SallieMae
Let's Make College Happen

Sallie Mae Co.

Long NASDAQ: SLM

PT $10.95 (+32.2%)

Steve Woo Mark Sun
Caleb Nuttle Aashka Sanghvi

Company Overview

Company Overview

Lending company specializing in student loans

Sallie Mae Overview

- Provides **consumer banking services primarily in the form of primary educational loans,** making up **94% of its current loan book**
- SLM is a market leader within the private education sector, holding over **54% of the market share**
- SLM has established business relations with over **2,400 universities and 374,000 families** throughout the U.S. managing more than $26.5 billion in assets

Navient Spinoff

- **Navient is a student loan servicer that serves around 6.5 million borrowers**
- The company **spun-off of Sallie Mae in 2014** acting as a serviced for federal and private student loans while Sallie Mae offers private student loans
- **The company spun-off as Sallie Mae was no longer allowed to offer both private and federal loans**

Company Timeline

- SLM began in 1972 as a federally chartered government-sponsored enterprise known as the Student Loan Marketing Association
- It began to privatize its operations in 1997, **a process that resulted in complete privatization in 2004** when Congress terminated its federal charter
- In 2006, Sallie Mae acquired Upromise
- The Health Care and Education Reconciliation Act of 2010 forced Sallie Mae to shift its business to private education loans not insured by the federal government
- It began trading publicly in 2011 and spun off Navient Corporation in 2014

The company began in 1972 as a government sponsored enterprise → **Began privatizing operations in 1997** → **Federal charter terminated in 2004, completely privatized** → **Began trading publicly on NASDAQ in 2011** → **Spun off Navient, a federal loan collection processing company in May 2014**

Company Overview (Cont.)

A look at the competition

Federal Government

- Federal government accounts for 92% of loans given out to students US government holds loans valued at more than $1.5 trillion
- From 2011-2016 the government saw an over 600% increase in owned student debt

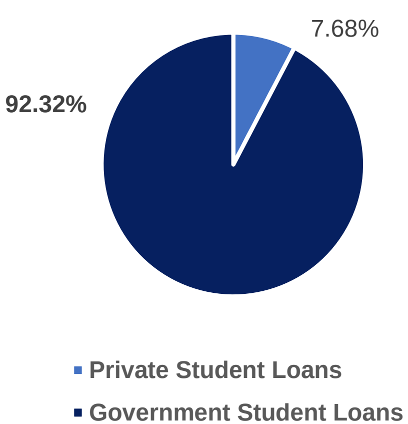
Institutional Lenders

- Largest players besides Sallie Mae are divisions within the US's largest consumer lenders
- The divisions account for a cumulative lending of 21.79 billion while Sallie Mae holds loans valued at over $20.99 Billion

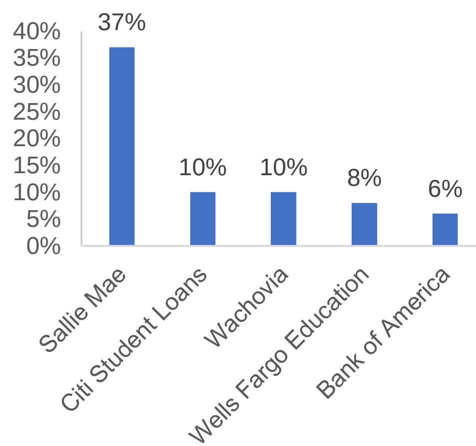
Refinancing Companies: SoFi

- Social Finance (SoFi) is a leading provider of student loan refinancing offering peer to peer lending
- Enables students to receive a lower interest rates based on their career experience, monthly income, financial history and education

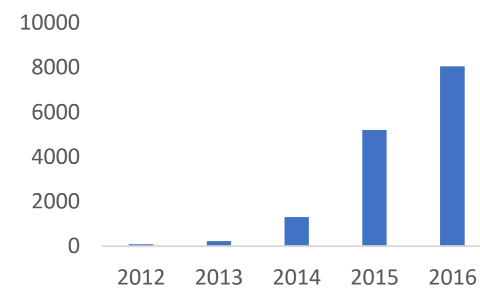
2019 US Student Loans



Institutional Market Share



SoFi Loan Growth



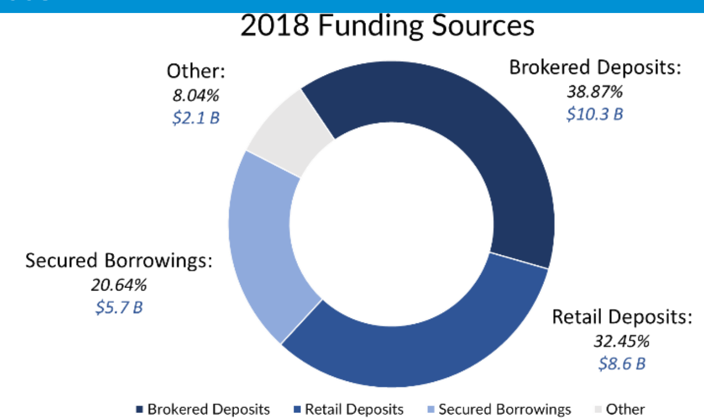
Less of a threat **More of a threat**

Company Overview (Cont.)

Funding Breakdown

Funding Sources

- Sallie Mae operates as a simple lending company, using its borrowed capital to lend back out to students. The company obtains its funding from two main sources, deposits and loan securities.
- The company is able to generate revenues by collecting financing at a lower cost than it is lending out, collecting the spread



Deposits Funding

- **Brokered Deposits:** Larger versions of traditional retail deposits. These are deposits made to an *insured* banking institution by a 3rd party broker. Typically these are divided portions of a large denomination deposits made by high-net-worth individuals
- **Retail Deposits:** The Traditional mass market banking from the owned and operated *Sallie Mae Bank*, a traditional banking company based in Utah which targets average consumers

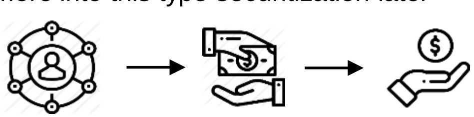
$1.9 Billion
Revenues

$5.3 Billion
2018 Originated Loans

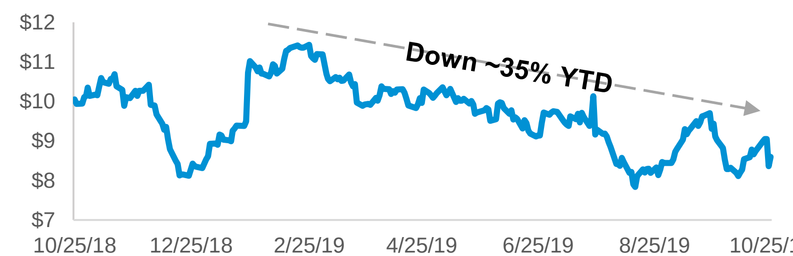
$20.3 Billion
Loan Portfolio

Loan Securitization

- A common way lending institutions raise capital is through loan securitization, which is when a bank – such as Sallie Mae – sells off a portion of its loans to the public market to raise further capital
- Will go more into this type securitization later



LTM Performance



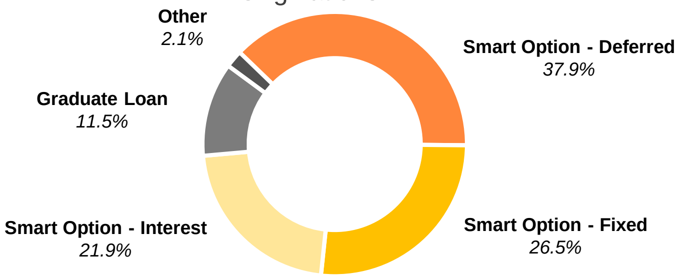
Company Overview (Cont.)

