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

# Form 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2020**

**or**

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

**For the transition period from to**

**Commission File Number: 001-36228**

# Navient Corporation

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **46-4054283** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **123 Justison Street, Wilmington, Delaware** | **19801** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(302) 283-8000**
*(Registrant's telephone number, including area code)*

*(Former name, former address and former fiscal year, if changed since last report)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

**Securities registered pursuant to Section 12(b) of the Act.**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common stock, par value $.01 per share | NAVI | The NASDAQ Global Select Market |
| 6% Senior Notes due December 15, 2043 | JSM | The NASDAQ Global Select Market |

As of March 31, 2020, there were 193,832,080 shares of common stock outstanding.

**NAVIENT CORPORATION**

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

## NAVIENT CORPORATION

### CONSOLIDATED BALANCE SHEETS
**(In millions, except share and per share amounts)**
**(Unaudited)**

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| FFELP Loans (net of allowance for losses of $311 and $64, respectively) | $ 62,492 | $ 64,575 |
| Private Education Loans (net of allowance for losses of $1,083 and $1,048, respectively) | 22,338 | 22,245 |
| Investments | | |
| Held-to-maturity | 18 | 19 |
| Other | 298 | 192 |
| Total investments | 316 | 211 |
| Cash and cash equivalents | 1,084 | 1,233 |
| Restricted cash and cash equivalents | 2,684 | 2,548 |
| Goodwill and acquired intangible assets, net | 752 | 757 |
| Other assets | 3,579 | 3,334 |
| Total assets | $ 93,245 | $ 94,903 |
| **Liabilities** | | |
| Short-term borrowings | $ 8,452 | $ 8,483 |
| Long-term borrowings | 81,297 | 81,715 |
| Other liabilities | 1,448 | 1,356 |
| Total liabilities | 91,197 | 91,554 |
| **Commitments and contingencies** | | |
| **Equity** | | |
| Common stock, par value $0.01 per share, 1.125 billion shares authorized: 453 million and 451 million shares issued, respectively | 4 | 4 |
| Additional paid-in capital | 3,212 | 3,198 |
| Accumulated other comprehensive loss (net of tax benefit of $97 and $30, respectively) | (300) | (91) |
| Retained earnings | 2,905 | 3,664 |
| Total Navient Corporation stockholders' equity before treasury stock | 5,821 | 6,775 |
| Less: Common stock held in treasury at cost: 259 million and 236 million shares, respectively | (3,786) | (3,439) |
| Total Navient Corporation stockholders' equity | 2,035 | 3,336 |
| Noncontrolling interest | 13 | 13 |
| Total equity | 2,048 | 3,349 |
| Total liabilities and equity | $ 93,245 | $ 94,903 |

**Supplemental information — assets and liabilities of consolidated variable interest entities:**

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| FFELP Loans | $ 62,281 | $ 64,255 |
| Private Education Loans | 19,751 | 19,609 |
| Restricted cash | 2,631 | 2,506 |
| Other assets, net | 975 | 1,089 |
| Short-term borrowings | 6,941 | 7,089 |
| Long-term borrowings | 72,125 | 72,856 |
| Net assets of consolidated variable interest entities | $ 6,572 | $ 7,514 |

See accompanying notes to consolidated financial statements.

**NAVIENT CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**
**(In millions, except per share amounts)**
**(Unaudited)**

| | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| **Interest income:** | | |
| FFELP Loans | $ 571 | $ 763 |
| Private Education Loans | 404 | 443 |
| Other loans | — | 1 |
| Cash and investments | 12 | 27 |
| Total interest income | 987 | 1,234 |
| Total interest expense | 714 | 949 |
| Net interest income | 273 | 285 |
| Less: provisions for loan losses | 95 | 76 |
| Net interest income after provisions for loan losses | 178 | 209 |
| **Other income (loss):** | | |
| Servicing revenue | 58 | 62 |
| Asset recovery and business processing revenue | 110 | 119 |
| Other income (loss) | 7 | 16 |
| Gains on debt repurchases | — | 15 |
| Gains (losses) on derivative and hedging activities, net | (223) | 7 |
| Total other income (loss) | (48) | 219 |
| **Expenses:** | | |
| Salaries and benefits | 124 | 128 |
| Other operating expenses | 127 | 128 |
| Total operating expenses | 251 | 256 |
| Goodwill and acquired intangible asset impairment and amortization expense | 5 | 7 |
| Restructuring/other reorganization expenses | 5 | 1 |
| Total expenses | 261 | 264 |
| Income (loss) before income tax expense (benefit) | (131) | 164 |
| Income tax expense (benefit) | (25) | 36 |
| **Net income (loss)** | $ (106) | $ 128 |
| **Basic earnings (loss) per common share** | $ (.53) | $ .52 |
| Average common shares outstanding | 200 | 244 |
| **Diluted earnings (loss) per common share** | $ (.53) | $ .52 |
| Average common and common equivalent shares outstanding | 200 | 247 |
| Dividends per common share | $ .16 | $ .16 |

See accompanying notes to consolidated financial statements.

**NAVIENT CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(In millions)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net income (loss) | $ (106) | $ 128 |
| Net changes in cash flows hedges, net of taxes[1] | (209) | (70) |
| Total comprehensive income (loss) | $ (315) | $ 58 |

(1) See “Note 4 – Derivative Financial Instruments.”

See accompanying notes to consolidated financial statements.

## NAVIENT CORPORATION

### CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
### (Dollars in millions, except share and per share amounts)
### (Unaudited)

| | Common Stock Shares | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued | Treasury | Outstanding | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
| **Balance at December 31, 2018** | 445,377,826 | (197,940,553) | 247,437,273 | $ 4 | $ 3,145 | $ 113 | $ 3,218 | $ (2,961) | $ 3,519 | $ 28 | $ 3,547 |
| Comprehensive income: | | | | | | | | | | | |
| Net income (loss) | — | — | — | — | — | — | 128 | — | 128 | — | 128 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | (70) | — | — | (70) | — | (70) |
| Total comprehensive income (loss) | — | — | — | — | — | — | — | — | 58 | — | 58 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.16 per share) | — | — | — | — | — | — | (39) | — | (39) | — | (39) |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | (4) | — | (4) | — | (4) |
| Issuance of common shares | 4,429,464 | — | 4,429,464 | — | 17 | — | — | — | 17 | — | 17 |
| Stock-based compensation expense | — | — | — | — | 12 | — | — | — | 12 | — | 12 |
| Common stock repurchased | — | (9,417,244) | (9,417,244) | — | — | — | — | (107) | (107) | — | (107) |
| Shares repurchased related to employee stock-based compensation plans | — | (2,413,605) | (2,413,605) | — | — | — | — | (26) | (26) | — | (26) |
| Net activity in noncontrolling interest | — | — | — | — | — | — | — | — | — | (15) | (15) |
| **Balance at March 31, 2019** | 449,807,290 | (209,771,402) | 240,035,888 | $ 4 | $ 3,174 | $ 43 | $ 3,303 | $ (3,094) | $ 3,430 | $ 13 | $ 3,443 |
| **Balance at December 31, 2019** | 451,094,879 | (235,658,196) | 215,436,683 | $ 4 | $ 3,198 | $ (91) | $ 3,664 | $ (3,439) | $ 3,336 | $ 13 | $ 3,349 |
| Comprehensive income: | | | | | | | | | | | |
| Net income (loss) | — | — | — | — | — | — | (106) | — | (106) | — | (106) |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | (209) | — | — | (209) | — | (209) |
| Total comprehensive income (loss) | — | — | — | — | — | — | — | — | (315) | — | (315) |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.16 per share) | — | — | — | — | — | — | (31) | — | (31) | — | (31) |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | (2) | — | (2) | — | (2) |
| Issuance of common shares | 2,271,554 | — | 2,271,554 | — | 5 | — | — | — | 5 | — | 5 |
| Stock-based compensation expense | — | — | — | — | 9 | — | — | — | 9 | — | 9 |
| Common stock repurchased | — | (22,975,880) | (22,975,880) | — | — | — | — | (335) | (335) | — | (335) |
| Shares repurchased related to employee stock-based compensation plans | — | (900,277) | (900,277) | — | — | — | — | (12) | (12) | — | (12) |
| Adoption of ASU No. 2016-13 | — | — | — | — | — | — | (620) | — | (620) | — | (620) |
| **Balance at March 31, 2020** | 453,366,433 | (259,534,353) | 193,832,080 | $ 4 | $ 3,212 | $ (300) | $ 2,905 | $ (3,786) | $ 2,035 | $ 13 | $ 2,048 |

See accompanying notes to consolidated financial statements.

# NAVIENT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(Dollars in millions)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Operating activities** | | |
| Net income (loss) | $ (106) | $ 128 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Gains on debt repurchases | — | (15) |
| Goodwill and acquired intangible asset impairment and amortization expense | 5 | 7 |
| Stock-based compensation expense | 9 | 12 |
| Mark-to-market losses on derivative and hedging activities, net | 441 | 45 |
| Provisions for loan losses | 95 | 76 |
| Decrease in accrued interest receivable | 79 | 75 |
| Decrease in accrued interest payable | (70) | (57) |
| Decrease in other assets | 51 | 62 |
| Decrease in other liabilities | (51) | (145) |
| Total adjustments | 559 | 60 |
| Total net cash provided by operating activities | 453 | 188 |
| **Investing activities** | | |
| Education loans acquired and originated | (1,921) | (1,074) |
| Proceeds from payments on education loans | 3,020 | 3,455 |
| Other investing activities, net | (114) | 27 |
| Total net cash provided by investing activities | 985 | 2,408 |
| **Financing activities** | | |
| Borrowings collateralized by loans in trust - issued | 1,976 | 2,510 |
| Borrowings collateralized by loans in trust - repaid | (3,065) | (4,508) |
| Asset-backed commercial paper conduits, net | 281 | (1,350) |
| Long-term notes issued | 682 | — |
| Long-term notes repaid | (718) | (30) |
| Other financing activities, net | (241) | (114) |
| Common stock repurchased | (335) | (107) |
| Common dividends paid | (31) | (39) |
| Total net cash used in financing activities | (1,451) | (3,638) |
| Net decrease in cash, cash equivalents, restricted cash and restricted cash equivalents | (13) | (1,042) |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period | 3,781 | 5,262 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period | $ 3,768 | $ 4,220 |
| Cash disbursements made: | | |
| Interest | $ 712 | $ 903 |
| Income taxes paid | $ 2 | $ 4 |
| **Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:** | | |
| Cash and cash equivalents | $ 1,084 | $ 1,206 |
| Restricted cash and restricted cash equivalents | 2,684 | 3,014 |
| Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of period | $ 3,768 | $ 4,220 |

See accompanying notes to consolidated financial statements.

## 1. Significant Accounting Policies

***Basis of Presentation***

The accompanying unaudited, consolidated financial statements of Navient have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of Navient and its majority-owned and controlled subsidiaries and those Variable Interest Entities (“VIEs”) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results for the year ending December 31, 2020 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”). Definitions for certain capitalized terms used but not otherwise defined in this Quarterly Report on Form 10-Q can be found in our 2019 Form 10-K.

***Recently Issued Accounting Pronouncements***

***Effective in 2020***

*Allowance for Loan Losses*

On January 1, 2020, we adopted ASU No. 2016-13, “Financial Instruments — Credit Losses,” which requires measurement and recognition of an allowance for loan loss that estimates the remaining current expected credit losses (“CECL”) for financial assets measured at amortized cost held at the reporting date. Our prior allowance for loan loss was an incurred loss model. As a result, the new guidance results in an increase to our allowance for loan losses. The new standard impacts the allowance for loan losses related to our Private Education Loans and FFELP Loans.

The standard was applied through a cumulative-effect adjustment to retained earnings (net of tax) as of January 1, 2020, the effective date, for the education loans on our balance sheet as of that date (except for the $70 million Purchased Credit Deteriorated (“PCD”) portfolio where the related $43 million allowance is recorded as an increase to the basis of the loans). Subsequently, changes in the estimated remaining current expected credit losses, including estimated losses on newly originated education loans, will be recorded through provision (net income). This standard represents a significant change from prior GAAP and has resulted in material changes to the Company’s accounting for the allowance for loan losses.

**1. Significant Accounting Policies (Continued)**

Related to the new CECL standard:

- We have determined that, for modeling current expected credit losses, in general, we can reasonably estimate expected losses that incorporate current and forecasted economic conditions over a three-year period. After this “reasonable and supportable” period, there is a two-year reversion period to Navient’s actual long-term historical loss experience over a full economic life cycle. The model used to project losses utilizes key credit quality indicators of the loan portfolio and predicts how those attributes are expected to perform in connection with the forecasted economic conditions. These losses are calculated on an undiscounted basis. We project losses at the loan level and make estimates regarding prepayments, recoveries on defaults and reasonably expected new Troubled Debt Restructurings (“TDRs”).

