLM's allowance for PEL losses at least in part to the same "operational challenges" described in the 2006 10-K concerning the relocation of one of SLM's call centers. The second-quarter 2007 10-Q repeated the representations set forth in the 2006 10-K with respect to these "operational challenges," but elaborated upon them as follows:

Management has been aggressively remediating these issues beginning with actions in late 2006 and early 2007, such as transferring experienced collection personnel to the new call center and conducting extensive training and monitoring. Beginning late in the second quarter and into the early third quarter of 2007, DMO has also instituted more precise analytic collection strategies and new systematic enhancements to better manage the volume, seasoning and shift in the portfolio mix. Because charge-offs are generally reflective of the collection performance of six or seven months prior to the 212-day charge-off event, the effect of all of these actions will not be fully realized until 2008. Due to the remedial actions in place, we anticipate the negative trends caused by the operation-related issues will steadily improve over the remainder of 2007 and the first half of 2008.

282. The statements attributing increases in the allowance for PEL losses to "operational challenges" arising from the relocation of an SLM call center were materially false and misleading for the same reasons as described in ¶ 243 above with respect to the 2006 10-K.

283. The second-quarter 2007 10-Q repeated the representation set forth in the 2006 10-K that SLM's management had evaluated the Company's disclosure controls and procedures and determined that the controls and procedures in place were effective to ensure that SLM's SEC filings were accurate. This representation was materially false and misleading for the same reasons as described in ¶ 247 above with respect to the 2006 10-K.

284. The second-quarter 2007 10-Q included SLM's financial statements and results of operations for the second quarter and first half of 2007. The second-quarter 2007 10-Q represented that the financial statements and results of operations set forth therein were fairly presented in accordance with GAAP and free of material misstatement.

285. SLM's financial statements for the second quarter and first six months of 2007 were not fairly presented in accordance with GAAP, were not free of material misstatement, and violated certain SEC regulations. SLM's financial statements for the second quarter and first six months of 2007 understated the Company's allowance for PEL losses, overstated income, misrepresented the Company's forbearance practices and forbearance and delinquency rates, failed to disclose a material concentration of credit risk arising from the non-traditional loans, and failed to disclose known trends and uncertainties in SLM's PEL business. *See* Section VI above.

H. The October 11, 2007 Form 8-K And Press Release

286. On October 11, 2007, the Company filed a report on Form 8-K and related press release with the SEC, announcing SLM's financial results for the third quarter and first nine months of 2007, ended September 30, 2007.

287. The October 11, 2007 press release represented, among other things, the following with respect to SLM's financial results for the third quarter and first nine months of 2007:

"Thanks to our industry-leading brand, our scale and efficiencies, and our focus on students and families, we successfully faced a number of challenges this quarter," said C.E. Andrews, chief executive officer, "we have a solid track record of growing our 'core earnings' through various political, interest rate and economic environments, and the fundamentals of our business point to a bright future for our company."

Sallie Mae reported a third-quarter 2007 GAAP net loss of \$344 million, or \$.85 diluted loss per share, compared to net income of \$263 million, or \$.60 per diluted share, in the year-ago period. Included in these GAAP results are pre-tax losses on derivative and hedging activities of \$487 million in the third-quarter 2007, principally related to the decline in share price during the quarter on the company's equity forward positions.

Third-quarter 2007 "core earnings" net income was \$305 million, or \$.70 per diluted share, before \$46 million, or \$.11 per diluted share, in after-tax reductions to net income from the following non-recurring items: \$28 million related to the recent legislative changes in the FFELP risk-sharing percentage and \$18 million related to the company's previously announced merger agreement. Including these non-recurring items, reported "core earnings" net income was \$259 million, or \$.59 per diluted share.

For the first nine months of 2007, "core earnings" net income was \$699 million, compared to \$927 million in the same period last year.

288. The representations set forth in the October 11, 2007 press release concerning SLM's income and earnings for the third quarter and first nine months of 2007 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material overstatement of SLM's income and earnings in the third quarter and for the first nine months of 2007. *See* Sections VI.C and VI.H above.

289. With respect to SLM's PELs, the October 11, 2007 press release represented that interest income for the third quarter of 2007 was \$393 million. As of September 30, 2007, the press release represented that SLM's allowance for PEL losses was \$454 million.

290. The representations set forth in the October 11, 2007 press release concerning the third-quarter 2007 income from SLM's PEL business and the amount of SLM's allowance for PEL losses at the end of the third quarter of 2007 were materially false and misleading because the Company's understatement of its allowance for PEL losses resulted in a material overstatement of SLM's income and earnings in the third quarter and for the first nine months of 2007. *See* Sections VI.C and VI.H above.

291. The October 11, 2007 press release represented that the reason for the decline in the provision and allowance for PEL losses (as a percentage) was that the previously disclosed call center transition problems had been resolved. The October 11, 2007 supplemental earnings disclosure for third quarter 2007 stated, in part, as follows:

Due to the remedial actions in place, we anticipate the negative trends caused by the operational difficulties will improve over the remainder of 2007 and 2008.

The anticipated level of delinquency and net charge-offs into 2008 is reflected in higher loss provisions for the nine months ended September 30, 2007. The higher provisioning occurred predominantly in the first and second quarters of 2007 using increased projected default rates which stabilized in the third quarter of 2007.

292. The representations set forth in the October 11, 2007 supplemental earnings disclosure for third quarter 2007 concerning the reasons for the improvements in SLM's allowance for PEL losses were materially false and misleading because the transfer of the call center from Nevada to Indiana did not create any operational difficulties that resulted in lower collections for PELs in late 2006 and the first and second quarters of 2007. In fact, the Indiana call center was setting collections records. *See* Section V.B.5 above.

293. The October 11, 2007 supplemental earnings disclosure for third quarter 2007 also represented that "[f]orbearance policies were tightened in late 2006" and that forbearance continued to be a "positive collection tool for Private Education Loans as we believe it can provide the borrower with sufficient time to obtain employment and income to support his or her obligations."