Revenue Breakdown

Student Loan Types

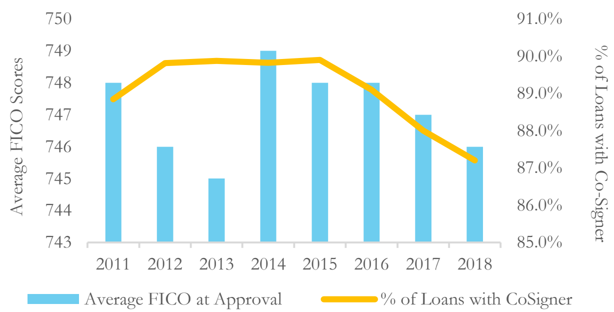
- In 2018, the company generated over $1.9 Billion in interest income, primarily from its student loan portfolio and its corresponding interest payments
- Around ~86% of the company's $20.3 Billion portfolio came from three loan products…

1. **Deferred**: Students aren't required to make payments while in school and during a 6-month grace period
2. **Fixed Payment**: Loan requires monthly fixed payments while the student is in school
3. **Interest Only**: Student only pays monthly on the interest on their debt



Portfolio Quality

- In 2018, the company's overall **Student Loan** portfolio had an average FICO score 746, with 98% cosigner rate
- The overall portfolio in 2018 had an overall FICO score of ~700, with 87.2% cosigner rate



Current Expected Credit Loss (CECL

- The regulation "**Current Expected Credit Losses**" is a new credit loss accounting standard that was issued by FASB on June 16, 2016
- CECL requires the estimation of losses on the lifespan of loans
- The regulation will officially take affect starting **December 15, 2019**
- Credit Suisse Equity Research analysts anticipates a **10% impact on 2020 GAAP earnings per share**.

- 10%
CS Expected Impact on EPS

+400%
Increase to Bad Debt Expense Reserves

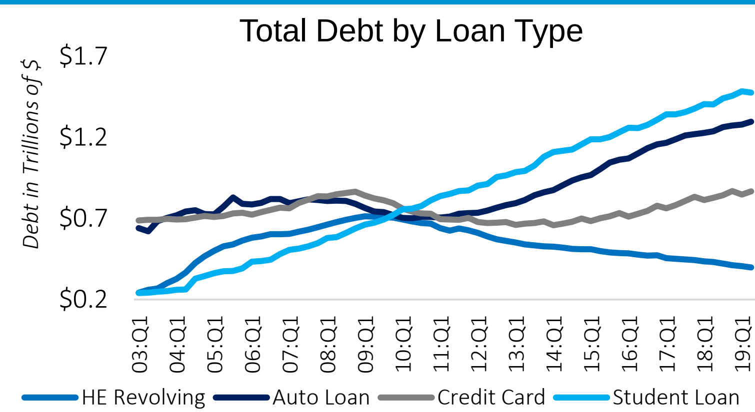
Industry Overview

Industry Overview

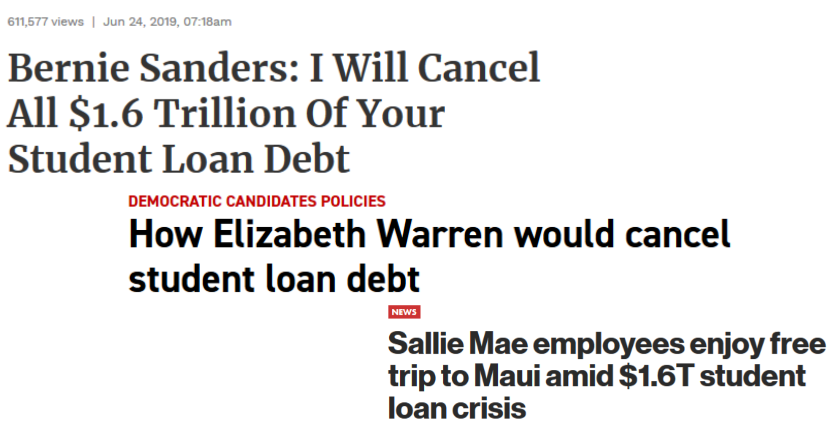
Student Loans at a Glance

Student Loan Types

- Student loans in the US are the 2nd largest source of debt, only being beaten by mortgages
- In Q2 '19, the student loans industry totaled over $1.61 Trillion, while mortgages came in at $10.1 Trillion
- The industry is also the US' fastest growing source of debt for US households, growing over 150x faster than mortgages since 2007
- The average student pays **$96,000 for four years of college**, which more than 53% of families needed loans to pay children's undergraduate education
- 70%+ of undergraduate students finance their education with one or more student loans



Political Fears


611,577 views | Jun 24, 2019, 07:18am

Bernie Sanders: I Will Cancel All $1.6 Trillion Of Your Student Loan Debt

DEMOCRATIC CANDIDATES POLICIES

How Elizabeth Warren would cancel student loan debt

NEWS

Sallie Mae employees enjoy free trip to Maui amid $1.6T student loan crisis

- Those who have been following the 2020 Presidential Election Campaign have likely heard about student loan debt forgiveness platforms
- Currently Bernie Sanders and Elizabeth Warren, high-polling democratic candidates, have put forward ambitious student debt forgiveness plans
- The possibility of this type of forgiveness is uncertain, and the reach the candidates into private debts is limited
- Bernie is the only leading democratic presidential candidate to attack private student lenders, while Warren promises to eliminate federal student loan debt

Industry Overview

Government vs Private Student Loans

Government Student Loans

- The US government is the largest lender for student loans, holding a student loan portfolio at more than $1.49 Trillion
- Nearly 92.3% of US Student Loans are issues by the federal government and some smaller state government programs
- The loans are given out on need-basis rather than on credit
- The government loses ~$250 Billion per year on these loans
- YOU CAN NOT DEFAULT ON FEDERAL LOANS

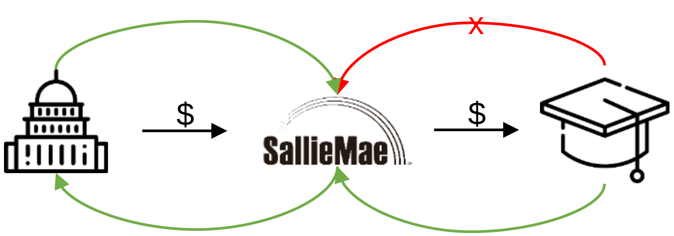
Private Student Loans

- Many large private student loan companies, such as Sallie Mae and NelNet, started out as quasi-governmental agencies or under the department of education
- These quasi-governmental companies were very successful under the **Federal Family Education Loan Program**
- The loans are now given out on a credit-worthy-basis
- Most of these loans require high FICO's and co-signers
- Students CAN default on these loans