- Separately, as it relates to interest rate concessions granted as part of our private education loan modification program, a discounted cash flow model is used to calculate the amount of interest forgiven for loans currently in the program. The present value of this interest rate concession is included in our CECL allowance for loan loss.

- Charge-offs include the discount or premium related to such defaulted loan.

- CECL requires our expected future recoveries on charged-off loans to be presented within the allowance for loan loss whereas previously, we accounted for our receivable for partially charged-off loans ($588 million as of December 31, 2019) as part of our Private Education Loan portfolio. This change is only a change in classification on the balance sheet and does not impact retained earnings at adoption of CECL or provision and net income post-adoption.

The total allowance for loan losses increased by $802 million upon adoption on January 1, 2020 (excluding the impact of the balance sheet reclassifications related to the expected future recoveries and PCD portfolio discussed above). This had a corresponding reduction to equity of $620 million.

The following table summarizes the transition adjustments made as of January 1, 2020 in connection with adopting CECL:

| (Dollars in millions) | Private Education Loans | FFELP Loans | Total |
|---|---|---|---|
| Allowance as of December 31, 2019 (prior to CECL) | $ 1,048 | $ 64 | $ 1,112 |
| Transition adjustments made under CECL on January 1, 2020: | | | |
| Current expected credit losses on non-PCD portfolio[1] | 542 | 260 | 802 |
| Current expected credit losses on PCD portfolio[2] | 43 | — | 43 |
| Reclassification of the expected future recoveries on charged-off loans[3] | (588) | — | (588) |
| Net increase to allowance for loan losses under CECL | (3) | 260 | 257 |
| Allowance as of January 1, 2020 after CECL | $ 1,045 | $ 324 | $ 1,369 |

(1) Recorded net of tax through retained earnings. Resulted in a $620 million reduction to equity.

(2) Recorded as an increase in basis of the loans. No impact to equity.

(3) Reclassification of the expected future recoveries on charged-off loans (previously referred to as the receivable for partially charged-off loans) from the Private Education Loan balance to the allowance for loan losses. No impact to equity.

**1. Significant Accounting Policies (Continued)**

*Goodwill*

On January 1, 2020, we adopted ASU No. 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment," which eliminates the requirement to perform step two of the goodwill impairment test. The new standard simplifies the goodwill impairment test by requiring comparison of the fair value of a reporting unit to its carrying value. Impairment will be recognized for the amount by which the carrying value exceeds the reporting unit fair value, not to exceed the total allocated reporting unit goodwill. Previously, step two required a hypothetical purchase price allocation when step one indicated potential impairment. The standard will be applied prospectively when the Company performs a step 1 impairment test.

*Rate Reform*

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides relief for companies who are preparing for the discontinuation of interest rates such as the London Interbank Offered Rate (LIBOR). The ASU provides companies with optional guidance in the form of expedients and exceptions related to contract modifications, hedge accounting and held to maturity debt securities to ease the burden of and simplify the accounting associated with transitioning away from LIBOR. This guidance, which will only be available through December 31, 2022, can be applied commencing in March 2020. The Company continues to assess the implications of the discontinuation of LIBOR. Accordingly, the Company has not yet concluded whether it will apply the expedients and exceptions provided in ASU 2020-04.

## 2. Allowance for Loan Losses

See "Note 1 – Significant Accounting Policies" for discussion of the adoption of CECL on January 1, 2020, and the related transition adjustment.

### *Allowance for Loan Losses Metrics*

| | Three Months Ended March 31, 2020 | | |
|---|---|---|---|
| (Dollars in millions) | Private Education Loans | FFELP Loans | Total |
| Beginning balance (as of January 1, 2020 after transition adjustment to CECL) | $ 1,045 | $ 324 | $ 1,369 |
| Total provision | 89 | 6 | 95 |
| Charge-offs[1] | (68) | (19) | (87) |
| Decrease in expected future recoveries on charged-off loans[2] | 17 | — | 17 |
| Ending balance | 1,083 | 311 | 1,394 |
| Plus: expected future recoveries on charged-off loans[2] | 571 | — | 571 |
| Ending balance excluding expected future recoveries on charged-off loans[3] | $ 1,654 | $ 311 | $ 1,965 |
| Charge-offs as a percentage of average loans in repayment (annualized) | 1.27% | .15% | |
| Allowance coverage of charge-offs (annualized)[3] | 6.0 | 4.1 | |
| Allowance as a percentage of the ending total loan balance[3] | 7.1% | .5% | |
| Allowance as a percentage of ending loans in repayment[3] | 7.8% | .6% | |
| Ending total loans | $ 23,421 | $ 62,803 | |
| Average loans in repayment | $ 21,601 | $ 52,460 | |
| Ending loans in repayment | $ 21,235 | $ 50,514 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, at the time of charge-off, the expected recovery amount is transferred from the education loan balance to the allowance for loan loss and is referred to as the expected future recoveries on charged-off loans. For FFELP Loans, the recovery is received at the time of charge-off.

(2) At the end of each month, for Private Education Loans that are 212 or more days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this as the "expected future recoveries on charged-off loans." If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for Private Education Loan losses with an offsetting reduction in the expected future recoveries for charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. The following table summarizes the activity in the expected future recoveries on charged-off loans:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Beginning of period expected recoveries | $ 588 | $ 674 |
| Expected future recoveries of current period defaults | 13 | 20 |
| Recoveries | (28) | (34) |
| Charge-offs | (2) | (3) |
| End of period expected recoveries | $ 571 | $ 657 |
| Change in balance during period | $ (17) | $ (17) |

(3) The allowance used for these metrics excludes the expected future recoveries on charged-off loans to better reflect the current expected credit losses remaining in the portfolio.

## 2. Allowance for Loan Losses (Continued)

| | Three Months Ended March 31, 2019 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| **Allowance for Loan Losses** | | | | |
| Beginning balance | $ 76 | $ 1,201 | $ 9 | $ 1,286 |
| Total provision | 8 | 68 | — | 76 |
| Charge-offs remaining(1) | (17) | (94) | (2) | (113) |
| Reclassification of interest reserve(2) | — | 3 | — | 3 |
| Ending balance | $ 67 | $ 1,178 | $ 7 | $ 1,252 |
| *Allowance Ending Balance:* | | | | |
| Individually evaluated for impairment — TDR | $ — | $ 1,061 | $ 7 | $ 1,068 |
| Collectively evaluated for impairment: | | | | |
| Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans | 67 | 117 | — | 184 |
| Purchased Non-Credit Impaired Loans acquired at a discount(3) | — | — | — | — |
| Purchased Credit Impaired Loans(3) | — | — | — | — |
| Ending total allowance | $ 67 | $ 1,178 | $ 7 | $ 1,252 |
| *Loans Ending Balance:* | | | | |
| Individually evaluated for impairment — TDR | $ — | $ 10,161 | $ 26 | $ 10,187 |
| Collectively evaluated for impairment: | | | | |
| Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans | 66,634 | 11,591 | 29 | 78,254 |
| Purchased Non-Credit Impaired Loans acquired at a discount(3) | 2,758 | 2,072 | — | 4,830 |
| Purchased Credit Impaired Loans(3) | — | 219 | — | 219 |
| Ending total loans(5) | $ 69,392 | $ 24,043 | $ 55 | $ 93,490 |
| Charge-offs as a percentage of average loans in repayment | .11% | 1.72% | 10.74% | |
| Allowance coverage of charge-offs | 1.0 | 3.1 | 1.0 | |
| Allowance as a percentage of the ending total loan balance | .10% | 4.90% | 14.09% | |
| Allowance as a percentage of the ending loans in repayment | .12% | 5.35% | 14.09% | |
| Ending total loans(4) | $ 69,392 | $ 24,043 | $ 55 | |
| Average loans in repayment | $ 58,222 | $ 22,061 | $ 75 | |
| Ending loans in repayment | $ 57,235 | $ 22,027 | $ 55 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be recovered and any shortfalls in what was actually recovered in the period. For FFELP Loans, the recovery is received at the time of charge-off.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.

(3) The Purchased Credit Impaired Loans' losses are not provided for by the allowance for loan losses in the above table as these loans are separately reserved for, if needed. No allowance for loan losses has been established for these loans as of March 31, 2019. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of $35 million and $312 million, respectively, as of March 31, 2019 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of March 31, 2019.

(4) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

**2. Allowance for Loan Losses (Continued)**

***Key Credit Quality Indicators***

*FFELP Loans*

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default. The key credit quality indicators for this portfolio are loan status and loan type. The impact of changes in loan status and loan type is incorporated into the allowance for loan losses calculation.

*Loan status:*

| | FFELP Loan Delinquencies | | | |
|---|---|---|---|---|
| | March 31, 2020 | | December 31, 2019 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment(1) | $ 3,291 | | $ 3,114 | |
| Loans in forbearance(2) | 8,998 | | 7,442 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 45,216 | 89.5% | 47,255 | 88.3% |
| Loans delinquent 31-60 days(3) | 1,631 | 3.2 | 2,094 | 3.9 |
| Loans delinquent 61-90 days(3) | 969 | 1.9 | 1,082 | 2.0 |
| Loans delinquent greater than 90 days(3) | 2,698 | 5.4 | 3,107 | 5.8 |
| Total FFELP Loans in repayment | 50,514 | 100% | 53,538 | 100% |
| Total FFELP Loans, gross | 62,803 | | 64,094 | |
| FFELP Loan unamortized premium(4) | — | | 545 | |
| Total FFELP Loans | 62,803 | | 64,639 | |
| FFELP Loan allowance for losses | (311) | | (64) | |
| FFELP Loans, net | $ 62,492 | | $ 64,575 | |
| Percentage of FFELP Loans in repayment | | 80.4% | | 83.5% |
| Delinquencies as a percentage of FFELP Loans in repayment | | 10.5% | | 11.7% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance | | 15.1% | | 12.2% |

(1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

(2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

(4) In connection with the adoption of CECL on January 1, 2020, the $528 million premium as of March 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure. This change is prospective in nature as prior balances are not restated under CECL.

*Loan type*:

| (Dollars in millions) | March 31, 2020 | March 31, 2019 | Change |
|---|---|---|---|
| Stafford Loans | $ 18,829 | $ 20,698 | $ (1,869) |
| Consolidation Loans | 38,796 | 42,894 | (4,098) |
| Rehab Loans | 5,178 | 5,800 | (622) |
| Total | $ 62,803 | $ 69,392 | $ (6,589) |

## 2. Allowance for Loan Losses (Continued)

*Private Education Loans*

We segregate our Private Education Loan portfolio into two classes of loans in monitoring and assessing credit risk — Troubled Debt Restructurings ("TDRs") and Non-TDRs. The key credit quality indicators are FICO scores, school type, the existence of a cosigner, the loan status and loan seasoning. The FICO score is the higher of the borrower or co-borrower score and is updated at least every six months while school type is assessed at origination. The other Private Education Loan key quality indicators are updated quarterly. These key credit quality indicators are incorporated into the allowance for loan losses calculation.

The following tables highlight the principal balance of our Private Education Loan portfolio stratified by the key credit quality indicators.

| | Private Education Loan Credit Quality Indicators by Origination Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | TDRs | | | | | | | |
| (Dollars in millions) | March 31, 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Total | % of Total |
| **Credit Quality Indicators** | | | | | | | | |
| FICO Scores: | | | | | | | | |
| 640 and above | $ — | $ 1 | $ 15 | $ 24 | $ 10 | $ 6,380 | $ 6,430 | 72% |
| Below 640 | — | 1 | 6 | 6 | 2 | 2,446 | 2,461 | 28 |
| Total | $ — | $ 2 | $ 21 | $ 30 | $ 12 | $ 8,826 | $ 8,891 | 100% |
| School Type: | | | | | | | | |
| Not-for-profit | $ — | $ 2 | $ 19 | $ 29 | $ 12 | $ 7,042 | $ 7,104 | 80% |
| For-profit | — | — | 2 | 1 | — | 1,784 | 1,787 | 20 |
| Total | $ — | $ 2 | $ 21 | $ 30 | $ 12 | $ 8,826 | $ 8,891 | 100% |
| Cosigners: | | | | | | | | |
| With cosigner(1) | $ — | $ — | $ — | $ 10 | $ 5 | $ 5,560 | $ 5,575 | 63% |
| Without cosigner | — | 2 | 21 | 20 | 7 | 3,266 | 3,316 | 37 |
| Total | $ — | $ 2 | $ 21 | $ 30 | $ 12 | $ 8,826 | $ 8,891 | 100% |
| Seasoning(2): | | | | | | | | |
| 1-12 payments | $ — | $ 2 | $ 12 | $ 1 | $ — | $ 183 | $ 198 | 2% |
| 13-24 payments | — | — | 9 | 14 | 2 | 249 | 274 | 3 |
| 25-36 payments | — | — | — | 15 | 7 | 402 | 424 | 5 |
| 37-48 payments | — | — | — | — | 3 | 590 | 593 | 7 |
| More than 48 payments | — | — | — | — | — | 7,058 | 7,058 | 79 |
| Not yet in repayment | — | — | — | — | — | 344 | 344 | 4 |
| Total | $ — | $ 2 | $ 21 | $ 30 | $ 12 | $ 8,826 | $ 8,891 | 100% |
| Allowance for loan losses | | | | | | | (951) | |
| Total loans, net | | | | | | | $ 7,940 | |

(1) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 63% for total loans at March 31, 2020.