294. The representations about SLM's forbearance practices set forth in the October 11, 2007 press release were materially false and misleading because SLM's forbearance policies were loosened, not tightened in late 2006. Moreover, as a result of the manipulation of

SLM's forbearance policies in 2006 and 2007, forbearance was not a positive collection tool, but rather a means for SLM to remove loans from delinquent status and to reduce SLM's allowance for PEL losses, which in turn increased SLM's reported income and earnings. See Sections V.B.4 and VI.D above.

I. The October 11, 2007 Shareholder Conference And Conference Call

295. On October 11, 2007, Defendants Lord and Andrews, and Steve McGarry (SLM's V.P. of Investor Relations), participated in a shareholder conference and conference call with securities analysts and investors to discuss SLM's third-quarter 2007 results and its future business prospects. Defendant Lord began the conference by acknowledging that over the past six months, SLM had "not paid a great deal of attention to shareholder reporting of earnings and other items."

296. During the conference, Defendant Andrews stated that SLM believed the PEL business had solid long-term growth expectations for SLM, "and certainly in the high-teens to 20% for the future." In terms of the credit quality of SLM's PEL portfolio, Andrews stated, in relevant part:

We see the right trends and the right signs occurring there. We actually in the third quarter, our loan loss provision was some \$90 million less than in the second quarter, and we see that the charge-off rates and levels and the delinquency rates are trending in a direction that we had expected.

I think probably some of you know, but in case you don't, we had a large operational disruption in our collection side of private credit last fall and early in 2007. It created disruption that got us behind in some of the collection process, and we've continued to try to correct those issues, and we believe all those changes and the implementation of the impact of those are right on target now. But it's taken us the better part of this year to get that back on track. But we're starting to see the results of that now in our delinquency trends and charge-off numbers, and we expect in the near-term our delinquency level and charge-offs to hover around that 3% level. So that's kind of the portfolio look.

297. Defendant Andrews's statements during the October 11, 2007 conference were materially false and misleading when made. Andrews's statements about the growth expectations for SLM's PEL business were false and misleading because they failed to disclose that the growth of the PEL business in 2006 and 2007 was due in large part to SLM's decision to abandon its underwriting standards for PELs and to write risky, non-traditional loans. *See* Section V.B.3 above. Andrews's statements about the reasons for the improvements in SLM's allowance for PEL losses were false and misleading because the transfer of the call center from Nevada to Indiana did not create any operational difficulties that resulted in lower collections for PELs in late 2006 and the first and second quarters of 2007. In fact, the Indiana call center was setting collections records. *See* Section V.B.5 above.

298. At the conference, Defendants made a presentation concerning SLM's third-quarter 2007 results. A copy of the presentation was filed as an Exhibit to a report on Form 8-K that SLM filed with the SEC that same day. In the presentation, Defendants represented that with respect to the credit quality of SLM's PELs in the third quarter of 2007, the provision for loan losses was down \$90 million from the second quarter of 2007, that charge-offs and delinquency rates were trending lower than expected, and that the charge-offs and greater-than-90-day delinquencies were around 3%.

299. Defendants' statements during the October 11, 2007 conference about the credit quality of the Company's PELs in the third quarter of 2007 were materially false and misleading because SLM was manipulating its forbearance practices to suppress delinquencies and charge-offs, and materially understating its allowance for PEL losses in violation of GAAP and SEC regulations. *See* Sections V.B.4, VI.C and VI.D above.

300. Defendants Andrews and Lord also represented that the Company did not expect the number of loans in forbearance to continue to increase. During the conference, Andrews and Lord were asked, "What do you expect going forward with the forbearance? Do you expect it to keep ticking up like it has been?" Andrews responded, "No, I would not. I think we should see that it remains reasonably stable. There is some seasonality to it at points in time when loans go into repayment, et cetera, so it does have some seasonality, but aside from that it ought to sustain some relative stability to it and we shouldn't see it continually stick up, certainly. And the other thing we took to—" At that point, Lord interrupted Andrews and responded "The answer is no." Andrews further represented that a reason for higher forbearances in 2007 and in the third quarter was due to "we had done some things last year when we encountered – some of the problems we encountered that kind of pushed them down...and I think we are returning to something that maybe is a bit more of a normal level."

301. The representations by Defendants Lord and Andrews during the October 11, 2007 conference concerning SLM's forbearance trends were materially false and misleading because SLM was manipulating its forbearance practices to suppress delinquencies and defaults, and there were no operational difficulties at the Indiana facility that would have caused SLM to experience lower PEL collections at the end of 2006 and in the first two quarters of 2007. *See* Sections V.B.4 and V.B.5 above.

302. During the conference, Defendant Lord also stated that "[w]e would like to consider buying the company's stock. It's been trading very inexpensively in our opinion, compared to where it should be."

303. Defendant Lord's statement at the October 11, 2007 conference about SLM's stock price was materially false and misleading because it failed to disclose that SLM had

changed its business model to engage in risky, non-traditional lending, that SLM was manipulating its forbearance practices to suppress delinquencies and defaults, and that SLM's financial statements for 2006 and the first three quarters of 2007 were materially misstated in violation of GAAP and SEC regulations. *See* Sections V.B and VI above.

J. The Report On Form 10-Q For The Quarter Ended September 30, 2007

304. On November 9, 2007, SLM filed its quarterly report on Form 10-Q with the SEC for the third quarter and first nine months of 2007, ended September 30, 2007.

305. As SLM's CEO, Defendant Andrews signed the SOX Certification falsely stating that the Company's third quarter 2007 10-Q did not contain any material misstatements or omit material information, that the report fairly presented in all material respects the Company's financial condition and result of operations, that its internal controls over financial reporting were sufficient to provide reasonable assurance of the reliability of the Company's financial reporting, and that SLM's financial statements were prepared in accordance with GAAP. *See* Section VI.G above.

306. The third-quarter 2007 10-Q repeated the description of SLM's PEL business and underwriting and risk management practices for that business set forth in the first-quarter 2007 10-Q. This description was materially false and misleading for the same reasons described in ¶ 258 above with respect to the first quarter 2007 10-Q.

307. The third-quarter 2007 10-Q also repeated the representations set forth in the 2006 10-K with respect to SLM's forbearance practices for PELs. These representations were materially false and misleading for the same reasons as described in ¶¶ 237 and 243 above with respect to the 2006 10-K.