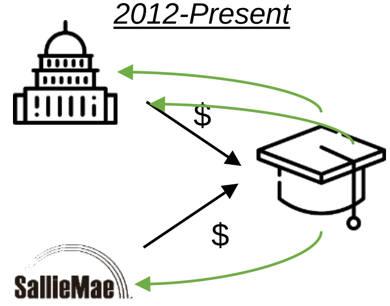
History of Student Loan 'Crisis'

- The US government holds a very large portion of total US Student Loan debts, totaling $1.49 Trillion. These loans make up over 37.8% of ALL US Government assets. This hasn't always been the case, and the increase was directly attributable to the Affordable Care Act in 2012
- Prior to the ACA, the federal government would give financing to private banks, such as Sallie Mae, to lend out to students. In the event that the student had to default on these loans, the government would "back up" the loan, and pay the balance to the bank. This was carried out under the Federal Family Education Loan Program (FFEL), which allowed the government to hold 0 debts on its book up to 2012.
- The ACA created the Federal Direct Loan Program (FDLP) to replace FFEL. The passing of this program caused the number of privately originated student loans to fall by over 90% between 2011-2016.
- From 2011-2016 the government has seen an over 600% increase in its owned student debt

Pre-2012



2012-Present

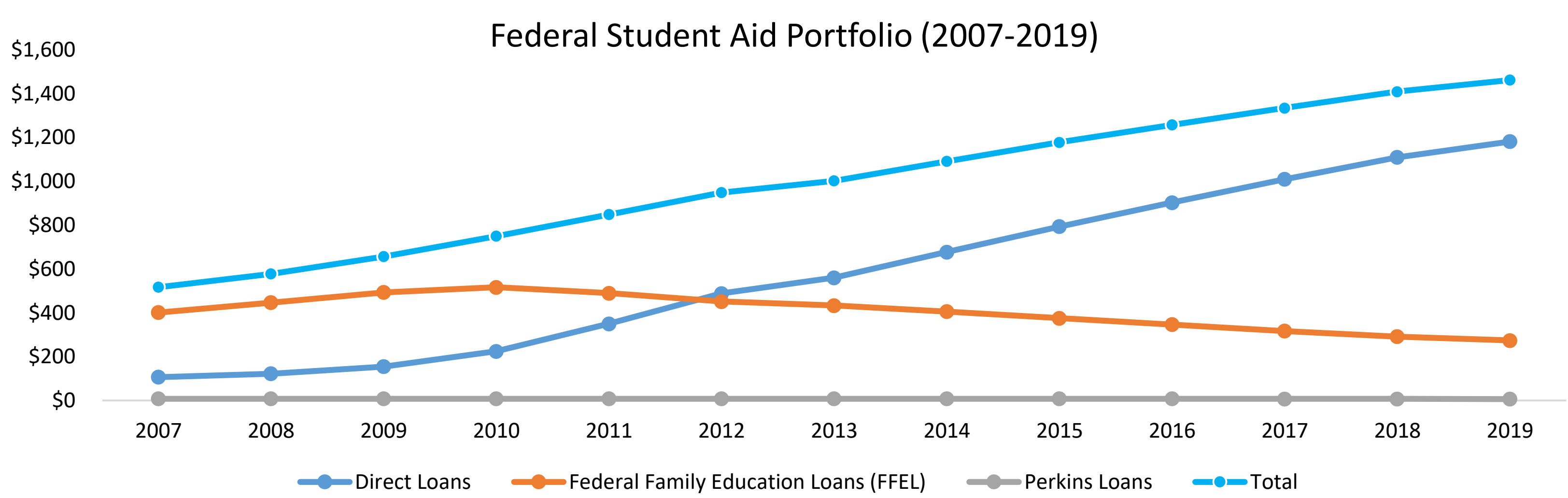


Industry Overview

Types of Student Loans

Student Loan Types

- The department of education is one of the biggest banks in the country, and as such this federal department lends their subsidized student loans through several ways.
- **Federal Direct Loan Program (FDLP):** This program was created after the passage of the Health Care and Education Reconciliation Act of 2010. The FDLP is the sole government-backed loan program in the US. Prior to this, the government provided guaranteed loans to private lenders, which was eliminated in 2010 due to a perception they benefited private student loan companies at the expense of taxpayers. Under this program are all future Stafford and PLUS loans.
- **Federal Family Education Loan Program (FFEL):** This program was discontinued following 2010. Under this program, the federal government provided loans through private lenders with federally guaranteed funds. This program
- **Perkins Loans:** Federal Perkins loans are low-interest loans made through a school's financial aid office using federal funds. These loans are given to undergraduate and graduate students with that demonstrate exceptional financial need. This program ended on June 30, 2018, and as a result no new students can receive Perkins Loans

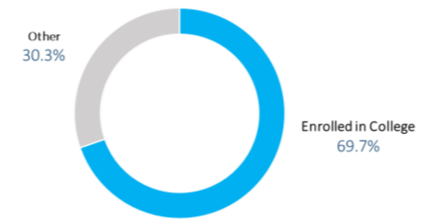


Industry Overview

Tuitions Rising but Incomes Flat?

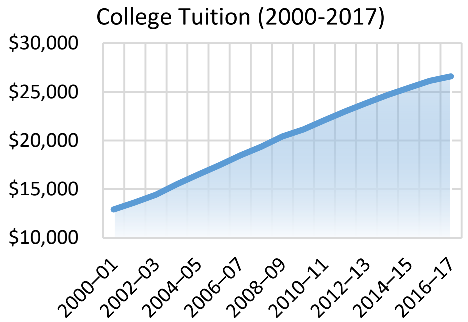
Bubble?