(2) Number of months in active repayment for which a scheduled payment was received.

## 2. Allowance for Loan Losses (Continued)

| | Private Education Loan Credit Quality Indicators by Origination Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-TDRs | | | | | | | |
| (Dollars in millions) | March 31, 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Total | % of Total |
| **Credit Quality Indicators** | | | | | | | | |
| FICO Scores: | | | | | | | | |
| 640 and above | $ 1,852 | $ 4,107 | $ 1,491 | $ 473 | $ 92 | $ 6,194 | $ 14,209 | 98% |
| Below 640 | 13 | 32 | 19 | 5 | 1 | 251 | 321 | 2 |
| Total | $ 1,865 | $ 4,139 | $ 1,510 | $ 478 | $ 93 | $ 6,445 | $ 14,530 | 100% |
| School Type: | | | | | | | | |
| Not-for-profit | $ 1,764 | $ 3,871 | $ 1,400 | $ 457 | $ 92 | $ 5,576 | $ 13,160 | 91% |
| For-profit | 101 | 268 | 110 | 21 | 1 | 869 | 1,370 | 9 |
| Total | $ 1,865 | $ 4,139 | $ 1,510 | $ 478 | $ 93 | $ 6,445 | $ 14,530 | 100% |
| Cosigners: | | | | | | | | |
| With cosigner(1) | $ 2 | $ 15 | $ 1 | $ 51 | $ 22 | $ 4,455 | $ 4,546 | 31% |
| Without cosigner | 1,863 | 4,124 | 1,509 | 427 | 71 | 1,990 | 9,984 | 69 |
| Total | $ 1,865 | $ 4,139 | $ 1,510 | $ 478 | $ 93 | $ 6,445 | $ 14,530 | 100% |
| Seasoning(2): | | | | | | | | |
| 1-12 payments | $ 1,862 | $ 3,933 | $ 11 | $ 1 | $ — | $ 41 | $ 5,848 | 40% |
| 13-24 payments | — | 189 | 1,371 | 6 | — | 50 | 1,616 | 11 |
| 25-36 payments | — | — | 116 | 443 | 2 | 107 | 668 | 5 |
| 37-48 payments | — | — | — | 24 | 89 | 157 | 270 | 2 |
| More than 48 payments | — | — | — | — | — | 5,869 | 5,869 | 40 |
| Not yet in repayment | 3 | 17 | 12 | 4 | 2 | 221 | 259 | 2 |
| Total | $ 1,865 | $ 4,139 | $ 1,510 | $ 478 | $ 93 | $ 6,445 | $ 14,530 | 100% |
| Allowance for loan losses | | | | | | | (132) | |
| Total loans, net | | | | | | | $ 14,398 | |

(1) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 67% for total loans at March 31, 2020.

(2) Number of months in active repayment for which a scheduled payment was received.

## 2. Allowance for Loan Losses (Continued)

| | Private Education Loan Credit Quality Indicators | | | |
|---|---|---|---|---|
| | December 31, 2019 | | | |
| | TDRs | | Non-TDRs | |
| (Dollars in millions) | Balance[3] | % of Balance | Balance[3] | % of Balance |
| **Credit Quality Indicators** | | | | |
| Original Winning FICO Scores: | | | | |
| FICO 640 and above | $ 8,493 | 92% | $ 13,687 | 97% |
| FICO below 640 | 777 | 8 | 365 | 3 |
| Total | $ 9,270 | 100% | $ 14,052 | 100% |
| School Type: | | | | |
| Not-for-profit | $ 7,387 | 80% | $ 12,614 | 90% |
| For-profit | 1,883 | 20 | 1,438 | 10 |
| Total | $ 9,270 | 100% | $ 14,052 | 100% |
| Cosigners: | | | | |
| With cosigner[1] | $ 5,792 | 62% | $ 5,184 | 37% |
| Without cosigner | 3,478 | 38 | 8,868 | 63 |
| Total | $ 9,270 | 100% | $ 14,052 | 100% |
| Seasoning[2]: | | | | |
| 1-12 payments | $ 224 | 3% | $ 4,673 | 33% |
| 13-24 payments | 301 | 3 | 1,570 | 11 |
| 25-36 payments | 472 | 5 | 603 | 4 |
| 37-48 payments | 662 | 7 | 251 | 2 |
| More than 48 payments | 7,262 | 78 | 6,675 | 48 |
| Not yet in repayment | 349 | 4 | 280 | 2 |
| Total | $ 9,270 | 100% | $ 14,052 | 100% |

(1) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 63% and 67% for TDRs and non-TDRs, respectively, at December 31, 2019.

(2) Number of months in active repayment for which a scheduled payment was received.

(3) Balance equals the gross Private Education Loans.

## 2. Allowance for Loan Losses (Continued)

| | Private Education Loan Delinquencies | | | |
|---|---|---|---|---|
| | TDRs | | | |
| | March 31, 2020 | | December 31, 2019 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 345 | | $ 349 | |
| Loans in forbearance[2] | 1,057 | | 479 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 6,808 | 90.9% | 7,557 | 89.5% |
| Loans delinquent 31-60 days[3] | 227 | 3.0 | 296 | 3.5 |
| Loans delinquent 61-90 days[3] | 139 | 1.9 | 191 | 2.3 |
| Loans delinquent greater than 90 days[3] | 315 | 4.2 | 398 | 4.7 |
| Total TDR loans in repayment | 7,489 | 100% | 8,442 | 100% |
| Total TDR loans, gross | 8,891 | | 9,270 | |
| TDR loans unamortized discount[4] | — | | (203) | |
| Total TDR loans | 8,891 | | 9,067 | |
| TDR loans receivable for partially charged-off loans[4] | — | | 347 | |
| TDR loans allowance for losses | (951) | | (941) | |
| TDR loans, net | $ 7,940 | | $ 8,473 | |
| Percentage of TDR loans in repayment | | 84.2% | | 91.1% |
| Delinquencies as a percentage of TDR loans in repayment | | 9.1% | | 10.5% |
| Loans in forbearance as a percentage of TDR loans in repayment and forbearance | | 12.4% | | 5.4% |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

(4) In connection with the adoption of CECL on January 1, 2020, (1) the $211 million discount as of March 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure and (2) the receivable for partially charged-off loans balance has been reclassified from the Private Education Loan balance to the allowance for loan loss. Both of these changes are prospective in nature as prior balances are not restated under CECL.

## 2. Allowance for Loan Losses (Continued)

| (Dollars in millions) | Private Education Loan Delinquencies — Non-TDRs — March 31, 2020 Balance | % | December 31, 2019 Balance | % |
|---|---|---|---|---|
| Loans in-school/grace/deferment[1] | $ 258 | | $ 280 | |
| Loans in forbearance[2] | 526 | | 125 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 13,658 | 99.4% | 13,526 | 99.1% |
| Loans delinquent 31-60 days[3] | 38 | .3 | 53 | .4 |
| Loans delinquent 61-90 days[3] | 18 | .1 | 27 | .2 |
| Loans delinquent greater than 90 days[3] | 32 | .2 | 41 | .3 |
| Total non-TDR loans in repayment | 13,746 | 100% | 13,647 | 100% |
| Total non-TDR loans, gross | 14,530 | | 14,052 | |
| Non-TDR loans unamortized discount[4] | — | | (414) | |
| Total non-TDR loans | 14,530 | | 13,638 | |
| Non-TDR loans receivable for partially charged-off loans[4] | — | | 241 | |
| Non-TDR loans allowance for losses | (132) | | (107) | |
| Non-TDR loans, net | $ 14,398 | | $ 13,772 | |
| Percentage of non-TDR loans in repayment | | 94.6% | | 97.1% |
| Delinquencies as a percentage of non-TDR loans in repayment | | .6% | | .9% |
| Loans in forbearance as a percentage of non-TDR loans in repayment and forbearance | | 3.7% | | .9% |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

(4) In connection with the adoption of CECL on January 1, 2020, (1) the $339 million discount as of March 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure and (2) the receivable for partially charged-off loans balance has been reclassified from the Private Education Loan balance to the allowance for loan loss. Both of these changes are prospective in nature as prior balances are not restated under CECL.

## 2. Allowance for Loan Losses (Continued)

### *Troubled Debt Restructurings ("TDRs")*

We sometimes modify the terms of loans for customers experiencing financial difficulty. Certain Private Education Loans for which we have granted either a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. Approximately 70% and 69% of the loans granted forbearance have qualified as a TDR loan at March 31, 2020 and December 31, 2019, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction program as of March 31, 2020 and December 31, 2019 was $1.6 billion and $1.7 billion, respectively.

The following table provides the amount of loans modified in the periods presented that resulted in a TDR. Additionally, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the current period within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure.

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Modified loans[1] | $ 95 | $ 133 |
| Charge-offs[2] | $ 58 | $ 80 |
| Payment default | $ 21 | $ 32 |

(1) Represents period ending balance of loans that have been modified during the period and resulted in a TDR.

(2) Represents loans that charged off that were classified as TDRs.

## 3. Borrowings

The following table summarizes our borrowings.

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Short Term | Long Term | Total | Short Term | Long Term | Total |
| Unsecured borrowings: | | | | | | |
| Senior unsecured debt[1] | $ 1,129 | $ 8,353 | $ 9,482 | $ 1,052 | $ 8,461 | $ 9,513 |
| Total unsecured borrowings | 1,129 | 8,353 | 9,482 | 1,052 | 8,461 | 9,513 |
| Secured borrowings: | | | | | | |
| FFELP Loan securitizations[2] | 134 | 57,988 | 58,122 | 72 | 59,735 | 59,807 |
| Private Education Loan securitizations[3] | 1,635 | 12,538 | 14,173 | 2,120 | 11,430 | 13,550 |
| FFELP Loan ABCP facilities | 2,712 | 711 | 3,423 | 2,783 | 617 | 3,400 |
| Private Education Loan ABCP facilities | 2,460 | 1,427 | 3,887 | 2,114 | 1,513 | 3,627 |
| Other[4] | 372 | — | 372 | 338 | — | 338 |
| Total secured borrowings | 7,313 | 72,664 | 79,977 | 7,427 | 73,295 | 80,722 |
| Total before hedge accounting adjustments | 8,442 | 81,017 | 89,459 | 8,479 | 81,756 | 90,235 |
| Hedge accounting adjustments | 10 | 280 | 290 | 4 | (41) | (37) |
| Total | $ 8,452 | $ 81,297 | $ 89,749 | $ 8,483 | $ 81,715 | $ 90,198 |

(1) Includes principal amount of $1.1 billion and $1.1 billion of short-term debt as of March 31, 2020 and December 31, 2019, respectively. Includes principal amount of $8.4 billion and $8.5 billion of long-term debt as of March 31, 2020 and December 31, 2019, respectively.

(2) Includes $134 million and $72 million of short-term debt related to the FFELP Loan asset-backed securitization repurchase facilities ("FFELP Loan Repurchase Facilities") as of March 31, 2020 and December 31, 2019, respectively. Includes $172 million and $231 million of long-term debt related to the FFELP Loan Repurchase Facilities as of March 31, 2020 and December 31, 2019, respectively.

(3) Includes $1.6 billion and $2.1 billion of short-term debt related to the Private Education Loan asset-backed securitization repurchase facilities ("Private Education Loan Repurchase Facilities") as of March 31, 2020 and December 31, 2019, respectively. Includes $260 million and $194 million of long-term debt related to the Private Education Loan Repurchase Facilities as of March 31, 2020 and December 31, 2019, respectively.

(4) "Other" primarily includes the obligation to return cash collateral held related to derivative exposures.