308. The third-quarter 2007 10-Q provided certain information about SLM's PELs in forbearance as of the close of the third quarter of 2007, as follows:

At September 30, 2007, loans in forbearance as a percentage of loans in repayment and forbearance are 16.9 percent for loans that have been in repayment one to twenty-four months. The percentage drops to 5.0 percent for loans that have been in repayment more than 48 months. Approximately 77 percent of our Managed Private Education Loans in forbearance have been in repayment less than 24 months.

309. The information set forth above concerning the PELs in forbearance as of the close of the third quarter of 2007 was materially false and misleading because SLM was manipulating its forbearance practices and forbearance rates. See Sections V.B.4 and VI.D above.

310. The third-quarter 2007 10-Q represented that "[t]he Company believes that the allowance for student loan losses is appropriate to cover probable losses inherent in the student loan portfolios." Explaining how the allowance for loan losses was calculated for the third quarter and first nine months of 2007, the third-quarter 2007 10-Q stated as follows:

Net interest income after provisions for loan losses increased by \$28 million versus the third quarter of 2006. The increase was due to the \$103 million increase in net interest income, offset by a \$76 million increase in the provisions for loan losses. The increase in net interest income was primarily due to an increase of \$35 billion in the average balance of on-balance sheet interest earning assets, offset by a decrease in the student loan spread, including the impact of Wholesale Consolidation Loans (see "NET INTEREST INCOME – Student Loan Spread Analysis – *On-Balance Sheet*"). The provisions for Private Education Loan losses and FFELP loan losses increased by \$42 million and \$34 million, respectively, versus the year-ago quarter. The increase in the provision for Private Education Loan losses was primarily due to a further seasoning and mix of the portfolio and an increase in delinquencies and charge-offs related in part to operation challenges encountered from a call center move (see "LENDING SEGMENT – Allowance for Private Education Loan Losses").

* * *

Net interest income after provision for loan losses decreased by \$74 million versus the nine months ended September 30, 2006. The decrease was due

to the year-over-year increase in the provision for loan losses of \$246 million, which offset the year-over-year \$172 million increase in net interest income. The increase in net interest income was primarily due to an increase of \$28 billion in the average balance of on-balance sheet interest earning assets offset by a decrease in the student loan spread, including the impact of Wholesale Consolidation Loans (see "NET INTEREST INCOME – Student Loan Spread Analysis – *On-Balance Sheet*"). The provisions for Private Education Loan losses and FFELP loan losses increased by \$205 million and \$40 million, respectively. The increase in the provision for Private Education Loan losses was primarily due to a further seasoning and mix of the portfolio and an increase in delinquencies and charge-offs related in part to operational challenges encountered from a call center move (see "LENDING SEGMENT – Allowance for Private Education Loan Losses").

311. The representations about the manner in which SLM calculated its allowance for PEL losses and the adequacy of its allowance set forth in the third-quarter 2007 10-Q were materially false and misleading because SLM's allowance for PEL losses was not calculated in accordance with GAAP and SEC regulations and was materially understated at the end of the third quarter of 2007 in violation of GAAP and SEC regulations. See Sections VI.C and VI.H above.

312. As noted in ¶ 310 above, the third-quarter 2007 10-Q attributed the year-over-year increase in SLM's allowance for PEL losses at least in part to the same "operational challenges" described in the 2006 10-K concerning the relocation of one of SLM's call centers. The third-quarter 2007 10-Q repeated the representations set forth in the 2006 10-K with respect to these "operational challenges," but elaborated upon them as follows:

We have been aggressively remediating these issues, including transferring experienced collection personnel to the new call center and conducting extensive training and monitoring. Beginning in mid-2007, APG also instituted more precise analytic collection strategies and new systematic enhancements to better manage the challenges posed by the volume, seasoning and shift in the portfolio mix. Due to the remedial actions in place, we anticipate the negative trends caused by the operational difficulties will improve over the remainder of 2007 and 2008.

313. The statements set forth in ¶ 310 above attributing increases in the allowance for PEL losses to “operational challenges” arising from the relocation of an SLM call center were materially false and misleading for the same reasons as described in ¶ 243 above with respect to the 2006 10-K.

314. The third-quarter 2007 10-Q repeated the representation set forth in the 2006 10-K that SLM’s management had evaluated the Company’s disclosure controls and procedures and determined that the controls and procedures in place were effective to ensure that SLM’s SEC filings were accurate. This representation was materially false and misleading for the same reasons as described in ¶ 247 above with respect to the 2006 10-K.

315. The third-quarter 2007 10-Q included SLM’s financial statements and results of operations for the third quarter and first nine months of 2007. The third-quarter 2007 10-Q represented that the financial statements and results of operations set forth therein were fairly presented in accordance with GAAP and free of material misstatement.

316. SLM’s financial statements for the third quarter and first nine months of 2007 were not fairly presented in accordance with GAAP, were not free of material misstatement, and violated certain SEC regulations. SLM’s financial statements for the third quarter and first nine months of 2007 understated the Company’s allowance for PEL losses, overstated income, misrepresented the Company’s forbearance practices and forbearance and delinquency rates, failed to disclose a material concentration of credit risk arising from the non-traditional loans, and failed to disclose known trends and uncertainties in SLM’s PEL business. *See* Section VI above.

K. The December 12, 2007 Press Release

317. On December 12, 2007, the Company issued a press release entitled "SLM Corporation Provides Update of Transaction and Financial Outlook." SLM reported that it was "lowering its 2008 core earnings EPS guidance from \$3.25 to a range of \$2.60 to \$2.80 due primarily to increased costs from replacing the company's interim funding facility." The Company reported its expectations that its fourth-quarter core earnings per diluted share would be in the range of \$0.52 to \$0.57, excluding non-recurring items such as merger-related costs, and that its lower-than-expected 2007 core earnings were being impacted by funding costs and increased reserves for the FFELP loan portfolio. The December 12, 2007 press release also represented that "[t]he underlying business drivers for the company are strong and executive management is strategically repositioning certain aspects of the business to allow for maximum growth and earnings opportunities."