- There has been a lot of discussion and fear in the market and in the news lately about a student loan bubble
- This "bubble" is being driven by high government funding for college and slowing household income growth. The bubble is also being suppressed by government default laws
- Recent data says that 11% of borrowers are 90 days or more delinquent, which is result of the education rising over 150% across four decades, while income growth has plateaued seeing only a 20% increase across the same time period



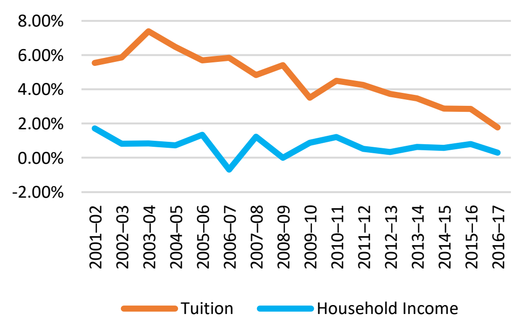
Government Funding

- Significant research has gone into researching the cause and effect government spending has on tuition
- The Federal Reserve of New York found that for every additional $1 the federal government spent on loans, tuitions rose by over $0.65



Household Income

- Household income in the US grows around 0%-1% annually
- Student loans however have been growing between 2%-3% annually
- This diverging growth creates fears on long-term growth potential



Default Rates

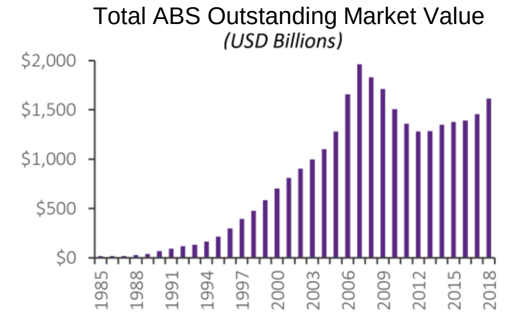
- Default rates on government student loans in the US are extremely rare
- In 2018, congress created a program titled "*The Public Service Loan Forgiveness Program*"
- Of the 54,184 requests, less than 1% of were approved
- Looking at the possibility of a self-correcting cycle, where there are mass delinquencies and defaults, this too seems unlikely.
- The fact remains that there is no mechanism from the student loan bubble to burst.

Industry Overview

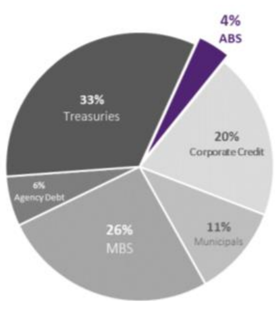
Asset Backed Securities

History of Asset Backed Securities

- Asset backed securities are unique security whose income payments and hence value is derived from and collateralized by a specific pool of underlying assets
- Often these assets are a group of smaller illiquid assets which are unable to be sold individually
- The ABS market was first created in the 1980's with the securitization of auto loans and credit card receivables
- The sector has grown rapidly since, evolving into a diversified $1.61 trillion market
- The main "buckets" of these ABS' are consumer, corporate, commercial, and whole business



ABS types



- **Consumer ABS:** Backed by the cash flows from personal financial assets, such as student loans, credit cards, and auto-loans.
- **Corporate ABS:** Securities constructed from pools of debt securities. These include more complex securities such as CLOs, CBOs, CDOs, ABS CDOs, TRUP CDOs, CRE CDOs, CDO-squared.
- **Commercial ABS:** Backed by cash flows from receivables, such as trade receivables, loans and/or leases on commercial equipment.
- **Whole Business ABS:** Supported by cash flows from operating assets, such as franchise and brand royalties, and billboard leases.

Industry Overview

Asset Backed Securities How it's Made

Creation of ABS

- The SPV is typically created by the originator of the assets being securitized and is a bankruptcy remote entity
- This type of legal structure insulates investors who purchase securities issues by the SPV from the risk of bankruptcy of the asset originator
- Instead, investors are only exposed to the risks that could disrupt cash flows from the designated pools of assets
- Often, the credit risk of this pool of assets is lower than the overall business risk of the asset originator
- One important factor for the originator of the assets creating the SPV, is the *Credit Risk Retention* regulation
- The regulation was passed by the *Department of the Treasury* and the *Federal Reserve* in October 2014 under Section 941 of the *Dodd-Frank Act* for ABS'
- The regulation requires sponsors of ABS, such as Sallie Mae, to retain an economic interest in an ABS transaction of at least 5% of the credit risk

1 A special purpose vehicle (**SPV**) is created.

SPV

2 The **SPV** purchases a pool of diversified, cash flow generating assets, such as commercial mortgages, franchise royalties, or bank loans.

The **SPV** finances this purchase by selling debt and equity interests in the pool, which are collateralized by the underlying assets. By transferring risk assets to the **SPV** in return for cash, this improves the credit profile of the originator.

3 The cash flows generated by the assets are used to service interest and repay principal to debt investors, with equity investors receiving any residual cash flows.

Investment Thesis

Investment Thesis

CECL Regulation Fears

CECL Fears Overblown

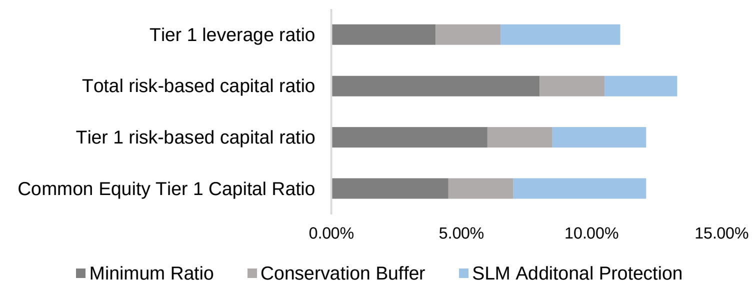
- Analysts have been concerned over the ambiguity surrounding how the company will account for the upcoming CECL regulation.
- The Federal Reserve and the OCC predict that the new CECL rule - which will take affect by 2020 – will cause the industry's allowances to increase by upwards of 30% - 50%
- Current market analysts are anticipating a 10% impact on 2020 GAAP EPS, and a reserve ratio of 7.2
- This anticipated reserve ratio would be upwards of 400% larger than the company's current reserve ratio of 1.8%

$MM	Current Accounting	CECL Accounting	Adjusted Core Presentation
Ending Loan Balances			
2019E	$ 24,009	$ 24,009	$ 24,009
2020E	26,424	26,424	26,424
Reserve Ratio	1.8%	7.2%	7.2%
Period Ending Reserves ($)			
2019E	441	1,729	1,729
2020E	503	1905	1905
2020E Reserve Build	62	176	176
2020E NCO's	303	303	303
2020E Provisions	365	479	303
Incremental Provisions from CECL			
2020 EPS	$ 1.41	$ 1.21	$ 1.52
Impact on Current 2020E EPS		$ (0.20)	$ 0.11
		(-14.3%)	7.8%

High Tier-1 Capital Ratio

- One of the biggest risks small-midsized banks face from the upcoming CECL regulation, is maintaining compliant levels of liquidity
- SLM is not exempt from the 'US Basel III' minimum regulatory capital-ratios
- The company keeps their capital ratio almost 4% - 5% above these minimum levels

Sallie Mae Capital Ratio Surplus

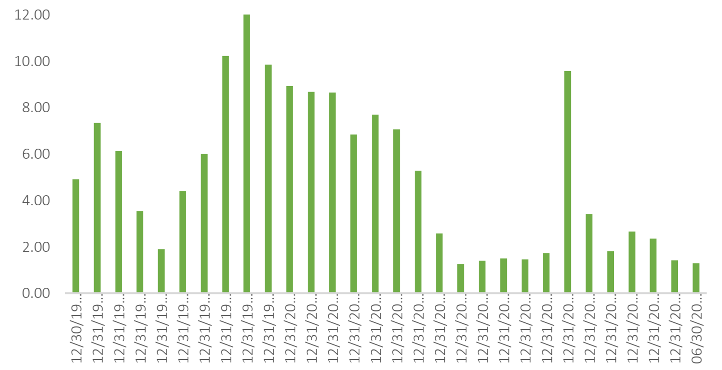


Ratio Type	Minimum Ratio	Conservation Buffer	Effective Minimum	SLM Ratio 2018
Common Equity Tier 1 Capital Ratio	4.5%	2.5%	7.0%	12.1%
Tier 1 risk-based capital ratio	6.0%	2.5%	8.5%	12.1%
Total risk-based capital ratio	8.0%	2.5%	10.5%	13.3%
Tier 1 leverage ratio	4.0%	2.5%	6.5%	11.1%