## 3. Borrowings (Continued)

### *Variable Interest Entities*

We consolidated the following financing VIEs as of March 31, 2020 and December 31, 2019, as we are the primary beneficiary. As a result, these VIEs are accounted for as secured borrowings.

| | March 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| (Dollars in millions) | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings — VIEs:** | | | | | | | |
| FFELP Loan securitizations | $ 134 | $ 57,988 | $ 58,122 | $ 58,831 | $ 1,906 | $ 1,374 | $ 62,111 |
| Private Education Loan securitizations | 1,635 | 12,538 | 14,173 | 15,456 | 576 | 154 | 16,186 |
| FFELP Loan ABCP facilities | 2,712 | 711 | 3,423 | 3,450 | 55 | 98 | 3,603 |
| Private Education Loan ABCP facilities | 2,460 | 1,427 | 3,887 | 4,295 | 94 | 26 | 4,415 |
| Total before hedge accounting adjustments | 6,941 | 72,664 | 79,605 | 82,032 | 2,631 | 1,652 | 86,315 |
| Hedge accounting adjustments | — | (539) | (539) | — | — | (677) | (677) |
| Total | $ 6,941 | $ 72,125 | $ 79,066 | $ 82,032 | $ 2,631 | $ 975 | $ 85,638 |

| | December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| (Dollars in millions) | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings — VIEs:** | | | | | | | |
| FFELP Loan securitizations | $ 72 | $ 59,735 | $ 59,807 | $ 60,834 | $ 1,833 | $ 1,400 | $ 64,067 |
| Private Education Loan securitizations | 2,120 | 11,430 | 13,550 | 15,412 | 509 | 152 | 16,073 |
| FFELP Loan ABCP facilities | 2,783 | 617 | 3,400 | 3,421 | 63 | 102 | 3,586 |
| Private Education Loan ABCP facilities | 2,114 | 1,513 | 3,627 | 4,197 | 101 | 28 | 4,326 |
| Total before hedge accounting adjustments | 7,089 | 73,295 | 80,384 | 83,864 | 2,506 | 1,682 | 88,052 |
| Hedge accounting adjustments | — | (439) | (439) | — | — | (593) | (593) |
| Total | $ 7,089 | $ 72,856 | $ 79,945 | $ 83,864 | $ 2,506 | $ 1,089 | $ 87,459 |

## 4. Derivative Financial Instruments

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2019 Form 10-K. Please refer to “Note 7 — Derivative Financial Instruments” in our 2019 Form 10-K for a full discussion.

### *Summary of Derivative Financial Statement Impact*

The following tables summarize the fair values and notional amounts of all derivative instruments at March 31, 2020 and December 31, 2019, and their impact on other comprehensive income and earnings for the three months ended March 31, 2020 and 2019.

## 4. Derivative Financial Instruments (Continued)

*Impact of Derivatives on Consolidated Balance Sheet*

| (Dollars in millions) | Hedged Risk Exposure | Cash Flow Mar 31, 2020 | Cash Flow Dec 31, 2019 | Fair Value(4) Mar 31, 2020 | Fair Value(4) Dec 31, 2019 | Trading Mar 31, 2020 | Trading Dec 31, 2019 | Total Mar 31, 2020 | Total Dec 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Fair Values(1) | | | | | | | | | |
| *Derivative Assets:* | | | | | | | | | |
| Interest rate swaps | Interest rate | $ — | $ — | $ 379 | $ 226 | $ 2 | $ 4 | $ 381 | $ 230 |
| Cross-currency interest rate swaps | Foreign currency and interest rate | — | — | — | — | — | — | — | — |
| Total derivative assets(2) | | — | — | 379 | 226 | 2 | 4 | 381 | 230 |
| *Derivative Liabilities:* | | | | | | | | | |
| Interest rate swaps | Interest rate | — | — | — | — | (14) | (20) | (14) | (20) |
| Floor Income Contracts | Interest rate | — | — | — | — | (247) | (68) | (247) | (68) |
| Cross-currency interest rate swaps | Foreign currency and interest rate | — | — | (666) | (575) | — | — | (666) | (575) |
| Other(3) | Interest rate | — | — | — | — | — | (1) | — | (1) |
| Total derivative liabilities(2) | | — | — | (666) | (575) | (261) | (89) | (927) | (664) |
| Net total derivatives | | $ — | $ — | $ (287) | $ (349) | $ (259) | $ (85) | $ (546) | $ (434) |

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net positive or negative position.

(2) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

| (Dollar in millions) | Other Assets March 31, 2020 | Other Assets December 31, 2019 | Other Liabilities March 31, 2020 | Other Liabilities December 31, 2019 |
|---|---|---|---|---|
| Gross position | $ 381 | $ 230 | $ (927) | $ (664) |
| Impact of master netting agreements | (66) | (18) | 66 | 18 |
| Derivative values with impact of master netting agreements (as carried on balance sheet) | 315 | 212 | (861) | (646) |
| Cash collateral (held) pledged | (370) | (337) | 262 | 155 |
| Net position | $ (55) | $ (125) | $ (599) | $ (491) |

(3) “Other” includes derivatives related to our Total Return Swap Facility.

(4) The following table shows the carrying value of liabilities in fair value hedges and the related fair value hedging adjustments to these liabilities:

| (Dollar in millions) | As of March 31, 2020 Carrying Value | As of March 31, 2020 Hedge Basis Adjustments | As of December 31, 2019 Carrying Value | As of December 31, 2019 Hedge Basis Adjustments |
|---|---|---|---|---|
| Short-term borrowings | $ 1,085 | $ 10 | $ 1,001 | $ 4 |
| Long-term borrowings | $ 11,624 | $ 265 | $ 11,488 | $ (58) |

## 4. Derivative Financial Instruments (Continued)

The above fair values include adjustments when necessary for counterparty credit risk for both when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the asset position at March 31, 2020 and December 31, 2019 by $13 million and $11 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at March 31, 2020 and December 31, 2019 by $9 million and $12 million, respectively.

| | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in billions) | Mar 31, 2020 | Dec 31, 2019 | Mar 31, 2020 | Dec 31, 2019 | Mar 31, 2020 | Dec 31, 2019 | Mar 31, 2020 | Dec 31, 2019 |
| **Notional Values:** | | | | | | | | |
| Interest rate swaps | $ 17.3 | $ 19.1 | $ 8.6 | $ 8.6 | $ 43.8 | $ 51.5 | $ 69.7 | $ 79.2 |
| Floor Income Contracts | — | — | — | — | 17.3 | 21.2 | 17.3 | 21.2 |
| Cross-currency interest rate swaps | — | — | 3.9 | 4.0 | — | — | 3.9 | 4.0 |
| Other[1] | — | — | — | — | .1 | — | .1 | — |
| Total derivatives | $ 17.3 | $ 19.1 | $ 12.5 | $ 12.6 | $ 61.2 | $ 72.7 | $ 91.0 | $ 104.4 |

(1) "Other" includes derivatives related to our Total Return Swap Facility.

*Mark-to-Market Impact of Derivatives on Consolidated Statements of Income*

| | Total Gains (Losses) | |
|---|---|---|
| | Three Months Ended March 31, | |
| (Dollars in millions) | 2020 | 2019 |
| ***Fair Value Hedges:*** | | |
| Interest Rate Swaps | | |
| Gains (losses) recognized in net income on derivatives | $ 410 | $ 104 |
| Gains (losses) recognized in net income on hedged items | (429) | (117) |
| Net fair value hedge ineffectiveness gains (losses) | (19) | (13) |
| Cross currency interest rate swaps | | |
| Gains (losses) recognized in net income on derivatives | (91) | (12) |
| Gains (losses) recognized in net income on hedged items | 101 | 27 |
| Net fair value hedge ineffectiveness gains (losses) | 10 | 15 |
| Total fair value hedges[1][2] | (9) | 2 |
| ***Cash Flow Hedges:*** | | |
| Total cash flow hedges[2] | — | — |
| ***Trading:*** | | |
| Interest rate swaps | (41) | 6 |
| Floor income contracts | (182) | 2 |
| Cross currency interest rate swaps | — | (3) |
| Other | — | 2 |
| Total trading derivatives[3] | (223) | 7 |
| Mark-to-market gains (losses) recognized | $ (232) | $ 9 |

(1) Recorded in interest expense in the consolidated statements of income.
(2) The accrued interest income (expense) on fair value hedges and cash flow hedges is recorded in interest expense and is excluded from this table.
(3) Recorded in "gains (losses) on derivatives and hedging activities, net" in the consolidated statements of income.

## 4. Derivative Financial Instruments (Continued)

*Impact of Derivatives on Consolidated Statements of Changes in Stockholders' Equity (net of tax)*

| (Dollars in millions) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Total gains (losses) on cash flow hedges | $ (209) | $ (57) |
| Reclassification adjustments for derivative (gains) losses included in net income (interest expense)[1][2] | — | (13) |
| Total change in stockholders' equity for unrealized gains (losses) on derivatives | $ (209) | $ (70) |

(1) Includes net settlement income/expense.

(2) We expect to reclassify $3 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to amortization of terminated hedge relationships.

### *Collateral*

Collateral held and pledged related to derivative exposures between us and our derivative counterparties are detailed in the following table:

| (Dollars in millions) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Collateral held:** | | |
| Cash (obligation to return cash collateral is recorded in short-term borrowings) | $ 370 | $ 337 |
| Securities at fair value — corporate derivatives (not recorded in financial statements)[1] | — | — |
| Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements)[2] | 56 | 69 |
| Total collateral held | $ 426 | $ 406 |
| Derivative asset at fair value including accrued interest | $ 325 | $ 282 |
| **Collateral pledged to others:** | | |
| Cash (right to receive return of cash collateral is recorded in investments) | $ 262 | $ 155 |
| Total collateral pledged | $ 262 | $ 155 |
| Derivative liability at fair value including accrued interest and premium receivable | $ 863 | $ 658 |

(1) The Company has the ability to sell or re-pledge securities it holds as collateral.

(2) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of $175 million with our counterparties. Downgrades in our unsecured credit rating would not result in any additional collateral requirements. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

## 5. Other Assets

The following table provides the detail of our other assets.

| (Dollars in millions) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Accrued interest receivable | $ 1,874 | $ 1,952 |
| Income tax asset, net (current and deferred) | 535 | 258 |
| Benefit and insurance-related investments | 457 | 459 |
| Derivatives at fair value | 315 | 212 |
| Fixed assets, net | 132 | 135 |
| Accounts receivable | 95 | 119 |
| Other | 171 | 199 |
| Total | $ 3,579 | $ 3,334 |

## 6. Stockholders' Equity

The following table summarizes common share repurchases and issuances.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Common stock repurchased(1) | 22,975,880 | 9,417,244 |
| Average purchase price per share | $ 14.61 | $ 11.40 |
| Shares repurchased related to employee stock-based compensation plans(2) | 900,277 | 2,413,605 |
| Average purchase price per share | $ 13.69 | $ 10.82 |
| Common shares issued(3) | 2,271,554 | 4,429,464 |

(1) Common shares purchased under our share repurchase program.
(2) Comprises shares withheld from stock option exercises and vesting of restricted stock for employees' tax withholding obligations and shares tendered by employees to satisfy option exercise costs.
(3) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on March 31, 2020 was $7.58.

***Dividend and Share Repurchase Program***

In the three months ended March 31, 2020 and 2019, we paid $31 million ($0.16 per share) and $39 million ($0.16 per share) of common stock dividends, respectively.

On January 27, 2020, Navient entered into an agreement and repurchased 20.3 million shares of common stock owned by certain existing shareholders at a purchase price of $14.77 per share. The price of the shares repurchased equaled the closing price of Navient stock on January 27, 2020.

In the three months ended March 31, 2020 and 2019, we repurchased 23.0 million and 9.4 million shares of common stock, respectively, for $335 million and $107 million, respectively. As of March 31, 2020, the remaining common share repurchase authority under this program was $665 million.

## 7. Earnings (Loss) per Common Share

Basic earnings (loss) per common share ("EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations on a GAAP basis follows.

| (In millions, except per share data) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| **Numerator:** | | |
| Net income (loss) | $ (106) | $ 128 |
| **Denominator:** | | |
| Weighted average shares used to compute basic EPS | 200 | 244 |
| Effect of dilutive securities: | | |
| Dilutive effect of stock options, restricted stock, restricted stock units, performance stock units, and Employee Stock Purchase Plan ("ESPP")(1) | — | 3 |
| Dilutive potential common shares(2) | — | 3 |
| Weighted average shares used to compute diluted EPS | 200 | 247 |
| **Basic earnings (loss) per common share** | $ (.53) | $ .52 |
| **Diluted earnings (loss) per common share** | $ (.53) | $ .52 |

(1) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, restricted stock, restricted stock units, performance stock units and the outstanding commitment to issue shares under applicable ESPPs, determined by the treasury stock method.

(2) For the three months ended March 31, 2020 and 2019, securities covering approximately 7 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

## 8. Fair Value Measurements

We use estimates of fair value in applying various accounting standards in our financial statements. We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Please refer to "Note 12 — Fair Value Measurements" in our 2019 Form 10-K for a full discussion.

During the three months ended March 31, 2020, there were no significant transfers of financial instruments between levels, or changes in our methodology used to value our financial instruments. The fair values take into account the impact COVID-19 had on the valuations as of March 31, 2020, most significantly in the form of higher credit spreads used to determine the respective fair values of our education loans and borrowings.