318. The statements set forth in the December 12, 2007 press release were materially false and misleading. The statement that 2008 earnings would be lower due primarily to increased funding costs was false and misleading because 2008 earnings would be lower primarily as a result of increases in the allowance for PEL losses, higher delinquency and charge-off rates for PEL loans, and the Company's decision to tighten underwriting and forbearance standards and stop making non-traditional loans. *See* Sections IX and X below. The statement that 2007 earnings would be lower due to increased reserves for SLM's FFELP loan portfolio was false and misleading because the vast majority of the increases in SLM's allowance for loan losses was attributable to the PEL portfolio and not to the FFELP loan portfolio. *See* Section IX below. The statement that the underlying business drivers for the Company were strong was false and misleading because the Company was preparing to report a fourth-quarter 2007 loss

and a huge decline in income for 2007 when compared to 2006, a massive increase in the Company's allowance for loan losses, that SLM was exiting a part of the PEL business that had provided the Company with much of its reported growth over the past few years, and that SLM had on its books billions of dollars of risky, non-traditional loans.

IX. THE TRUTH BEGINS TO EMERGE

A. The December 19, 2007 Conference Call And Its Aftermath

319. On December 19, 2007, Defendant Lord, who had recently taken over from Defendant Andrews as CEO of the Company, and Steven McGarry participated in a conference call with securities analysts and investors. During this conference call, Defendant Lord began to reveal some of the truth about SLM's financial condition, PEL business, and its overall business prospects.

320. Defendant Lord represented that while the credit quality of SLM's PELs had shown mild improvement and delinquency data were moving in the right direction, SLM would be increasing, rather than decreasing, its provision for loan losses from PELs and that he was not optimistic about the improvements in the recent quarter. Defendant Lord also acknowledged that there were a lot of questions in the market about the credit quality of SLM's PEL portfolio. However, Lord refused to answer any specific questions about the credit quality of SLM's PEL portfolio, and directed analysts to call investor relations instead.

321. Defendant Lord for the first time also hinted that PEL defaults were an issue at SLM, that the Company would be stopping the origination of certain of these loans going forward, and that these matters would be a high priority going forward. Lord stated as follows:

We have analyzed our defaults and we have a highly sophisticated and professional group of collectors in our collection function and they've analyzed these defaults and we are on them. We have moved quickly to cut off those

loans- the most difficult loans- at their source. And I believe we have a very good understanding of that. This is a very high priority of mine in my new seat.

322. During the December 19, 2007 conference call, Defendant Lord also attempted to explain the fact that he had sold 1.2 million shares of SLM stock the previous week. Lord stated as follows:

I'm going to mention a few words about my stock sale. My bank sold me out on Friday of 1.2 million shares. I will mention that it's embarrassing and troublesome to me personally. It is not a sign of my disillusionment with the Company. In fact, the exact reverse is the case. It is a short-term cost in my view of my own belief in my company. I suppose you might say, one more victim of an unfinished deal.

323. Finally, Defendant Lord indicated during the call that SLM would be getting rid of its equity-forward contracts because "[t]hose equity-forward contracts were struck in a way that were [sic] extraordinarily accretive to the buyers who didn't buy, but they are dilutive to our current owners when the stock price goes down."

324. In the first statement by SLM about its financial condition since the announcement of its third-quarter 2007 earnings, Defendant Lord's failure to provide a persuasive response to concerns raised about the credit quality of the PEL portfolio, coupled with the revelations that the allowance for PEL losses was being increased, that SLM was cutting off some of its loan programs, that SLM needed to disarm its equity-forward contracts, and that Lord had sold almost all of his stock available to sell at the time, fueled investor concerns over SLM's financial condition and business prospects and caused the stock price to dive. Following these revelations, SLM's stock price slid from an opening price of \$28.85 per share on December 19, 2007 to close at \$22.89 per share, representing a one-day decline of 21% on elevated trading volumes of approximately 51.659 million, up from approximately 9.8 million the previous day. While 12.37 million SLM shares traded on December 18, 2007, 58.5 million and 58.46 million

SLM shares traded on December 19, 2007 and December 20, 2007, respectively. Sallie Mae's stock continued to trade down thereafter.

325. A December 20, 2007 article in the *Wall Street Journal* entitled "Sallie Mae: Expletive Included, Lender's CEO, On Call, Is Agitated, Profane, As Shares Slide by 21%," observed that Lord's refusal to answer questions "rattled investors."

B. The January 3, 2008 Form 8-K And Press Release

326. On January 3, 2008, SLM filed a Form 8-K and press release with the SEC which stated, in part:

Our management team is evaluating certain aspects of our business as a response to the impact on our business of The College Cost Reduction and Access Act of 2007 (the "Act"), and current challenges in the capital markets...As a result, we expect that the Act will significantly reduce and, combined with higher financing costs, could possibly eliminate the profitability of new FFELP loan originations, while increasing our risk sharing from our FFELP loan portfolio.

In response to the Act and market conditions, we plan to be more selective in pursuing origination activity, in both FFELP loans and private education loans...We expect to continue to focus on generally higher-margin Private Education Loans, both through our school channel and our direct to consumer channel, although in the case of the latter, with particular attention to continuing the more stringent underwriting standards that are necessary in this market. We also expect to adjust our private education loan pricing to reflect the current financing and market conditions.

327. The January 3, 2008 press release provided additional materially adverse information to the marketplace concerning both SLM's FFELP and PEL portfolios and future prospects of those businesses. In particular, it informed the marketplace that SLM was relying, even more than had previously been disclosed, on the PEL portfolio as the "economic engine" of the Company, but that PEL originations would be more selective and subject to stricter underwriting standards, which would inhibit growth. As the doubt and uncertainties fostered by Defendant Lord during the December 19, 2007 conference call with regard to the extent of credit

problems in the PEL portfolio had not been clarified, however, the negative market reaction which followed the January 3 press release reflected, at least in part, deepening concern and uncertainty about these problems.

328. On this news, SLM's stock dropped from its \$19.16 per share closing price on January 3, 2008 to close at \$16.67 per share on January 4, 2008, representing a one-day decline of 13% on trading volumes of nearly 46 million shares compared to only 12.9 million the previous day.