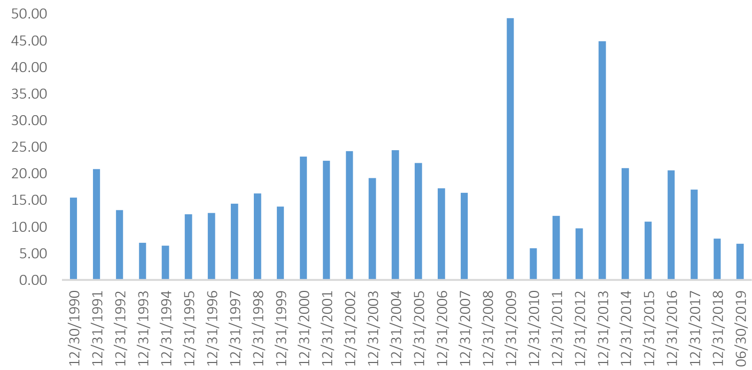
Investment Thesis

Historically Low Multiples Create Strong Buying Opportunity

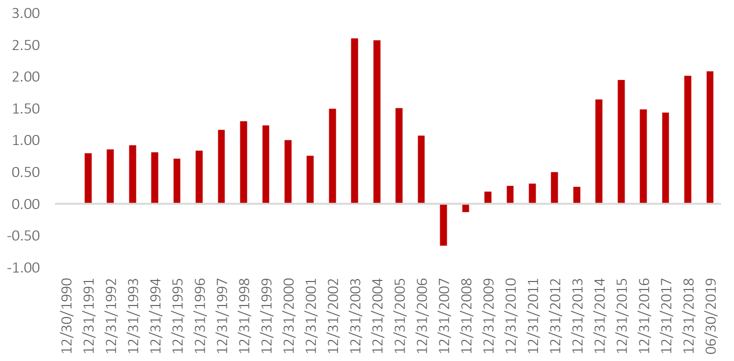
Price to Book Ratio



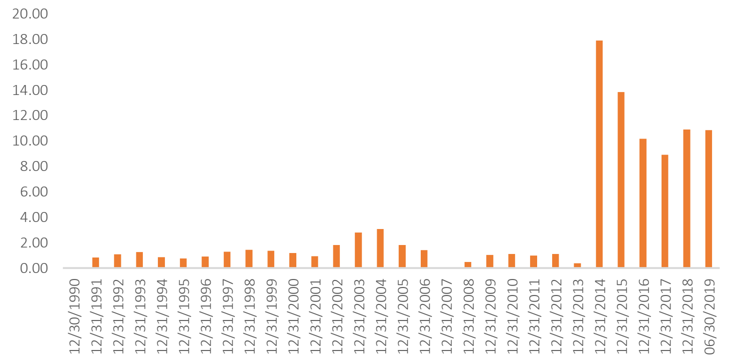
Price to Earnings Ratio



Return on Assets



Return on Invested Capital



What is refinancing?

More importantly, why is it a threat?

What is refinancing?

- Existing loans can be refinanced into loans with better term
  - Existing loan paid off with a new loan at a lower rate
- Possible after a history of credit worthiness is demonstrated

Who is doing this? Mostly startups

commonbond
SoFi
earnest
LendKey

Why is it bad for SLM?

- Purpose of HY loans is to "milk" exorbitant interest
- Same reason why many HY loans have prepayment penalties
- Refinancing would negate any point of a HY loan

A few banks are doing it as well

Citizens Financial Group, Inc.
First Republic — It's a privilege to serve you®

Refinancing is a threat because:

- Refinancing firms allow students to cut the tenor of their existing loans with SLM and replace it with lower rate debt

But there's a few issues:

- This option is only available for the top pool of students that have **great credit (less than 10%)**
- Most traditional banks won't even bother with this because of the complications with student debt vs regular debt (no collateral, grace period, deferment)

<u>Student Loans:</u>
8.5% Avg. Fixed Rate
7.9% Avg. Variable Rate

<u>Personal Loan:</u>
7.8% Avg. Fixed Rate
6.8% Avg. Variable Rate

<u>Mortgages:</u>
4.0% Avg. Fixed Rate
3.2% Avg. Variable Rate

<u>Credit Card Debt:</u>
17.4% Avg. Variable Rate

This would all become consolidated into…

Refinance…

<u>Debt:</u>
5~8% Avg. Fixed Rate
4~7% Avg. Variable Rate

…this.

Source: NerdWallet, CreditCards.com, Bankrate.com

The Bigger Issue (Part 1)

Is the refinancing startup model realistic?

Purpose of a Firm for Equity Owners

Return on Investment > **Cost of Financing**

Money you made on your "capital base" …Needs to be greater than the… **Money you need to pay for receiving your capital base**

for what's left over to be paid to you, the equity owners.

A Note On Capital Raising

- The traditional ways to raise money are **debt** and **equity**. Equity is more expensive than debt.
- **Banks have a special form of financing called "deposits".**
  - Deposits are a form of debt with the lowest cost of capital, **or from your perspective, the lowest rate of return.**
- To raise money through deposits, you need to be a **national or state-chartered bank –** these regulations are put in place because deposits **are a serious business.**
  - **Banks need to be certified to take your money.**

Type	Form	Cost	Return	Restrictions
Debt	Deposits	Lowest (<1%)	Lowest (<1%)	Highest - Need license
	Loans/Bonds	Lower (<5%)	Lower (<5%)	High - Need assets
Equity	Stock	Highest (~8%)	Highest (~8%)	Lowest - Need literally nothing

Ultimately, banks are able to lower their cost of capital through deposits. On the flip side, it's very difficult to become a bank without deposits. The return on loans doesn't justify a firm that can't raise deposits.

The Bigger Issue (Part 2)

Is the refinancing startup model realistic?