## 8. Fair Value Measurements (Continued)

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis.

| | Fair Value Measurements on a Recurring Basis | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2020 | | | | December 31, 2019 | | | |
| (Dollars in millions) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | | | | |
| Derivative instruments:(1) | | | | | | | | |
| Interest rate swaps | $ — | $ 379 | $ 2 | $ 381 | $ — | $ 227 | $ 3 | $ 230 |
| Cross-currency interest rate swaps | — | — | — | — | — | — | — | — |
| Total derivative assets(2) | — | 379 | 2 | 381 | — | 227 | 3 | 230 |
| **Total** | $ — | $ 379 | $ 2 | $ 381 | $ — | $ 227 | $ 3 | $ 230 |
| **Liabilities(3)** | | | | | | | | |
| Derivative instruments(1) | | | | | | | | |
| Interest rate swaps | $ — | $ — | $ (14) | $ (14) | $ — | $ — | $ (20) | $ (20) |
| Floor Income Contracts | — | (247) | — | (247) | — | (68) | — | (68) |
| Cross-currency interest rate swaps | — | — | (666) | (666) | — | — | (575) | (575) |
| Other | — | — | — | — | — | — | (1) | (1) |
| Total derivative liabilities(2) | — | (247) | (680) | (927) | — | (68) | (596) | (664) |
| **Total** | $ — | $ (247) | $ (680) | $ (927) | $ — | $ (68) | $ (596) | $ (664) |

(1) Fair value of derivative instruments excludes accrued interest and the value of collateral.

(2) See "Note 4 – Derivative Financial Instruments" for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.

(3) Borrowings which are the hedged item in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and not reflected in this table.

## 8. Fair Value Measurements (Continued)

The following tables summarize the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis.

| | Three Months Ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | 2019 | | | |
| | Derivative instruments | | | | Derivative instruments | | | |
| (Dollars in millions) | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments |
| **Balance, beginning of period** | $ (17) | $ (575) | $ (1) | $ (593) | $ (27) | $ (633) | $ (4) | $ (664) |
| Total gains/(losses): | | | | | | | | |
| Included in earnings[1] | 4 | (112) | 1 | (107) | 2 | (45) | 2 | (41) |
| Included in other comprehensive income | — | — | — | — | — | — | — | — |
| Settlements | 1 | 21 | — | 22 | 1 | 33 | — | 34 |
| Transfers in and/or out of level 3 | — | — | — | — | — | — | — | — |
| **Balance, end of period** | $ (12) | $ (666) | $ — | $ (678) | $ (24) | $ (645) | $ (2) | $ (671) |
| Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date[2] | $ 2 | $ (91) | $ 1 | $ (88) | $ 3 | $ (12) | $ 2 | $ (7) |

(1) "Included in earnings" is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Gains (losses) on derivative and hedging activities, net | $ 5 | $ 4 |
| Interest expense | (112) | (45) |
| Total | $ (107) | $ (41) |

(2) Recorded in "gains (losses) on derivative and hedging activities, net" in the consolidated statement of income for interest rate swaps and other. Recorded in interest expense for cross currency interest rate swaps in fair value hedges.

## 8. Fair Value Measurements (Continued)

The following table presents the significant inputs that are unobservable or from inactive markets used in the recurring valuations of the level 3 financial instruments detailed above.

| (Dollars in millions) | Fair Value at March 31, 2020 | Valuation Technique | Input | Range (Weighted Average) |
|---|---|---|---|---|
| **Derivatives** | | | | |
| Prime/LIBOR basis swaps | $ (12) | Discounted cash flow | Constant Prepayment Rate | 8% |
| | | | Bid/ask adjustment to discount rate | .08% |
| Cross-currency interest rate swaps | (666) | Discounted cash flow | Constant Prepayment Rate | 4% |
| Other | — | | | |
| Total | $ (678) | | | |

The significant inputs that are unobservable or from inactive markets related to our level 3 derivatives detailed in the table above would be expected to have the following impacts to the valuations:

- Prime/LIBOR basis swaps — These swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation. In addition, the unobservable inputs include Constant Prepayment Rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap which will increase the value for swaps in a gain position and decrease the value for swaps in a loss position, everything else equal. The opposite is true for an increase in the input.
- Cross-currency interest rate swaps — The unobservable inputs used in these valuations are Constant Prepayment Rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap. All else equal in a typical currency market, this will result in a decrease to the valuation due to the delay in the cash flows of the currency exchanges as well as diminished liquidity in the forward exchange markets as you increase the term. The opposite is true for an increase in the input.

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Fair Value | Carrying Value | Difference | Fair Value | Carrying Value | Difference |
| **Earning assets** | | | | | | |
| FFELP Loans | $ 59,333 | $ 62,492 | $ (3,159) | $ 64,478 | $ 64,575 | $ (97) |
| Private Education Loans | 21,638 | 22,338 | (700) | 22,984 | 22,245 | 739 |
| Cash and investments | 4,084 | 4,084 | — | 3,992 | 3,992 | — |
| Total earning assets | 85,055 | 88,914 | (3,859) | 91,454 | 90,812 | 642 |
| **Interest-bearing liabilities** | | | | | | |
| Short-term borrowings | 8,416 | 8,452 | 36 | 8,498 | 8,483 | (15) |
| Long-term borrowings | 73,871 | 81,297 | 7,426 | 81,317 | 81,715 | 398 |
| Total interest-bearing liabilities | 82,287 | 89,749 | 7,462 | 89,815 | 90,198 | 383 |
| Derivative financial instruments | | | | | | |
| Floor Income Contracts | (247) | (247) | — | (68) | (68) | — |
| Interest rate swaps | 367 | 367 | — | 210 | 210 | — |
| Cross-currency interest rate swaps | (666) | (666) | — | (575) | (575) | — |
| Other | — | — | — | (1) | (1) | — |
| **Excess of net asset fair value over carrying value**(1) | | | $ 3,603 | | | $ 1,025 |

(1) $1.6 billion of this excess as of March 31, 2020 is a result of adjusting the Company's $9.5 billion senior unsecured debt down to fair value compared to such adjustment being a $56 million increase as of December 31, 2019. This significant change in fair value is directly a result of wider credit spreads as of March 31, 2020 as a result of COVID-19.

## 9. Commitments and Contingencies

### *Legal Proceedings*

The Company has been named as defendant in a number of putative class action cases alleging violations of various state and federal consumer protection laws including the Telephone Consumer Protection Act ("TCPA"), the Consumer Financial Protection Act of 2010 ("CFPA"), the Fair Credit Reporting Act ("FCRA"), the Fair Debt Collection Practices Act ("FDCPA") and various other state consumer protection laws.

In January 2017, the Consumer Financial Protection Bureau (the "CFPB") and Attorneys General for the State of Illinois and the State of Washington initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of certain Federal and State consumer protection statutes, including the CFPA, FCRA, FDCPA and various state consumer protection laws. In October 2017, the Attorney General for the Commonwealth of Pennsylvania initiated a civil action against Navient Corporation and Navient Solutions, LLC ("Solutions"), containing similar alleged violations of the CFPA and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. Additionally, in 2018 the Attorneys General for the States of California and Mississippi initiated similar actions against the Company and certain subsidiaries alleging violations of various state and federal consumer protection laws. We refer to the Illinois, Pennsylvania, Washington, California, and Mississippi Attorneys General collectively as the "State Attorneys General." In addition to these matters, a number of lawsuits have been filed by nongovernmental parties or, in the future, may be filed by additional governmental or nongovernmental parties seeking damages or other remedies related to similar issues raised by the CFPB and the State Attorneys General. As the Company has previously stated, we believe the suits improperly seek to impose penalties on Navient based on new, unannounced servicing standards applied retroactively only against one servicer, and that the allegations are false. We therefore have denied these allegations and intend to vigorously defend against the allegations in each of these cases. For additional information on these civil actions, please refer to section entitled "Regulatory Matters" below.

At this point in time, the Company is unable to anticipate the timing of a resolution or the impact that these legal proceedings may have on the Company's consolidated financial position, liquidity, results of operation or cash flows. As a result, it is not possible at this time to estimate a range of potential exposure, if any, for amounts that may be payable in connection with these matters and reserves have not been established. It is possible that an adverse ruling or rulings may have a material adverse impact on the Company.

### *Regulatory Matters*

In addition, Navient and its subsidiaries are subject to examination or regulation by the SEC, CFPB, FFIEC, ED and various state licensing or other regulatory agencies as part of its ordinary course of business. Items or matters similar to or different from those described above may arise during the course of those examinations. We also routinely receive inquiries or requests from various regulatory entities or bodies or government agencies concerning our business or our assets. Generally, the Company endeavors to cooperate with each such inquiry or request.

As previously disclosed, the Company and various of its subsidiaries have been subject to the following investigations and inquiries:

- In December 2013, Navient received Civil Investigative Demands ("CIDs") issued by the Illinois Attorney General, the Washington Attorney General and multiple other state Attorneys General. According to the CIDs, the investigations were initiated to ascertain whether any practices declared to be unlawful under the Consumer Fraud and Deceptive Business Practices Act have occurred or are about to occur. The Company subsequently received separate but similar CIDs or subpoenas from the Attorneys General for the District of Columbia, Kansas, Oregon, Colorado, New Jersey and New York. We have and in the future may receive additional CIDs or subpoenas and other inquiries from these or other Attorneys General with respect to similar or different matters.
- In April 2014, Solutions received a CID from the CFPB as part of the CFPB's separate investigation regarding allegations relating to Navient's disclosures and assessment of late fees and other matters. Navient has received a series of supplemental CIDs on these matters. In August 2015, Solutions received a letter from the CFPB notifying Solutions that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise ("NORA") process, the CFPB's Office of Enforcement was considering recommending that the CFPB take legal action against Solutions. The NORA letter related to a previously disclosed investigation into Solutions' disclosures and assessment of late fees and other matters and states that, in connection with any action, the CFPB may seek restitution, civil monetary penalties and corrective action against Solutions. The Company responded to the NORA letter in September 2015.

**9. Commitments and Contingencies (Continued)**

- In November 2014, Navient's subsidiary, Pioneer Credit Recovery, Inc. ("Pioneer"), received a CID from the CFPB as part of an investigation regarding Pioneer's activities relating to rehabilitation loans and collection of defaulted student debt. In May 2019, Pioneer received a similar CID from the New York Department of Financial Services (the "NY DFS").
- In December 2014, Solutions received a subpoena from the NY DFS as part of its inquiry with regard to whether persons or entities have engaged in fraud or misconduct with respect to a financial product or service under New York Financial Services Law or other laws.

Under the terms of the Separation and Distribution Agreement between the Company and SLM BankCo, Navient agreed to indemnify SLM BankCo for claims, actions, damages, losses or expenses that may arise from the conduct of activities of pre-Spin-Off SLM BankCo occurring prior to the Spin-Off other than those specifically excluded in that agreement. Also as part of the Separation and Distribution Agreement, SLM BankCo agreed to indemnify Navient for certain claims, actions, damages, losses or expenses subject to the terms, conditions and limitations set forth in that agreement. As a result, subject to the terms, conditions and limitations set forth in that agreement, Navient agreed to indemnify and hold harmless Sallie Mae and its subsidiaries, including Sallie Mae Bank from liabilities arising out of the regulatory matters and CFPB and State Attorneys General lawsuits mentioned above. In addition, we asserted various claims for indemnification against Sallie Mae and Sallie Mae Bank for such specifically excluded items arising out of the CFPB and the State Attorneys General lawsuits if and to the extent any indemnified liabilities exist now or in the future. We expect these various indemnification claims to be resolved at a future date as the cases move toward conclusion. Navient has no reserves related to indemnification matters with SLM BankCo as of March 31, 2020.

***OIG Audit***

The Office of the Inspector General (the "OIG") of ED commenced an audit regarding Special Allowance Payments ("SAP") on September 10, 2007. In September 2013, we received the final audit determination of Federal Student Aid (the "Final Audit Determination") on the final audit report issued by the OIG in August 2009 related to this audit. The Final Audit Determination concurred with the final audit report issued by the OIG and instructed us to make adjustment to our government billing to reflect the policy determination. In August 2016, we filed our notice of appeal to the Administrative Actions and Appeals Service Group of ED, and a hearing was held in April 2017. In March 2019, the administrative law judge hearing the appeal affirmed the audit's findings, holding the then-existing Dear Colleague letter relied upon by the Company and other industry participants was inconsistent with the statutory framework creating the SAP rules applicable to loans funded by certain types of debt obligations at issue. We have appealed the administrative law judge's decision to the Secretary of Education given Navient's adherence to ED-issued guidance and the potential impact on participants in any ED program student loan servicers if such guidance is deemed unreliable and may not be relied upon. We continue to believe that our SAP billing practices were proper, considering then-existing ED guidance and lack of applicable regulations. The Company established a reserve for this matter in 2014 and does not believe, at this time, that an adverse ruling would have a material effect on the Company as a whole.

***Contingencies***

In the ordinary course of business, we and our subsidiaries are defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against us and our subsidiaries. We and our subsidiaries are also subject to potential unasserted claims by third parties.