329. On January 22, 2008, Corinthian Colleges, Inc., a for-profit post-secondary education company, filed a report on Form 8-K with the SEC which disclosed that on January 18, 2008, it had been informed by SLM that, effective March 1, 2008, SLM would no longer offer private loans to Corinthian students who presented higher credit risks.

330. Thereafter, other institutions in the for-profit sector, including Career Education Corp., Lincoln Educational Services, Universal Technical Institute, DeVry, ITT Education Services, and University of Phoenix also disclosed that SLM would no longer offer private loans available to students who presented higher credit risks.

C. The January 23, 2008 Press Release, Conference, And Conference Call

331. On January 23, 2008, SLM issued a press release announcing the Company's financial results for the fourth fiscal quarter of 2007 and for the entire 2007 fiscal year. According to the press release, while student loan originations grew in the fourth quarter of 2007 and during the full-year 2007, for the full-year 2007, "core earnings" net income was only \$560 million, compared to \$1.3 billion in 2006. The Company reported a fourth-quarter 2007 "core earnings" net loss of \$139 million, or \$0.36 diluted loss per share, compared to net income of \$326 million, or \$0.74 diluted earnings per share, for the fourth quarter of 2006. Driving the

fourth-quarter 2007 loss were massive provisions for loan losses of \$750 million on a "core earnings" basis (or \$575 million on a GAAP basis), compared to \$88 million for the fourth quarter of 2006. The increase in the loan loss provision related primarily to the actual and expected performance of what SLM disclosed for the first time as the non-traditional, higher-risk portion of the Company's managed student loan portfolio.

332. Defendant Lord, John Remondi, Tony Terracciano (SLM's new Chairman of the Board) and Steve McGarry conducted a conference and conference call with securities analysts and investors to discuss SLM's fourth-quarter and year-end 2007 financial results and its future business prospects.

333. During the conference and conference call, Defendant Lord admitted that for the past several years, SLM had been originating high risk loans in violation of its lending policy, that graduation was critical to creditworthiness and the failure of a borrower to graduate was tied directly to default, that SLM had lent too much money to students at schools with poor graduation rates and that these loans were *predictably* not collectible. Lord stated in relevant part as follows:

We have very closely identified these assets, and they're assets that basically were created in a way that's a little different than what we believe is our lending philosophy. And certainly is now our lending philosophy. And that is that, education builds creditworthiness. I mean, that is clearly our philosophy. We've seen it for 35 years in the guaranteed side of the business. We've seen it very much even in the private side. But we have over the past several years, violated that policy.

Creditworthiness for young people tends to be very independent of standard measures, including things like FICO, although we obviously look at FICO. And that if there's one single variable that's critical, its graduation.

* * *

Graduation is critical. Sallie Mae has lent too much money to students who have gone to schools without very good graduation records. Such students

at such schools are virtually singly responsible for 60% of the '07 credit losses. Our methodology in creating loan loss provisions tended to look backwards because that's the information that we had. But we have specifically identified the borrowers who are not likely to graduate and provided for them this quarter. It's frankly a different reserving methodology, but we know those assets are going to default and so we've reserved for them.

* * *

The company has stopped making loans that were predictably not collectible. You may have seen the announcements, I think three of our major customers and unfortunately what was bad news for us in this quarter has turned out to be very bad news for them as well. You may have seen the announcements that we've notified them that we're just not making those loans anymore.

334. During the conference and conference call, Remondi expanded on and provided more detail concerning SLM's undisclosed non-traditional lending practices, stating in relevant part as follows:

The bulk of the reserve though was driven by the private credit portfolio with a \$961 million increase in the private loan provision. This increase was driven by worse than expected default trends in a very limited segment of our overall portfolio. It's the portfolio that we'll refer to as our non-traditional loans. These are loans that are made to lower tier credit borrowers and are attending for the most part schools that have a different profile than other institutions, mostly due to types of degrees that they offer, more associate versus bachelor's as well as the type of students that attend those institutions.

I want to be clear here that it's not easy to say as I think some people have said, for profit, non-profit. Those are not distinctions that adequately describe the areas of concern here. This is really a segment of the schools that for one reason or another are bringing in students but not producing graduates. Or if they are producing graduates, their graduates haven't gained a sufficient economic benefit to generate the earnings to pay off and meet the debt obligations associated with their loan. And that's the business that we will be exiting.

* * *

And in 2007, we experienced a significant decline in the credit quality associated with that segment of the portfolio. These loans today equal about 15% of our managed private credit portfolio, but they generate 60% or contributed 60% of our total charge offs in 2007. Obviously, a business model that does not make sense.

* * *

From our long history, we know that graduation is the key to credit quality in the student loan space. People who graduate, who get a degree improve their economic and employment prospects materially and thereby generate the means to repay their loans. Our default experience in 2007 supports this.

* * *

You can see how much higher not only are delinquency rates associated with these loans, which run more than six times higher than the delinquency rates of our traditional loan portfolios. And these are delinquencies over 90 days. But that they also experience even higher defaults or charge off rates. These loans defaulted at almost eight times the rate we see in the traditional portfolio.

335. While Remondi attempted during the conference and conference call to suggest that the information about default rates for non-graduates was new information, citing a recent study by the Department of Education, this was incorrect for the reasons discussed in Section VI.C above.

336. After SLM's January 23 disclosures, SLM's stock value fell to \$18.69 per share.

X. EVENTS, DISCLOSURES, AND ADMISSIONS AFTER THE CLASS PERIOD

337. On February 29, 2008, SLM filed its Annual Report on Form 10-K for 2007 with the SEC ("2007 10-K"). For the first time in any of SLM's SEC filings, SLM separately disclosed and quantified its non-traditional PEL business. The 2007 10-K stated, in part:

In the context of our Private Education Loan business, we use the term – "non-traditional loans" to describe education loans made to certain borrowers that have or are expected to have a high default rate as a result of a number of factors, including having a lower tier credit rating, low program completion and graduation rates, or where the borrowers are expected to graduate, a low expected income relative to the borrower's cost of attendance.