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State Chartered Deposit Charters

- The Bank Holding Act Company of 1956 **prohibits non-banks** from being able to take deposits **(by preventing FDIC insurance)**.
  - The loophole is that if you're a "non-bank bank", you're allowed to apply for a **state chartered ILC (industrial loan company)**. Only 7 states use this, the most prominent of them being Utah.
    - Why many banks are **"chartered in Utah"**.
- **Google and Walmart have applied for these charters and were denied.**
- **SoFi has been denied its bank charter in 2017 and it desperately needs one to offer the rates it does.**

SoFi's Bank Charter Has Almost No Chance, Former SEC Chairman Says

Grace Noto September 18, 2017
Compliance & Regulation, Exclusive, Lending

Embattled Fintech Firm SoFi Drops Plan to Open a Bank

By Peter Rudegeair
Updated Oct. 13, 2017 4:06 pm ET

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SoFi Disclaimer

"**SoFi Money is a cash management account not a bank account, and is offered by a broker dealer. The SoFi Money account is a brokerage account. Neither SoFi nor its affiliates is a bank.**"

"The cash balance in SoFi Money accounts is swept to one or more program banks where it earns a variable rate of interest and is eligible for FDIC insurance. **FDIC Insurance does not immediately apply. Coverage begins when funds arrive at a partner bank.** There are currently six banks available to accept these deposits, making customers eligible for up to $1,500,000 of FDIC insurance (six banks, $250,000 per bank). If the number of available banks changes, or you elect not to use, and/or have existing assets at, one or more of the available banks, the actual amount could be lower."

Lender	Fixed APR	Variable APR
Education Loan Finance	3.14-6.69%*	2.39-6.01%*
commonbond	3.21-7.24%*	2.14-7.21%*
earnest	3.45-6.99%*	2.05-6.49%*
SoFi	3.46-7.94%*	2.14-7.94%*
PenFed Credit Union	3.48-6.03%*	2.67-7.41%*
LendKey	3.49-8.36%*	2.01-8.88%*

- **Banks can offer these rates because they take deposits**
- If you're only capitalized by debt and equity, **this model doesn't work**

The Bigger Issue (Part 2)

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State Chartered Deposit Charters

- The Bank Holding Act Company of 1956 **prohibits non-banks** from being able to take deposits **(by preventing FDIC insurance)**.
  - The loophole is that if you're a "non-bank bank", you're allowed to apply for a **state chartered ILC (industrial loan company)**. Only 7 states use this, the most prominent of them being Utah.
    - Why many banks are **"chartered in Utah"**.
- **Google and Walmart have applied for these charters and were denied.**
- **SoFi has been denied its bank charter in 2017 and it desperately needs one to offer the rates it does.**

SoFi's Bank Charter Has Almost No Chance, Former SEC Chairman Says

Grace Noto September 18, 2017
Compliance & Regulation, Exclusive, Lending

Embattled Fintech Firm SoFi Drops Plan to Open a Bank

By Peter Rudegeair
Updated Oct. 13, 2017 4:06 pm ET

SoFi Disclaimer

"SoFi Money is a cash management account not a bank account, an

account is … **oFi nor its**

affiliates is

"The cash b … pt to one or more progra … e of interest and is eligib … **ce does not immediately** … **s arrive at a partner ban** … ble to accept these deposi … 1,500,000 of FDIC insura … e number of available ba … and/or have existing assets at, one or more of the available banks, the actual amount could be lower."

Translation: We don't take deposits, but we have friends that do.

Lender	Fixed APR	Variable APR
Education Loan Finance	3.14-6.69%*	2.39-6.01%*
commonbond	3.21-7.24%*	2.14-7.21%*
earnest	3.45-6.99%*	2.05-6.49%*
SoFi	3.46-7.94%*	2.14-7.94%*
PenFed Credit Union	3.48-6.03%*	2.67-7.41%*
LendKey	3.49-8.36%*	2.01-8.88%*

- **Banks can offer these rates because they take deposits**
- If you're only capitalized by debt and equity, **this model doesn't work**

Refinancing cannot be a threat because there are real barriers to entry to getting the charter and those with the charter don't see it as worth while.

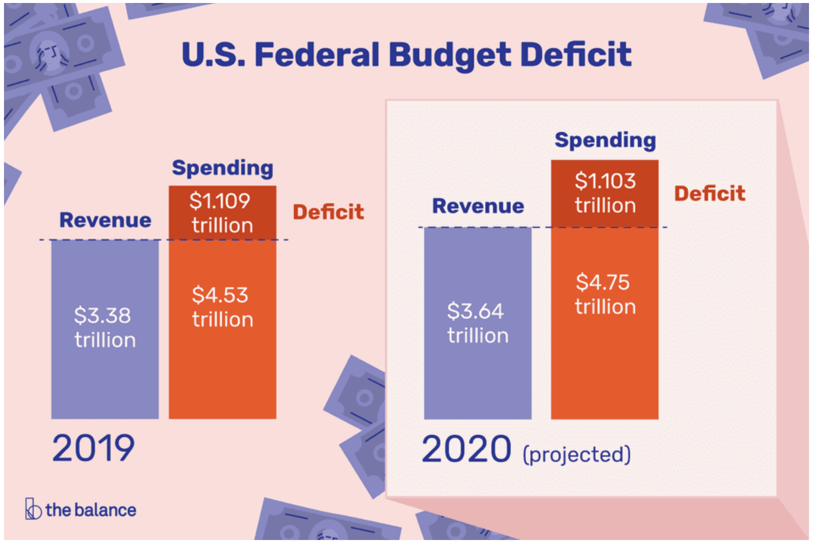
Catalysts

Catalyst

2020 Election and Federal Funding Cutbacks will support the appreciation of stock

2020 Election	Federal Funding Cutbacks

- Student Loans has become the key issues of concerns for 2020 elections
- The 2020 election could help ease investor fears on the winning of candidates with a student forgiveness program, if a candidate, who's not running on student loan forgiveness, win the election
- We would argue that federal level of loan cancellation program is difficult to enact with huge budgetary and fascial implications



- If the government slows student lending, this would provide stronger demand for private lenders. Also, the cutback on University funding would push to tuition higher
- This higher demand and tuition would likely benefit Sallie Mae as the industry leader

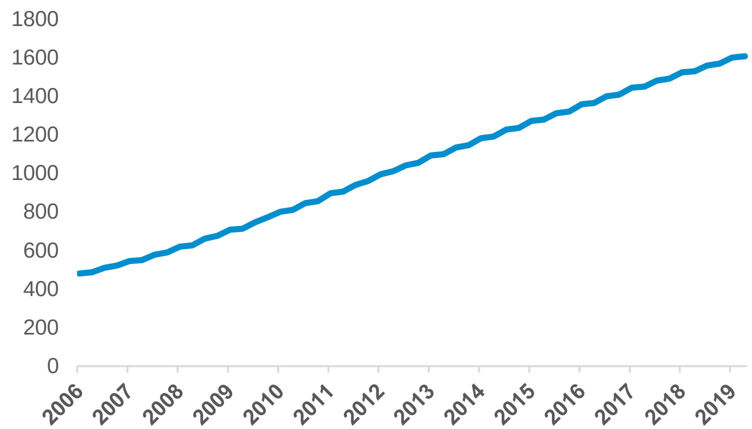
Risk Factors

Risks

Bubble Fears and Student Loan Forgiveness concerns will pose potential risks

Student Loan Bubble

Student Loans Owned and Securitized, Outstanding



- If there are major reforms to student loan default and delinquency regulations, the entire student loan industry could see a major correction

- Such a market correction would greatly reduce Sallie Mae's ability to use **Student Loan backed ABS'** as collateral to receive the funding to keep operations running

Comprehensive Student Loan Forgiveness Program

POLITICS

Trump Education Official to Resign and Call for Mass Student-Loan Forgiveness

A. Wayne Johnson, appointed by Education Secretary Betsy DeVos, calls the student-loan system 'fundamentally broken'

- If the political candidates win election during the 2020 election and implement their policies of comprehensive student loan forgiveness, Sallie Mae could be at risk of having regulations forcing private lenders to take a hair-cut on their positions

- Until more details were available on what this loan forgiveness would look like, it is difficult to predict specific impact such a regulation might have on Salle Mae.