In the ordinary course of business, we and our subsidiaries are subject to regulatory examinations, information gathering requests, inquiries and investigations. In connection with formal and informal inquiries in these cases, we and our subsidiaries receive requests, subpoenas and orders for documents, testimony and information in connection with various aspects of our regulated activities.

## 9. Commitments and Contingencies (Continued)

We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, we cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties, if any, related to each pending matter may be.

Based on current knowledge, reserves have been established for certain litigation, regulatory matters, and unasserted contract claims where the loss is both probable and estimable. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our consolidated financial position, liquidity, results of operations or cash flows, except as otherwise disclosed.

## 10. Revenue from Contracts with Customers Accounted for in Accordance with ASC 606

The following tables illustrate the disaggregation of revenue from contracts with customers accounted for under ASC 606, “Revenue from Contracts with Customers,” according to service type and client type by reportable operating segment.

***Revenue by Service Type***

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| (Dollars in millions) | Federal Education Loans | Business Processing | Total Revenue | Federal Education Loans | Business Processing | Total Revenue |
| Federal Education Loan asset recovery services | $ 31 | $ — | $ 31 | $ 30 | $ — | $ 30 |
| Government services | — | 33 | 33 | — | 42 | 42 |
| Healthcare services | — | 24 | 24 | — | 26 | 26 |
| Total | $ 31 | $ 57 | $ 88 | $ 30 | $ 68 | $ 98 |

***Revenue by Client Type***

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| (Dollars in millions) | Federal Education Loans | Business Processing | Total Revenue | Federal Education Loans | Business Processing | Total Revenue |
| Federal government | $ 18 | $ 5 | $ 23 | $ 13 | $ 3 | $ 16 |
| Guarantor agencies | 13 | — | 13 | 14 | — | 14 |
| Other institutions | — | — | — | 3 | — | 3 |
| State and local government | — | 16 | 16 | — | 25 | 25 |
| Tolling authorities | — | 12 | 12 | — | 14 | 14 |
| Hospitals and other healthcare providers | — | 24 | 24 | — | 26 | 26 |
| Total | $ 31 | $ 57 | $ 88 | $ 30 | $ 68 | $ 98 |

As of March 31, 2020 and March 31, 2019, there was $67 million and $72 million, respectively, of net accounts receivable related to these contracts. Navient had no material contract assets or contract liabilities.

## 11. Segment Reporting

We monitor and assess our ongoing operations and results based on the following four reportable operating segments: Federal Education Loans, Consumer Lending, Business Processing and Other.

### *Federal Education Loans Segment*

In this segment, Navient holds and acquires FFELP Loans and performs servicing and asset recovery services on its own loan portfolio, federal education loans owned by ED and other institutions. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the FFELP Loan portfolio (after provision for loan losses) as well as servicing and asset recovery services revenue. This segment is expected to generate significant amounts of earnings and cash flow over the remaining life of the portfolio.

The following table includes GAAP basis asset information for our Federal Education Loans segment.

| (Dollars in millions) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| FFELP Loans, net | $ 62,492 | $ 64,575 |
| Cash and investments[1] | 2,119 | 2,043 |
| Other | 2,264 | 2,202 |
| Total assets | $ 66,875 | $ 68,820 |

(1) Includes restricted cash and investments.

### *Consumer Lending Segment*

In this segment, Navient holds, originates and acquires consumer loans and performs servicing activities on its own education loan portfolio. Originations and acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the Private Education Loan portfolio (after provision for loan losses). This segment is expected to generate significant amounts of earnings and cash flow over the remaining life of the portfolio.

The following table includes GAAP basis asset information for our Consumer Lending segment.

| (Dollars in millions) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Private Education Loans, net | $ 22,338 | $ 22,245 |
| Cash and investments[1] | 870 | 927 |
| Other | 1,023 | 931 |
| Total assets | $ 24,231 | $ 24,103 |

(1) Includes restricted cash and investments.

### *Business Processing Segment*

In this segment, Navient performs revenue cycle management and business processing services for over 500 non-education related government and healthcare clients. Government services provide state governments, agencies, court systems, municipalities and toll authorities our integrated solutions technology and superior data-driven approach, allowing them to reduce their operating expenses while maximizing revenue opportunities. Healthcare services include revenue cycle outsourcing, accounts receivable management, extended business office support and consulting engagements. We offer customizable solutions for our clients that include hospitals, hospital systems, medical centers, large physician groups and other healthcare providers.

At March 31, 2020 and December 31, 2019, the Business Processing segment had total assets of $426 million and $423 million, respectively, on a GAAP basis.

**11. Segment Reporting (Continued)**

***Other Segment***

Our Other segment primarily consists of our corporate liquidity portfolio and the repurchase of debt, unallocated expenses of shared services, and restructuring/other reorganization expenses.

Unallocated expenses of shared services are comprised of costs primarily related to certain executive management, the board of directors, accounting, finance, legal, human resources, compliance and risk management, regulatory-related costs, stock-based compensation expense, and information technology costs related to infrastructure and operations. Regulatory-related costs include actual settlement amounts as well as third-party professional fees we incur in connection with regulatory matters and are presented net of any insurance reimbursements for covered costs related to such matters.

At March 31, 2020 and December 31, 2019, the Other segment had total assets of $1.7 billion and $1.6 billion, respectively, on a GAAP basis.

***Measure of Profitability***

We prepare financial statements and present financial results in accordance with GAAP. However, we also evaluate our business segments and present financial results on a basis that differs from GAAP. We refer to this different basis of presentation as Core Earnings. We provide this Core Earnings basis of presentation on a consolidated basis and for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our Core Earnings basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide Core Earnings disclosure in the notes to our consolidated financial statements for our business segments.

Core Earnings are not a substitute for reported results under GAAP. We use Core Earnings to manage our business segments because Core Earnings reflect adjustments to GAAP financial results for two items, discussed below, that are mostly due to timing factors generally beyond the control of management. Accordingly, we believe that Core Earnings provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information because we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. When compared to GAAP results, the two items we remove to result in our Core Earnings presentations are:

1. Mark-to-market gains/losses resulting from our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness; and
2. The accounting for goodwill and acquired intangible assets.

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our Core Earnings basis of presentation does not. Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, there is no comprehensive, authoritative guidance for management reporting. Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Accordingly, our Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our performance with that of other financial services companies based upon Core Earnings. Core Earnings results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, our board of directors, credit rating agencies, lenders and investors to assess performance.

## 11. Segment Reporting (Continued)

### *Segment Results and Reconciliations to GAAP*

| | Three Months Ended March 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Adjustments | | | |
| (Dollars in millions) | Federal Education Loans | Consumer Lending | Business Processing | Other | Total Core Earnings | Reclassi-fications | Additions/ (Subtractions) | Total Adjustments(1) | Total GAAP |
| Interest income: | | | | | | | | | |
| Education loans | $ 582 | $ 404 | $ — | $ — | $ 986 | $ 3 | $ (14) | $ (11) | $ 975 |
| Other loans | — | — | — | — | — | — | — | — | — |
| Cash and investments | 6 | 2 | — | 4 | 12 | — | — | — | 12 |
| Total interest income | 588 | 406 | — | 4 | 998 | 3 | (14) | (11) | 987 |
| Total interest expense | 456 | 210 | — | 35 | 701 | 7 | 6 | 13 | 714 |
| Net interest income (loss) | 132 | 196 | — | (31) | 297 | (4) | (20) | (24) | 273 |
| Less: provisions for loan losses | 6 | 89 | — | — | 95 | — | — | — | 95 |
| Net interest income (loss) after provisions for loan losses | 126 | 107 | — | (31) | 202 | (4) | (20) | (24) | 178 |
| Other income (loss): | | | | | | | | | |
| Servicing revenue | 56 | 2 | — | — | 58 | — | — | — | 58 |
| Asset recovery and business processing revenue | 53 | — | 57 | — | 110 | — | — | — | 110 |
| Other income (loss) | 4 | — | — | 3 | 7 | 4 | (227) | (223) | (216) |
| Total other income (loss) | 113 | 2 | 57 | 3 | 175 | 4 | (227) | (223) | (48) |
| Expenses: | | | | | | | | | |
| Direct operating expenses | 83 | 39 | 54 | — | 176 | — | — | — | 176 |
| Unallocated shared services expenses | — | — | — | 75 | 75 | — | — | — | 75 |
| Operating expenses | 83 | 39 | 54 | 75 | 251 | — | — | — | 251 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | 5 | 5 | 5 |
| Restructuring/other reorganization expenses | — | — | — | 5 | 5 | — | — | — | 5 |
| Total expenses | 83 | 39 | 54 | 80 | 256 | — | 5 | 5 | 261 |
| Income (loss) before income tax expense (benefit) | 156 | 70 | 3 | (108) | 121 | — | (252) | (252) | (131) |
| Income tax expense (benefit)(2) | 37 | 16 | 1 | (26) | 28 | — | (53) | (53) | (25) |
| Net income (loss) | $ 119 | $ 54 | $ 2 | $ (82) | $ 93 | $ — | $ (199) | $ (199) | $ (106) |

(1) Core Earnings adjustments to GAAP:

| | Three Months Ended March 31, 2020 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Acquired Intangibles | Total |
| Net interest income (loss) after provisions for loan losses | $ (24) | $ — | $ (24) |
| Total other income (loss) | (223) | — | (223) |
| Goodwill and acquired intangible asset impairment and amortization | — | 5 | 5 |
| Total Core Earnings adjustments to GAAP | $ (247) | $ (5) | (252) |
| Income tax expense (benefit) | | | (53) |
| Net income (loss) | | | $ (199) |

(2) Income taxes are based on a percentage of net income before tax for the individual reportable segment.

## 11. Segment Reporting (Continued)

| | Three Months Ended March 31, 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Adjustments | | | |
| (Dollars in millions) | Federal Education Loans | Consumer Lending | Business Processing | Other | Total Core Earnings | Reclassi-fications | Additions/ (Subtractions) | Total Adjustments(1) | Total GAAP |
| Interest income: | | | | | | | | | |
| Education loans | $ 779 | $ 443 | $ — | $ — | $ 1,222 | $ 1 | $ (17) | $ (16) | $ 1,206 |
| Other loans | 1 | — | — | — | 1 | — | — | — | 1 |
| Cash and investments | 16 | 5 | — | 6 | 27 | — | — | — | 27 |
| Total interest income | 796 | 448 | — | 6 | 1,250 | 1 | (17) | (16) | 1,234 |
| Total interest expense | 650 | 261 | — | 39 | 950 | 4 | (5) | (1) | 949 |
| Net interest income (loss) | 146 | 187 | — | (33) | 300 | (3) | (12) | (15) | 285 |
| Less: provisions for loan losses | 8 | 68 | — | — | 76 | — | — | — | 76 |
| Net interest income (loss) after provisions for loan losses | 138 | 119 | — | (33) | 224 | (3) | (12) | (15) | 209 |
| Other income (loss): | | | | | | | | | |
| Servicing revenue | 59 | 3 | — | — | 62 | — | — | — | 62 |
| Asset recovery and business processing revenue | 51 | — | 68 | — | 119 | — | — | — | 119 |
| Other income (loss) | 9 | — | — | 5 | 14 | (1) | 10 | 9 | 23 |
| Gains on debt repurchases | — | — | — | 15 | 15 | 4 | (4) | — | 15 |
| Total other income (loss) | 119 | 3 | 68 | 20 | 210 | 3 | 6 | 9 | 219 |
| Expenses: | | | | | | | | | |
| Direct operating expenses | 91 | 38 | 55 | — | 184 | — | — | — | 184 |
| Unallocated shared services expenses | — | — | — | 72 | 72 | — | — | — | 72 |
| Operating expenses | 91 | 38 | 55 | 72 | 256 | — | — | — | 256 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | 7 | 7 | 7 |
| Restructuring/other reorganization expenses | — | — | — | 1 | 1 | — | — | — | 1 |
| Total expenses | 91 | 38 | 55 | 73 | 257 | — | 7 | 7 | 264 |
| Income (loss) before income tax expense (benefit) | 166 | 84 | 13 | (86) | 177 | — | (13) | (13) | 164 |
| Income tax expense (benefit)(2) | 39 | 19 | 3 | (20) | 41 | — | (5) | (5) | 36 |
| Net income (loss) | $ 127 | $ 65 | $ 10 | $ (66) | $ 136 | $ — | $ (8) | $ (8) | $ 128 |

(1) Core Earnings adjustments to GAAP:

| | Three Months Ended March 31, 2019 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Acquired Intangibles | Total |
| Net interest income (loss) after provisions for loan losses | $ (15) | $ — | $ (15) |
| Total other income (loss) | 9 | — | 9 |
| Goodwill and acquired intangible asset impairment and amortization | — | 7 | 7 |
| Total Core Earnings adjustments to GAAP | $ (6) | $ (7) | (13) |
| Income tax expense (benefit) | | | (5) |
| Net income (loss) | | | $ (8) |

(2) Income taxes are based on a percentage of net income before tax for the individual reportable segment.