338. According to the 2007 10-K, in January 2008, SLM notified certain of its school customers that it was canceling the non-traditional loan programs at those schools because charge-offs of private education loans from those schools were largely driven by low program

completion and graduation rates. The 2007 10-K also disclosed that in 2006, SLM had \$3.4 billion of non-traditional private education loans in its portfolio, and that number increased to \$4.6 billion in 2007.

339. On April 17, 2008, Defendant Lord, Steve McGarry and John Remondi participated in a conference call with securities analysts and investors to discuss SLM's first quarter 2008 results. During the conference call, Remondi acknowledged that SLM's use of forbearance had increased during the Class Period and that SLM had recently changed its practices to lower the use of forbearance by requiring an individualized approach to forbearance requests.

340. In a June 5, 2008 Wall Street Journal article titled *SLM's Headmaster on Lessons Learned*, Defendant Lord admitted that SLM had relaxed its underwriting standards during the Class Period and that the Company's decision to lend to students at non-traditional proprietary schools with low graduation rates was a mistake, stating as follows:

It was obviously a mistake and I'm not going to step away from responsibility because I was either chairman or CEO when those loans were made. We got a little too confident in our own view that credit scores are of limited meaning for undergraduates. Maybe as early as 2004, we started lending with less selectivity. The culture of the company has been a FFELP culture for 35 years. That meant you made every loan to every student. I guess with 35 years of experience of saying yes, we were just not very good at saying no.

341. On July 24, 2008, Defendant Lord, Steve McGarry and John Remondi participated in a conference call with securities analysts and investors to discuss SLM's second-quarter 2008 results. During the conference call, Remondi acknowledged that student loans produced "consistent and predictable seasoning patterns" and that charge-offs typically occurred early in the repayment cycle and were primarily due to the failure to graduate.

342. On September 10, 2008, Defendant Lord spoke at the Lehman Brothers Global Financial Services Conference and admitted that the Company did not have adequate underwriting practices for non-traditional loans. Lord conceded:

We shouldn't have non-traditional borrowers, but we do. In fact about 15% of our portfolio are what we call non-traditional borrowers.... It's basically kids and parents with poor credit risks who are at the wrong schools. The fact is we put 15% on-15% of this-of our book on over the '04 to '07 period basically because we got a little sloppy and began to I think engage in some wishful thinking in our underwriting practices. We've very much stopped doing that.

343. On October 23, 2008, Defendant Lord, Steve McGarry, and John Remondi participated in a conference call with securities analysts and investors to discuss SLM's third-quarter 2008 results. During the conference call, Remondi again acknowledged that SLM had failed to adequately screen borrowers who were granted forbearance. Remondi stated, in relevant part:

On the forbearance side, for example, we are applying far more analysis to requests that we receive to make sure that borrowers are both, one, committed to serving their debt, and two, have the actual ability to benefit from a forbearance, and so we are working in those areas. And this whole effort is really being led by a new team of individuals who are doing far more segmentation of the areas and analytical approach to that space.

344. Remondi also acknowledged during the call that the effect of SLM's prior practice of granting forbearances without proper criteria was to suppress SLM's loan delinquency rate only in the short term:

There is no question that it increased delinquencies overall, and it contributed to the overall delinquencies, so across all delinquency buckets, but that's what is supposed to happen, right? What we are doing is we're taking-there's two categories of borrowers who don't get the forbearance, borrowers who don't need it so in effect avoiding or eliminating the convenience forbearance user and then borrowers who won't benefit from it. If we don't think they're going to benefit from it, they're going to become delinquent borrowers, and all that was happening-all that would happen if we left them in a forbearance status is we'd be delaying a delinquent account.

345. On January 22, 2009, Defendant Lord, Steve McGarry and John Remondi participated in a conference call with securities analysts and investors to discuss SLM's fourth-quarter and year-end 2008 results. During the conference call, Remondi acknowledged that during the Class Period, SLM essentially was not booking reserves for the non-traditional PELs because those loans had not yet started to show "issues" and that it was not until the fourth quarter of 2007 that SLM looked at the in-school portfolio to reserve for expected losses in this loan group:

What happened in the fourth quarter of 2007 is, for the nontraditional portfolio, we looked further into the in-school portfolio for expected losses than we typically do. Normally, under GAAP accounting, you kind of have to wait until the student shows some related issues before you start booking reserves. But given the significant issues we were facing there, we got to take a look at almost like a four-year expected loss cycle for that portfolio.

346. Remondi also acknowledged during the call that the effect of SLM's prior practice of granting forbearances without proper criteria was to suppress SLM's loan delinquency rate only in the short term:

On the nontraditional side of the equation, and particularly on the forbearance changes, what we are looking at here is there are segments of the population who don't benefit from a forbearance.

* * *

So by ending that practice and pushing those borrowers into repayment sooner. What you're doing is accelerating charge-offs that would have occurred in future years.

* * *

I'm going to say it again, but it is not a forecast that our cumulative default rates are going higher. It's just a shifting of the time of when they're recognized.

347. On April 23, 2009, Defendant Lord, Steve McGarry, and John Remondi participated in a conference call with securities analysts and investors to discuss SLM's first-

quarter 2009 results. During the conference call, Remondi indicated that 14.5% of SLM's non-traditional PELs had been charged off, that 19.1% of these loans were more than 90 days delinquent, and that SLM was reserving for 32.2% of all such loans in repayment.

348. On July 22, 2009, Defendant Lord, Steve McGarry, and John Remondi participated in a conference call with securities analysts and investors to discuss SLM's second-quarter 2009 results. During the conference call, Remondi indicated that 24.0% of SLM's non-traditional PELs had been charged off and that while only 13% of SLM's PELs in repayment were non-traditional loans, these loans represented approximately 50% of all charge-offs. During the call, Defendant Lord acknowledged that over the past several quarters, SLM's non-traditional loans represented only a sixth of SLM's loan portfolio, but accounted for half of all credit losses.

349. In a SLM presentation entitled "2009 2nd Quarter Review" dated July 22, 2009, SLM disclosed that the average FICO score at origination for its non-traditional loans was only 618 without a co-signer and 633 with a co-signer.

XI. PRESUMPTION OF RELIANCE

350. Plaintiffs are entitled to a presumption of reliance under *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against Defendants are predicated in part upon omissions of material fact which they were under a duty to disclose.