Valuation

Valuation

Where to start?

Valuation

Where to start?

2019 EBITDA	$1,057.2
Implied Multiple	8.00x
Implied EV	$8,457.5
Discounted EV	$7,831.0
(-Debt)	$3,080.0
(+Cash)	$420.0
Equity Value	$5,171.0
Shares Outstanding	94.9
Implied Share Price	$54.49

We applied a 8.0x EV/EBITDA multiple. While we believe Hilton rightfully deserves a superior multiple given higher margins, we also believe WYND deserves a slight premium at current valuations

Given this multiple, we achieve a PT of $54.49, representing a 30% upside to current valuation

Valuation

Where to start?

1

Capital Requirements	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Capital Adequacy											
Tier One Capital	0.0%	11.4%	12.5%	11.8%	10.4%	11.7%	10.0%	9.0%	8.0%	8.0%	8.0%
Risk-Weights											
Available for Sale Investments	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Loans Held for Investment	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Other Interest Earning Assets	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Loan Balance	**$ -**	**$ 9,510**	**$ 11,631**	**$ 15,138**	**$ 18,568**	**$ 22,271**	**$ 26,141**	**$ 29,046**	**$ 32,676**	**$ 32,676**	**$ 32,676**
Tier One Above 6.5%?	**Not OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**

Valuation

Where to start?

1

Capital Requirements	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
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Risk-Weights											
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Other Interest Earning Assets	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Loan Balance	**$ -**	**$ 9,510**	**$ 11,631**	**$ 15,138**	**$ 18,568**	**$ 22,271**	**$ 26,141**	**$ 29,046**	**$ 32,676**	**$ 32,676**	**$ 32,676**
Tier One Above 6.5%?	**Not OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**	**OK**

2

Sallie Mae Balance Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Liabilities											
Deposits	$ 9,002	$ 10,541	$ 11,488	$ 13,436	$ 15,505	$ 18,943	$ 20,837	$ 22,921	$ 24,067	$ 24,549	$ 25,040
Growth	-	*17.1%*	*9.0%*	*17.0%*	*15.4%*	*22.2%*	*10.0%*	*10.0%*	*5.0%*	*2.0%*	*2.0%*
YoY Delta	-	*1,539*	*947*	*1,948*	*2,070*	*3,438*	*1,894*	*2,084*	*1,146*	*481*	*491*
Long-term borrowings	-	-	1,079	2,168	3,275	4,284	5,141	5,655	5,938	6,057	6,178
Growth	-	-	-	*100.9%*	*51.1%*	*30.8%*	*20.0%*	*10.0%*	*5.0%*	*2.0%*	*2.0%*
YoY Delta	-	-	*1,079*	*1,089*	*1,107*	*1,009*	*857*	*514*	*283*	*119*	*121*
Income taxes payable, net	162	191	167	184	102	-	-	-	-	-	-
Upromise member accounts	308	293	275	256	243	213	213	213	213	213	213
Other liabilities	69	117	109	142	179	225	225	225	225	225	225
Total liabilities	**$ 9,541**	**$ 11,142**	**$ 13,118**	**$ 16,186**	**$ 19,305**	**$ 23,666**	**$ 26,417**	**$ 29,015**	**$ 30,443**	**$ 31,043**	**$ 31,656**

Need to start with balance sheet when modelling out a lending institution

Valuation

Where to start? Use liabilities to project out assets and NI

3

Sallie Mae Balance Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Assets											
Cash	$ 2,183	$ 2,360	$ 2,416	$ 1,919	$ 1,534	$ 2,559	1,808	1,819	29	1,034	2,089
Available for Sale Investments	102	169	195	209	244	176	176	176	176	176	176
Loans Held for Investment	7,931	9,510	11,631	15,138	18,568	22,271	26,141	29,046	32,676	32,676	32,676
Loss Allowance	84	68	113	185	251	341	341	341	341	341	341
Loss Allowance % of Loans	*1.1%*	*0.7%*	*1.0%*	*1.2%*	*1.4%*	*1.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
YoY Delta	-	*1,578*	*2,121*	*3,507*	*3,430*	*3,703*	*3,870*	*2,905*	*3,631*	-	-
Total Assets	**$ 10,707**	**$ 12,972**	**$ 15,214**	**$ 18,533**	**$ 21,780**	**$ 26,638**	**$ 29,757**	**$ 32,672**	**$ 34,514**	**$ 35,518**	**$ 36,574**

Valuation

Where to start? Use liabilities to project out assets and NI

3

Sallie Mae Balance Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Assets											
Cash	$ 2,183	$ 2,360	$ 2,416	$ 1,919	$ 1,534	$ 2,559	**1,808**	**1,819**	**29**	**1,034**	**2,089**
Available for Sale Investments	102	169	195	209	244	176	176	176	176	176	176
Loans Held for Investment	7,931	9,510	11,631	15,138	18,568	22,271	**26,141**	**29,046**	**32,676**	**32,676**	**32,676**
Loss Allowance	84	68	113	185	251	341	341	341	341	341	341
Loss Allowance % of Loans	*1.1%*	*0.7%*	*1.0%*	*1.2%*	*1.4%*	*1.5%*	***2.0%***	***2.0%***	***2.0%***	***2.0%***	***2.0%***
YoY Delta	*-*	*1,578*	*2,121*	*3,507*	*3,430*	*3,703*	*3,870*	*2,905*	*3,631*	*-*	*-*
Total Assets	**$ 10,707**	**$ 12,972**	**$ 15,214**	**$ 18,533**	**$ 21,780**	**$ 26,638**	**$ 29,757**	**$ 32,672**	**$ 34,514**	**$ 35,518**	**$ 36,574**