## 11. Segment Reporting (Continued)

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| **Core Earnings net income** | $ 93 | $ 136 |
| Core Earnings adjustments to GAAP: | | |
| Net impact of derivative accounting[1] | (247) | (6) |
| Net impact of goodwill and acquired intangible assets[2] | (5) | (7) |
| Net tax effect[3] | 53 | 5 |
| Total Core Earnings adjustments to GAAP | (199) | (8) |
| GAAP net income (loss) | $ (106) | $ 128 |

(1) **Derivative accounting:** Core Earnings exclude periodic gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic mark-to-market gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These gains and losses occur in our Federal Education Loans, Consumer Lending and Other reportable segments. Under GAAP, for our derivatives that are held to maturity, the mark-to-market gain or loss over the life of the contract will equal $0 except for Floor Income Contracts where the mark-to-market gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.

(2) **Goodwill and acquired intangible assets:** Our Core Earnings exclude goodwill and intangible asset impairment and amortization of acquired intangible assets.

(3) **Net tax effect:** Such tax effect is based upon our Core Earnings effective tax rate for the year.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains "forward-looking statements," within the meaning of the federal securities law, about our business and prospects and other information that is based on management's current expectations as of the date of this report. Statements that are not historical facts, including statements about our beliefs, opinions, or expectations and statements that assume or are dependent upon future events, are forward-looking statements and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," "may," "could," "should," "goal," or "target." Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements.

For us, these factors include, among others, the risks and uncertainties associated with:

- the severity, magnitude and duration of the COVID-19 pandemic, including changes in the macroeconomic environment, restrictions on business, individual or travel activities intended to slow the spread of the pandemic, and volatility in market conditions resulting from the pandemic including interest rates, the value of equities and other financial assets;
- increases in financing costs;
- the availability of financing or limits on liquidity resulting from disruptions in the capital markets or other factors;
- unanticipated increases in costs associated with compliance with federal, state or local laws and regulations;
- changes in the demand for asset management and business processing solutions or other changes in marketplaces in which we compete (including increased competition);
- changes in accounting standards including but not limited to changes pertaining to loan loss reserves and estimates or other accounting standards that may impact our operations;
- adverse outcomes in any significant litigation to which we are a party;
- credit risk associated with the Company's underwriting standards or exposure to third parties, including counterparties to hedging transactions; and
- changes in the terms of education loans and the educational credit marketplace (including changes resulting from the CARES Act or other new laws and the implementation of existing laws).

We could also be affected by, among other things:

- unanticipated repayment trends on loans including prepayments or deferrals in our securitization trusts that could accelerate or delay repayment of the bonds;
- reductions to our credit ratings, the credit ratings of asset-backed securitizations we sponsor or the credit ratings of the United States of America;
- failures of our operating systems or infrastructure, or those of third-party vendors;
- risks related to cybersecurity including the potential disruption of our systems or those of our third-party vendors or customers, or potential disclosure of confidential customer information;
- damage to our reputation resulting from cyber-breaches, litigation, the politicization of student loan servicing or other actions or factors;
- failure to successfully implement cost-cutting initiatives and adverse effects of such initiatives on our business;
- failure to adequately integrate acquisitions or realize anticipated benefits from acquisitions including delays or errors in converting portfolio acquisitions to our servicing platform;
- changes in law and regulations whether new laws or regulations, or new interpretations of existing laws and regulations applicable to any of our businesses or activities or those of our vendors, suppliers or customers;
- changes in the general interest rate environment, including the availability of any relevant money-market index rate, including LIBOR, or the relationship between the relevant money-market index rate and the rate at which our assets are priced;
- our ability to successfully effectuate any acquisitions and other strategic initiatives;
- activities by shareholder activists, including a proxy contest or any unsolicited takeover proposal;
- changes in general economic or social conditions; and
- the other factors that are described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019 (the "2018 Form 10-K"), this Form 10-Q and in our other reports filed with the Securities and Exchange Commission ("SEC").

The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect and actual results could differ materially. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this report. We do not undertake any obligation to update or revise these forward-looking statements except as required by law.

Definitions for certain capitalized terms used but not otherwise defined in this Quarterly Report on Form 10-Q can be found in the “Glossary” section of our 2019 Form 10-K.

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

**Navient’s Business**

Navient is a leading provider of education loan management and business processing solutions for education, healthcare, and government clients at the federal, state, and local levels. We help our clients and millions of Americans achieve success through technology-enabled financing, services and support.

With a focus on data-driven insights, service, compliance and innovative support, Navient:

- owns $84.8 billion of education loans;
- originates Private Education Loans;
- services and performs asset recovery activities on its own portfolio of education loans, as well as education loans owned by other institutions including the United States Department of Education (“ED”); and
- provides revenue cycle management and business processing services to federal, state and municipal clients, public authorities and healthcare organizations.

**As of March 31, 2020, Navient’s principal assets consisted of:**

- $62.5 billion in FFELP Loans, with a 0.81% Core Earnings segment net interest margin and a weighted average life of 7 years;
- $22.3 billion in Private Education Loans, with a 3.31% Core Earnings segment net interest margin and a weighted average life of 5 years;
- a loan origination business that assists borrowers in refinancing their education loan debt and assists students and families in financing their higher education, which produced $1.9 billion of Private Education Loan originations in first-quarter 2020;
- an education loan servicing business that services over $300 billion in ED, FFELP and Private Education Loans; and
- a business solutions suite through which we provide services for over 500 clients in the non-education related government and healthcare sectors.

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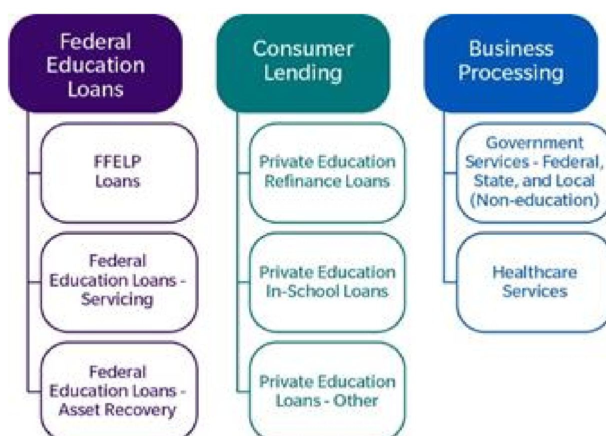
We operate our business in three primary segments: Federal Education Loans, Consumer Lending and Business Processing. A fourth segment, Other, includes unallocated expenses of shared services and our corporate liquidity portfolio.




**Strengths and Opportunities**

Navient's competitive advantages distinguish it from its competitors, including:

***High Quality Asset Base Generating Significant and Predictable Cash Flows***

At March 31, 2020, Navient's $84.8 billion education loan portfolio was 82% funded to term and is expected to produce predictable cash flows over the remaining life of the portfolio. Our $62.5 billion FFELP portfolio bears a maximum 3% loss exposure under the terms of the federal guaranty. Our $22.3 billion Private Education Loan portfolio is 43% cosigned (65% excluding Private Education Refinance Loans).

***Strong Capital Return***

As a result of our significant cash flow and capital generation, Navient expects to continue to return excess capital to stockholders through dividends and share repurchases in accordance with its publicly-announced capital allocation policy.

In total, we repurchased 23.0 million shares of common stock (11% reduction in shares outstanding) for $335 million in the first quarter of 2020. At March 31, 2020, there was $665 million remaining in share repurchase authorization. In the first quarters of 2020 and 2019, Navient paid $31 million and $39 million, respectively, in dividends.

At quarter end, our adjusted tangible equity ratio[1] declined to 3.2%. As anticipated, the implementation of CECL reduced our capital ratios, which we plan to rebuild over the course of 2020. In addition, GAAP equity was reduced as a result of the accelerated repurchase of shares that occurred in January and as a result of mark-to-market losses on derivative and hedging activities that occurred on derivatives that hedge interest rates.

(1) Item is a non-GAAP financial measure. For an explanation and reconciliation of our non-GAAP financial measures, see "Non-GAAP Financial Measures."

***Consumer Lending Business Growth***

In the Consumer Lending segment, we continue to see meaningful value opportunities in originating Private Education Loans to financially responsible consumers which will generate attractive long-term risk adjusted returns. This includes a loan origination business that assists borrowers in refinancing their education loan debt as well as students and families in financing their higher education. We originated $1.9 billion of Private Education Loans in first-quarter 2020, a 93% increase from $984 million in the year-ago quarter. In the first quarter of 2020, we also entered into a marketing arrangement with a bank partner to originate in-school loans for the 2020-2021 academic year.

***Business Processing Opportunities***

Navient continues to leverage our large-scale operating platforms, superior data-driven strategies, operating efficiency, and regulatory compliance and risk management infrastructure to extend our receivables management and business processing services into new markets. Navient provides business processing services to over 500 clients, generating EBITDA(1) of $4 million in the first quarter of 2020, down 71% from the year-ago quarter. This decline was primarily the result of contract terminations and expirations that occurred in the second half of 2019, the impact of COVID-19 on certain activities and one-time efficiency initiative costs. Navient's inventory of non-education related contingent asset recovery receivables remained stable at $15 billion as of March 31, 2020. While revenue in this segment varies from period to period primarily due to normal contract life cycles as well as general economic activity, we continue to believe in the long-term opportunities.

***Efficient and Large-Scale Operating Platforms***

We service over $300 billion in education loans. These loans are owned by Navient and third parties, including ED. We have demonstrated flexible and scalable infrastructure with capacity to manage large volumes of complex transactions with continued efficiency improvements.

***Superior Performance***

Navient has demonstrated superior default prevention performance. Federal loans serviced by Navient achieved a Cohort Default Rate ("CDR") 37% better than our peers, as calculated from the most recent CDR released by ED in September 2019. Through March and April 2020, our scale and performance attested to our ability to quickly, efficiently and correctly adapt to the changing contractual requirements of servicing education loans. We are consistently a top performer in our asset recovery business and deliver superior service to our public and private sector clients. We leverage data-driven insights and customer service to identify new ways to add value to our clients.

***Customer Service and Compliance Commitment***

Navient fosters a robust compliance culture driven by a "customer first" approach. We invest in rigorous training programs, quality assurance, reviews and audits, complaint tracking and analysis, and customer research to enhance our compliance and customer service.

**Navient's Response to COVID-19**

Beginning in the first quarter of 2020, the pandemic related to the novel coronavirus COVID-19 began to impact the global economy and our results of operations. The COVID-19 pandemic has been declared a national emergency. In response to the COVID-19 pandemic, many state, local, and foreign governments have put in place, and others in the future may put in place, quarantines, executive orders, shelter-in-place orders, and similar government orders and restrictions in order to control the spread of the disease. Such orders or restrictions, or the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions, and cancellation or postponement of events, as well as a general decline in economic activity and consumer confidence and increases in job losses and unemployment. In this section, we will highlight our response to the global pandemic and its impact on our business and operations. While we have experience in managing our business through economic crises in the past, there is a substantial amount of uncertainty associated with this crisis. We would suggest that the information below should be read in conjunction with our risk factors included in Part II, Item 1A. "Risk Factors — The Impact of COVID-19 and Related Risk" in this quarterly report on Form 10-Q and the Risk Factors included in our 2019 Annual Report on Form 10-K.

(1) Item is a non-GAAP financial measure. For an explanation and reconciliation of our non-GAAP financial measures, see "Non-GAAP Financial Measures."

The World Health Organization first declared the COVID-19 outbreak a pandemic on March 13, 2020. By mid-March, the economic impact of the crisis was beginning to take hold. As this crisis evolved, we took early action to protect the health and safety of our employees. We expanded our work-from-home capabilities and implemented best practices in our facilities with regard to safety and hygiene to protect those who were unable to work remotely. We were able to quickly and successfully move 90% of our team to work-from-home status. As a result of these steps, the pandemic has not adversely affected our ability to maintain our operations or service our customers and borrowers.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. In compliance with the CARES Act, we suspended payments and interest accrual on all loans owned by ED until September 30, 2020. While the CARES Act applies only to loans owned by ED, our FFELP and Private Education Loan portfolios have also been impacted by the pandemic. Private Education Loans in forbearance increased to $1.6 billion or 6.9% of the portfolio at March 31, 2020, compared to $604 million or 2.7% of the portfolio at December 31, 2019. This increase was driven by our COVID-19 relief options. Loans in forbearance continued to increase in April to $2.8 billion as of April 15th. We anticipate that loans in forbearance will continue to increase for some time but at a slower rate than we have experienced in March and April of 2020. Our Private Education Loan charge-offs in the first quarter declined 30% to $68 million compared with $97 million in the fourth quarter. This decline was primarily due to the strength of the economy heading into March. Despite the COVID-19 crisis, we have seen most borrowers continue to make payments according to their payment plans. And while forbearance rates have risen, the balance of loans delinquent has not. This trend has continued into April. We expect that defaults in both our Private Education Loan and FFELP Loan portfolios will be significantly lower in 2020 than 2019 as well as lower than what had been expected at the start of the year as a result of the increased use of payment relief options. During the quarter, provision for loan losses was $95 million which was primarily due to an increase in expected losses related to COVID-19. This increase in provision primarily relates to increases in defaults that we expect to occur in 2021 and 2022 as a result of COVID-19 and the use of forbearances. Our total reserves of $2 billion (excluding the expected future recoveries on charged-off loans) at March 31, 2020 represent reserves equal to 7.1% of our Private Education Loans and 25% of the risk sharing component (plus the applicable premium) of our FFELP Loan portfolio. While we are paying close attention to our customers, it is too early to know the full impact of this crisis or the path and timing of the recovery.

