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## SLM Credit Rating Cut by S&P, May Be Lowered More (Update2)

By Matthew Keenan

Feb. 4 (Bloomberg) -- SLM Corp.'s credit rating was lowered two levels to BBB- from BBB+ by Standard & Poor's Ratings Services, and the student lender may be cut further.





The student-loan company, known as Sallie Mae, will remain on "credit watch negative," New York-based S&P said in a report today. The decision follows commitments by a group of banks to provide Sallie Mae with \$31 billion in financing. It reflects concern SLM won't receive the money because "it is subject to various conditions." Once Sallie Mae gets financing, S&P said it expects to revise the outlook to "stable."

Sallie Mae, based in Reston, Virginia, said on Jan. 28 that it got commitments from the banks as it dropped a lawsuit over a failed \$25.3 billion takeover offer. Sallie Mae had short-term debt of \$35.9 billion at the end of 2007, and long-term borrowings of \$111.1 billion, according to a regulatory filing.

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``We believe 2008 will be a difficult year for Sallie Mae, as higher funding costs, reduced profitability and potential asset quality deterioration will keep pressure on," S&P analyst Ernest Napier said in a report. The ratings company lowered SLM's short term credit rating to A-3 from A-2.

Sallie Mae fell \$1.54, or 6.7 percent, to \$21.46 at 4:32 p.m. in New York Stock Exchange composite trading, and declined to as low as \$21 in after-hours trading. The company has fallen 54 percent in 12 months and trades at about two-thirds less than the \$60 a share originally offered in April by private equity firm J.C. Flowers & Co. in New York.

Sallie Mae issued a statement today saying it is ``disappointed" with the Standard & Poor's announcement.

#### Equity Raised

Sallie Mae, which manages \$164 billion in student loans, said it had taken steps to strengthen the company's financial standing. They include the commitments of \$31 billion last month from a group with Bank of America Corp., JPMorgan Chase & Co., Barclays Plc and Deutsche Bank AG, among others.

``We believe these steps lay the foundation necessary for long-term growth to better position the company to thrive in these challenging financial markets," the statement said. ``We look forward to working with S&P and the other ratings agencies to demonstrate our financial strength and stability."

Sallie Mae also raised \$3 billion in equity capital, two-thirds of which was used to settle stock-buyback contracts, according to the statement.

Moody's Investors Service said last month that it was continuing to review Sallie Mae for a possible downgrade. Moody's extended its assessment, which had been

scheduled to conclude in January, until the formal closing of the financing commitments.

#### Lawsuit Dropped

The loans have been considered a victory for Chief Executive Officer Albert Lord, who resumed day-to-day control of Sallie Mae in November. The buyout group gave Sallie Mae a \$30 billion credit line before its bid fell apart. Sallie Mae had a Feb. 15 deadline to replace that interim credit before borrowing costs rose.

Sallie Mae dropped a lawsuit in which it sought a \$900 million termination fee from the investors. The deal faltered because of a dispute over the effect that a law cutting federal subsidies to student-loan providers such as Sallie Mae would have on the company's profitability.

Credit-default swaps tied to Sallie Mae's bonds rose after the downgrade. The contracts climbed 15 basis points to 400 basis points, according to broker Phoenix Partners Group in New York. An increase in the contracts, used to speculate on the company's ability to repay its debt or to hedge against losses, suggests eroding investor confidence.

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*Last Updated: February 4, 2008 18:07 EST*

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