351. In the alternative, Plaintiffs are entitled to a presumption of reliance on Defendants' material misrepresentations and omissions pursuant to the fraud-on-the-market doctrine because:

- (a) SLM's common stock was actively traded in an efficient market on the New York

Stock Exchange during the Class Period;

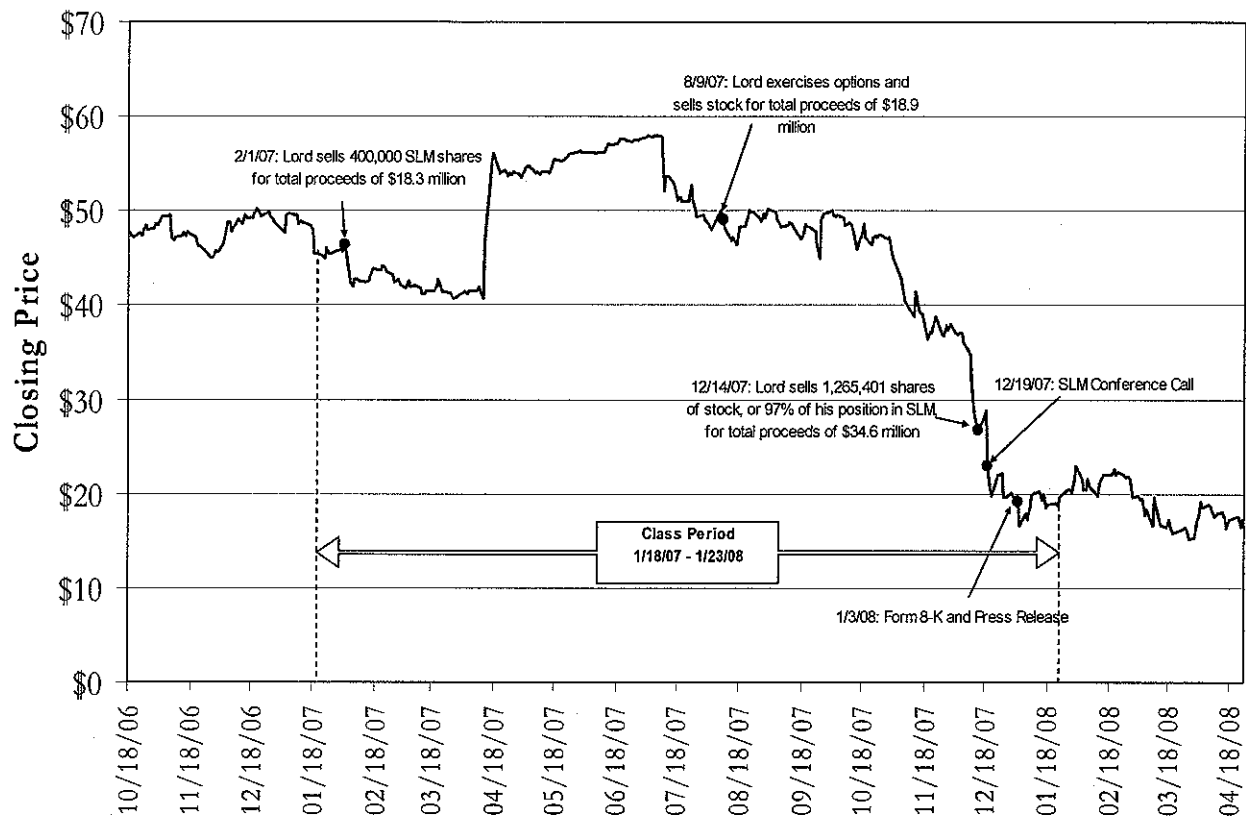
- (b) SLM's common stock traded at high weekly volumes during the Class Period;
- (c) As a regulated issuer, SLM filed periodic public reports with the SEC;
- (d) SLM regularly communicated with public investors via means of established market communication mechanisms, including through regular dissemination of press releases on the major newswire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts, and other similar reporting services;
- (e) The market reacted promptly to public information disseminated by SLM;
- (f) SLM securities were covered by numerous securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of their respective firms. Each of these reports was publicly available and entered the public market;
- (g) The material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of SLM's common stock;
- (h) Without knowledge of the misrepresented or omitted material facts alleged herein, Plaintiffs and other members of the Class purchased SLM common stock between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed.

352. In addition to the foregoing, Plaintiffs are entitled to a presumption of reliance because, as more fully alleged above, Defendants failed to disclose material information regarding SLM's business, financial results, and business prospects throughout the Class Period.

XII. LOSS CAUSATION

353. Throughout the Class Period, the price of SLM common stock was artificially

inflated as a direct result of Defendants' materially false and misleading statements and omissions. When the truth became known, the price of SLM common stock declined precipitously as the artificial inflation was removed from the price of the stock, causing substantial damage to Plaintiffs and members of the Class. The chart below shows the fluctuation of the price of SLM common stock during the Class Period:



354. During the Class Period, SLM common stock traded as high as \$57.98 per share, and it traded at \$28.85 per share just prior to the December 19, 2007 conference call. Over the next month, as the truth continued to emerge, SLM's common stock price dropped to less than \$19 per share, which represents a loss of more than \$18.6 billion in market capitalization, or more than 70.7% of SLM's value.

355. Specific dates of adverse disclosure, and corresponding declines in the price of SLM common stock, are set forth in Section IX above.

356. Moreover, the adverse consequences of SLM's partial disclosures, beginning on December 19, 2007 through the end of the Class Period, and the adverse impact of those circumstances on the Company's business going forward, were entirely foreseeable to Defendants at all relevant times. Defendants' conduct, as alleged herein, proximately caused foreseeable losses and damages to Plaintiffs and members of the Class.

357. As set forth above, the Company's failure to maintain effective controls, its substantially loosened loan origination and underwriting standards, and its failure to report its year-end 2006 and interim 2007 quarterly financial statements in accordance with GAAP not only were material but also triggered foreseeable and grave consequences for the Company. The price of SLM common stock during the Class Period was based upon its public position and financial condition. SLM's financial condition that was presented in violation of GAAP conveyed the impression that the Company was more profitable, better capitalized, and would have better access to liquidity than was actually the case. Thus, the precipitous declines in the value of SLM common stock purchased by Plaintiffs and members of the Class were a direct, foreseeable, and proximate result of the corrective disclosures of the truth with respect to Defendants' materially false and misleading statements.