4

Sallie Mae Income Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Loans	$ 527	$ 661	$ 817	$ 1,060	$ 1,414	$ 1,895	$ 2,224	$ 2,469	$ 2,941	$ 2,941	$ 3,104
Loan Rate	*6.6%*	*7.0%*	*7.0%*	*7.0%*	*7.6%*	*8.5%*	***8.5%***	***8.5%***	***9.0%***	***9.0%***	***9.5%***
Investments	20	9	10	9	8	6	4	4	4	4	4
Investment Yield	*19.6%*	*5.3%*	*4.5%*	*3.5%*	*2.4%*	*2.1%*	***2.0%***	***2.0%***	***2.0%***	***2.0%***	***2.0%***
Cash and cash equivalents	4	4	4	8	16	35	26	18	18	0	10
Cash Yield	*-*	*0.2%*	*0.2%*	*0.3%*	*0.8%*	*2.2%*	***1.0%***	***1.0%***	***1.0%***	***1.0%***	***1.0%***
Total Interest Income	**551**	**674**	**831**	**1,077**	**1,437**	**1,935**	**2,253**	**2,490**	**2,963**	**2,945**	**3,118**
Total Interest Expense	89	96	129	186	522	308	520	572	600	612	624
Expense Rate	*1.0%*	*0.9%*	*1.0%*	*1.2%*	*2.8%*	*1.3%*	***2.0%***	***2.0%***	***2.0%***	***2.0%***	***2.0%***
Net Interest Income	462	578	702	891	915	1,627	1,733	1,919	2,362	2,333	2,494
Operating Expense	270	275	349	385	449	557	676	747	889	883	935
% of Interest Income	*49.0%*	*40.8%*	*42.0%*	*35.7%*	*31.2%*	*28.8%*	***30.0%***	***30.0%***	***30.0%***	***30.0%***	***30.0%***
Income Before Tax (EBIT)	123	218	263	491	280	825	796	881	1,147	1,122	1,232
Tax %	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*23.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*
Net Income	**74**	**131**	**158**	**295**	**168**	**495**	**613**	**529**	**688**	**673**	**739**
Payout Ratio	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	***40.0%***	***40.0%***	***40.0%***	***40.0%***	***40.0%***
Return to Shareholder	**$ 30**	**$ 52**	**$ 63**	**$ 118**	**$ 67**	**$ 198**	**$ 245**	**$ 212**	**$ 275**	**$ 269**	**$ 296**

Valuation

This is all assuming there's no equity raises

5

Sallie Mae Balance Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Equity											
Series A	-	165	165	165	-	-	-	-	-	-	-
Series B	-	400	400	400	400	400	400	400	400	400	400
Common Stock	-	85	86	87	89	90	90	90	90	90	90
Additional Paid In Capital	-	1,091	1,136	1,176	1,222	1,275	1,275	1,275	1,275	1,275	1,275
Navient's Subsidiary Investment	1,164	-	-	-	-	-	-	-	-	-	-
AOCI	(3)	(11)	(16)	(9)	3	11	11	11	11	11	11
Retained Earnings	-	113	367	595	868	1,340	1,708	2,025	2,438	2,842	3,285
Stock Holder Equity Before Treasu	1,161	1,842	2,138	2,415	2,582	3,115	3,483	3,800	4,213	4,617	5,061
(-) Treasury Stock	-	(12)	(41)	(67)	(108)	(143)	(143)	(143)	(143)	(143)	(143)
Noncontrolling Interest	5	-	-	-	-	-	-	-	-	-	-
Total equity	**$ 1,166**	**$ 1,830**	**$ 2,096**	**$ 2,347**	**$ 2,474**	**$ 2,973**	**$ 3,340**	**$ 3,658**	**$ 4,071**	**$ 4,475**	**$ 4,918**
Total liabilities and equity	**$ 10,707**	**$ 12,972**	**$ 15,214**	**$ 18,533**	**$ 21,780**	**$ 26,638**	**$ 29,757**	**$ 32,672**	**$ 34,514**	**$ 35,518**	**$ 36,574**

Valuation

This is all assuming there's no equity raises

5

Sallie Mae Balance Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Equity											
Series A	-	165	165	165	-	-	-	-	-	-	-
Series B	-	400	400	400	400	400	400	400	400	400	400
Common Stock	-	85	86	87	89	90	90	90	90	90	90
Additional Paid In Capital	-	1,091	1,136	1,176	1,222	1,275	1,275	1,275	1,275	1,275	1,275
Navient's Subsidiary Investment	1,164	-	-	-	-	-	-	-	-	-	-
AOCI	(3)	(11)	(16)	(9)	3	11	11	11	11	11	11
Retained Earnings	-	113	367	595	868	1,340	1,708	2,025	2,438	2,842	3,285
Stock Holder Equity Before Treasu	1,161	1,842	2,138	2,415	2,582	3,115	3,483	3,800	4,213	4,617	5,061
(-) Treasury Stock	-	(12)	(41)	(67)	(108)	(143)	(143)	(143)	(143)	(143)	(143)
Noncontrolling Interest	5	-	-	-	-	-	-	-	-	-	-
Total equity	**$ 1,166**	**$ 1,830**	**$ 2,096**	**$ 2,347**	**$ 2,474**	**$ 2,973**	**$ 3,340**	**$ 3,658**	**$ 4,071**	**$ 4,475**	**$ 4,918**
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Yes, it needs to balance

Sallie Mae Balance Sheet	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Total Assets	$ 10,707	$ 12,972	$ 15,214	$ 18,533	$ 21,780	$ 26,638	$ 29,757	$ 32,672	$ 34,514	$ 35,518	$ 36,574
Total liabilities and equity	$ 10,707	$ 12,972	$ 15,214	$ 18,533	$ 21,780	$ 26,638	$ 29,757	$ 32,672	$ 34,514	$ 35,518	$ 36,574
Check	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Valuation

Last Thing We Do is Valuation

Net Income	74	131	158	295	168	495	613	529	688	673	739
Payout Ratio	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*
Return to Shareholder	$ 30	$ 52	$ 63	$ 118	$ 67	$ 198	$ 245	$ 212	$ 275	$ 269	$ 296

6

Sallie Mae Valuation	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
FCFE	$ 30	$ 52	$ 63	$ 118	$ 67	$ 198	$ 245	$ 212	$ 275	$ 269	$ 296
Growth							*23.8%*	*-13.7%*	*30.1%*	*-2.1%*	*9.7%*
Discount Rate							*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*
Discounted Value							$ 228	$ 183	$ 222	$ 202	$ 206

		Cost of Equity						
		6.0%	**6.5%**	**7.0%**	**7.5%**	**8.0%**	**8.5%**	**9.0%**
Perp Growth	**0.5%**	32.2%	23.6%	16.3%	10.0%	4.6%	-0.1%	-4.3%
	1.0%	42.5%	32.2%	23.6%	16.3%	10.0%	4.6%	-0.1%
	1.5%	55.2%	42.5%	32.2%	23.6%	16.3%	10.0%	4.6%
	2.0%	71.0%	55.2%	42.5%	**32.2%**	23.6%	16.3%	10.0%
	2.5%	91.3%	71.0%	55.2%	42.5%	32.2%	23.6%	16.3%
	3.0%	118.4%	91.3%	71.0%	55.2%	42.5%	32.2%	23.6%
	3.5%	156.3%	118.4%	91.3%	71.0%	55.2%	42.5%	32.2%

Perpetuity		
Terminal FCFE	$	206
Perpetuity Growth		2.0%
Cost of Capital		7.5%
Perpetuity Value	$	3,743
Cumulative CF	$	1,040
Shares (000s)		436
Per Share Value		**$10.97**
Current Share Price		$8.30
Upside		**32.2%**


Thank You
BROADWAY
DOWNTOWN
WAIT FOR GREEN LIGHT
5 AV