XIII. INAPPLICABILITY OF STATUTORY SAFE HARBOR

358. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the materially false and misleading statements alleged in this Complaint. The statements alleged to be false and misleading all relate to historical facts or existing conditions and were not identified as forward-looking statements. To the extent any of

the false statements alleged herein may be characterized as forward-looking, they were not adequately identified as “forward-looking” statements when made, and were not accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly “forward-looking” statements. Alternatively, to the extent that the statutory safe harbor would otherwise apply to any statement pleaded herein, Defendants are liable for those false forward-looking statements because, at the time each of those forward-looking statements was made, the speaker knew the statement was false or the statement was authorized or approved by an executive officer of SLM who knew that those statements were false.

COUNT I

For Violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5 Against All Defendants

359. Plaintiffs repeat and reallege each and every allegation set forth above as if fully set forth herein and further alleges as follows:

360. This Count is asserted pursuant to Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC, on behalf of Plaintiffs and members of the Class against SLM and the Individual Defendants.

361. As alleged herein, throughout the Class Period, Defendants, individually and in concert, directly and indirectly, by the use of the means or instrumentalities of interstate commerce, the mails and/or the facilities of national securities exchanges, made untrue statements of material fact and/or omitted to state material facts necessary to make their statements not misleading and carried out a plan, scheme and course of conduct, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. Defendants intended to and did, as alleged herein, (i) deceive the investing public, including Plaintiffs and

members of the Class; (ii) artificially inflate and maintain the price of SLM common stock; and (iii) cause Plaintiffs and members of the Class to purchase SLM common stock at artificially inflated prices.

362. The Individual Defendants were individually and collectively responsible for making the false and misleading statements and omissions alleged herein and have engaged in a plan, scheme, and course of conduct designed to deceive Plaintiffs and members of the Class, by virtue of having prepared, approved, signed, and/or disseminated documents which contained untrue statements of material fact and/or omitted facts necessary to make the statements therein not misleading.

363. As set forth above, Defendants made their false and misleading statements and omissions and engaged in the fraudulent activity described herein knowingly and intentionally, or in such a deliberately reckless manner as to constitute willful deceit and fraud upon Plaintiffs and the other members of the Class who purchased SLM common stock during the Class Period.

364. In ignorance of the false and misleading nature of these statements and omissions by Defendants, and relying directly or indirectly on those statements or upon the integrity of the market prices for SLM common stock, Plaintiffs and other members of the Class purchased SLM common stock at artificially inflated prices during the Class Period. As set forth herein, when the true facts were subsequently disclosed, the price of SLM common stock declined precipitously and Plaintiffs and other members of the Class were harmed and damaged as a direct and proximate result of their purchase of SLM common stock at artificially inflated prices and the subsequent decline in the price of SLM common stock when the truth began to be disclosed.

365. By virtue of the foregoing, SLM and the Individual Defendants are liable to

Plaintiffs and members of the Class for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

COUNT II

For Violations of Section 20(a) of the Exchange Act Against the Individual Defendants

366. Plaintiffs repeat and reallege each and every allegation set forth above as if fully set forth herein and further alleges as follows:

367. This Count is asserted pursuant to Section 20(a) of the Exchange Act against the Individual Defendants on behalf of Plaintiffs and members of the Class.

368. As alleged above, SLM violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by making false and misleading statements in connection with the purchase and sale of securities and by participating in a fraudulent scheme and course of business or conduct throughout the Class Period. This fraudulent conduct was undertaken with scienter, and the Company is charged with the knowledge and scienter of the Individual Defendants and others who knew of or acted with reckless disregard of the falsity of the Company's statements and the fraudulent nature of its scheme during the Class Period.

369. The Individual Defendants were controlling persons of SLM during the Class Period due to their senior executive positions with the Company; their direct involvement in the Company's day-to-day operations, including its lending practices and financial reporting and accounting functions; and their signatures on and participation in the preparation and dissemination of the Company's public filings and statements.

370. By virtue of the foregoing, the Individual Defendants each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of SLM, including the content of its financial statements and other public statements.

371. As set forth above, the Individual Defendants acted knowingly and intentionally, or in such a deliberately reckless manner as to constitute willful fraud and deceit upon Plaintiffs and other members of the Class who purchased SLM common stock during the Class Period.

372. In ignorance of the false and misleading nature of the Individual Defendants' statements and omissions, and relying directly or indirectly on those statements or upon the integrity of the market prices for SLM common stock, Plaintiffs and other members of the Class purchased SLM common stock at artificially inflated prices during the Class Period. As set forth herein, when the true facts were subsequently disclosed, the price of SLM common stock declined precipitously and Plaintiffs and other members of the Class were harmed and damaged as a direct and proximate result of their purchase of SLM common stock at artificially inflated prices and the subsequent decline in the price of SLM common stock when the truth began to be disclosed.

373. By reason of the foregoing, the Individual Defendants are liable to Plaintiffs and members of the Class for violations of Section 20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for judgment as follows:

- A. Determining that this action is a proper class action maintained under Rules 23(a) and (b)(3) of the Federal Rules of Civil Procedure and certifying Plaintiffs as class representatives;
- B. Awarding Plaintiffs and the Class compensatory damages against all Defendants, jointly and severally, in an amount to be proven at trial together with prejudgment interest thereon;
- C. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in

this action, including but not limited to attorneys' fees and fees and costs incurred for consulting and testifying expert witnesses; and

D. Granting such other and further relief as the Court deems just and proper.

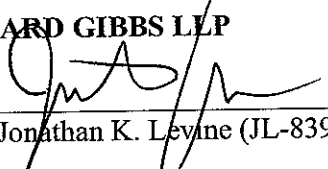
JURY DEMAND

Plaintiffs demand a trial by jury of all issues so triable.

DATED: September 3, 2009

Respectfully submitted,

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