In the quarter, our Private Education Refinance Loan originations of $1.9 billion represented a 92% increase over the year-ago quarter. While demand continues to be very strong for our products, beginning in March, we reduced our marketing efforts and tightened credit until we have a greater visibility into funding costs and the overall economic outlook. The result is that we expect future originations to be reduced. In our Business Processing Segment ("BPS"), total EBITDA margin fell to 7% from 21% a year ago. The decline in margin was primarily driven by contract terminations and expirations that occurred in the second half of 2019, the impact of COVID-19 on certain activities and one-time efficiency initiative costs. In the first 15 days of April, we experienced significantly lower transaction-related placements in both government services and health care revenue cycle management as well as a general decline in transactions on our platforms. To offset the impact of the pandemic on this business, we have been able to transition hundreds of our experienced BPS colleagues to support state clients working to help their newly unemployed residents access benefits implemented in the CARES Act. These new opportunities are expected to partially offset the negative impact BPS is experiencing as a result of COVID-19.

The impact of the COVID-19 crisis on the capital markets has been significant, decreasing the number of transactions being brought to market and increasing the pricing of those that were successfully marketed. However, we believe we are in a strong liquidity position with $1.7 billion of primary sources of liquidity, $1.1 billion of which is cash. In addition, cash flow from our loan portfolio and services contracts remains strong and our very seasoned loan portfolio experiences lower levels of stress. We were able to complete our planned unsecured financing activity for the year before the effects of the pandemic became apparent. We raised new proceeds through the issuance of $700 million of unsecured debt issued on January 23, 2020. We used $190 million of this issuance to reduce our 2021 maturities. We also issued $1.9 billion of term Private Education ABS and refinanced $472 million of our Private Education Loan repurchase facilities that extended the term and reduced the overall costs of these facilities. On April 1, we extended a FFELP Loan ABCP facility to 2022 and expanded the total capacity in our Private Education Refinance Loan ABCP facility from $2 billion to $2.6 billion. Looking forward, while the cost of financing is elevated, we believe that the ABS and unsecured debt markets remain a viable option should the need arise. However, we do not believe we will need to issue unsecured or ABS debt throughout the remainder of 2020. We also believe we can refinance our ABCP and other facilities that mature in 2020, albeit at a higher cost.

We ended the quarter with an adjusted tangible equity ratio of 3.2%. The decline in our adjusted tangible equity ratio is partially attributable to reduced capital resulting from our implementation of CECL. We anticipated these reduced capital levels and expect them to rebuild over the course of 2020. In addition, our GAAP equity was reduced as a result of the accelerated repurchase of shares that occurred in January and as a result of the $394 million after-tax decrease in the value of derivatives we use to hedge interest rates. This decrease will reverse over time as these derivatives expire.

From an accounting, reporting and disclosure perspective, COVID-19 and the related work-from-home policies did not negatively impact our ability to close our books, financial systems, internal control over financial reporting or our disclosure controls and procedures. See “Critical Accounting Policies and Estimates” for a discussion of how COVID-19 impacted our allowance for loan loss, our conclusion of goodwill not being impaired, as well as the impact on fair value measurements.

We have successfully implemented our business continuity plans in response to COVID-19. We do not foresee requiring material expenditures to continue to operate in a work-from-home environment nor do we expect material expenditures to return to work in the office. We do not anticipate a material adverse impact of COVID-19 on our supply chain and we do not expect the anticipated impact of COVID-19 to materially change the relationship between costs and revenues. We have not been adversely impacted by travel restrictions and border closures nor do we anticipate that our operations will be materially impacted by any constraints on our human capital resources and productivity.

**Navient’s Approach to Helping Education Loan Borrowers Achieve Success**

We help our customers navigate the path to financial success through proactive outreach and innovative, data-driven approaches.

***Customer-focused*****:** We made widely available throughout our website, emails and other media the repayment options available to our customers who are experiencing impacts from the current pandemic. Navient is a leader in recommending policy reforms that would enhance the student loan program. For example, we have recommended improving financial literacy before borrowing, simplifying federal loan repayment options and encouraging college completion — reforms that we believe would make a meaningful difference for millions of Americans.

In 2009, we pioneered the creation of a loan modification program to help Private Education Loan borrowers needing additional assistance. As of March 31, 2020, $1.6 billion of our Private Education Loans were enrolled in this interest rate reduction program, helping customers through more affordable monthly payments while making progress in repaying their principal loan balance.

We continually make enhancements designed to help our customers, drawing from a variety of inputs including customer surveys, research panels, analysis of customer inquiries and complaint data, and regulator commentary.

Our Office of the Customer Advocate, established in 1997, offers escalated assistance to customers. We are committed to working with customers and appreciate customer comments, which, combined with our own customer communication channels, help us improve the ways we assist our customers.

We also continue to offer free resources to help customers and the general public build knowledge on personal finance topics, including articles and online tools.

Navient was the first student loan servicer to launch a dedicated military benefits customer service team, website (*Navient.com/military*), and toll-free number. Navient’s military benefits team supports service members and their families to access the benefits designed for them, including interest rate benefits, deferment and other options.

***Getting borrowers into the right payment plans*****:** We help customers understand the wide range of federal loan repayment options so they can make informed choices about the plans that align with their financial circumstances and goals. We continue to lead in enrolling customers in affordable repayment plans: more than half of student loan balances serviced by Navient for the government were enrolled in an income-driven repayment plan (excluding loan types ineligible for the plans). We also help borrowers understand that options lengthening their repayment term may increase the total cost of their loans, while reminding them that they may pay extra or switch repayment plans at any time.

***Leveraging four decades of expertise*****:** We apply data-driven strategies that draw from our more than 45 years of experience. Our strategists employ risk modeling to identify struggling borrowers and deploy resources where needed. By tailoring our approach to borrowers’ unique situations — e.g., recent graduates, students re-entering school, those experiencing hardships or those with student debt but no degree — we help ensure leading outcomes. Nine times out of 10, when we reach federal loan customers who have missed payments, we identify a solution to help them avoid default.

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**Selected Historical Financial Information and Ratios**

| (In millions, except per share data) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| **GAAP Basis** | | |
| Net income (loss) | $ (106) | $ 128 |
| Diluted earnings (loss) per common share | $ (.53) | $ .52 |
| Weighted average shares used to compute diluted earnings per share | 200 | 247 |
| Net interest margin, Federal Education Loans segment | .76% | .76% |
| Net interest margin, Consumer Lending segment | 3.34% | 3.28% |
| Return on assets | (.47)% | .53% |
| Ending FFELP Loans, net | $ 62,492 | $ 69,908 |
| Ending Private Education Loans, net | 22,338 | 22,141 |
| Ending total education loans, net | $ 84,830 | $ 92,049 |
| Average FFELP Loans | $ 63,894 | $ 71,226 |
| Average Private Education Loans | 23,112 | 22,761 |
| Average total education loans | $ 87,006 | $ 93,987 |
| **Core Earnings Basis**(1) | | |
| Net income | $ 93 | $ 136 |
| Diluted earnings per common share | $ .46 | $ .55 |
| Adjusted diluted earnings per common share(2) | $ .51 | $ .58 |
| Weighted average shares used to compute diluted earnings per share | 202 | 247 |
| Net interest margin, Federal Education Loans segment | .81% | .80% |
| Net interest margin, Consumer Lending segment | 3.31% | 3.22% |
| Return on assets | .41% | .56% |
| Ending FFELP Loans, net | $ 62,492 | $ 69,908 |
| Ending Private Education Loans, net | 22,338 | 22,141 |
| Ending total education loans, net | $ 84,830 | $ 92,049 |
| Average FFELP Loans | $ 63,894 | $ 71,226 |
| Average Private Education Loans | 23,112 | 22,761 |
| Average total education loans | $ 87,006 | $ 93,987 |

(1) Core Earnings are non-GAAP financial measures and do not represent a comprehensive basis of accounting. For a greater explanation of Core Earnings, see the section titled "Non-GAAP Financial Measures – Core Earnings."

(2) Adjusted diluted Core Earnings per share, a non-GAAP financial measure, excludes restructuring and regulatory expenses of $12 million and $8 million for the three months ended March 31, 2020 and 2019, respectively.

**Overview**

The following discussion and analysis presents a review of our business and operations as of and for the three months ended March 31, 2020. We monitor and assess our ongoing operations and results based on the following four reportable operating segments: Federal Education Loans, Consumer Lending, Business Processing and Other.

***Federal Education Loans Segment***

In this segment, Navient holds and acquires FFELP Loans and performs servicing and asset recovery services on its own loan portfolio, federal education loans owned by ED and other institutions. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the FFELP Loan portfolio (after provision for loan losses) as well as servicing and asset recovery services revenue. This segment is expected to generate significant amounts of earnings and cash flow over the remaining life of the portfolio.

***Consumer Lending Segment***

In this segment, Navient holds, originates and acquires consumer loans and performs servicing activities on its own education loan portfolio. Originations and acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the Private Education Loan portfolio (after provision for loan losses). This segment is expected to generate significant amounts of earnings and cash flow over the remaining life of the portfolio.

***Business Processing Segment***

In this segment, Navient performs revenue cycle management and business processing services for over 500 non-education related government and healthcare clients. Government services provide state governments, agencies, court systems, municipalities and toll authorities our integrated solutions technology and superior data-driven approach, allowing them to reduce their operating expenses while maximizing revenue opportunities. Healthcare services include revenue cycle outsourcing, accounts receivable management, extended business office support and consulting engagements. We offer customizable solutions for our clients that include hospitals, hospital systems, medical centers, large physician groups and other healthcare providers.

***Other***

This segment primarily consists of our corporate liquidity portfolio and the repurchase of debt, unallocated expenses of shared services and restructuring/other reorganization expenses.

Unallocated expenses of shared services are comprised of costs primarily related to certain executive management, the board of directors, accounting, finance, legal, human resources, compliance and risk management, regulatory-related costs, stock-based compensation expense, and information technology costs related to infrastructure and operations. Regulatory-related costs include actual settlement amounts as well as third-party professional fees we incur in connection with such regulatory matters and are presented net of any insurance reimbursements for covered costs related to such matters.

**Key Financial Measures**

Our operating results are primarily driven by net interest income, provisions for loan losses and expenses incurred in our education loan portfolios; the revenues and expenses generated by our servicing, asset recovery and business processing businesses; gains and losses on loan sales and debt repurchases; and income tax expense. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures (net interest income; provisions for loan losses; charge-offs and delinquencies; servicing, asset recovery and business processing revenues; other income (loss); operating expenses; and income tax expense) can be found in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2019 Form 10-K.

**First-quarter 2020 Summary of Results**

We report financial results on a GAAP basis and also present certain Core Earnings performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these Core Earnings measures to monitor our business performance. See “Non-GAAP Financial Measures – Core Earnings” for a further discussion and a complete reconciliation between GAAP net income and Core Earnings.

First-quarter 2020 GAAP net loss was $106 million ($0.53 diluted loss per share), compared with $128 million ($0.52 diluted earnings per share) for the year-ago quarter. The net loss in first-quarter 2020 was the result of $236 million of pre-tax mark-to-market losses on derivative and hedging activities as the result of the significant reduction in interest rates. These losses primarily relate to derivatives used to hedge FFELP Loan floor income that do not qualify for hedge accounting. See “Consolidated Earnings Summary – GAAP Basis” for a discussion of the primary contributors to the change in GAAP earnings between periods.)

Core Earnings for the quarter were $93 million ($0.46 diluted Core Earnings per share), compared with $136 million ($0.55 diluted Core Earnings per share) for the year-ago quarter. First-quarter 2020 and 2019 adjusted diluted Core Earnings per share were $0.551 and $0.58, respectively, excluding restructuring and regulatory-related expenses of $12 million and $8 million, respectively. See “Reportable Segment Earnings Summary – Core Earnings Basis” for a discussion of the primary contributors to the change in Core Earnings between periods.

Highlights of first-quarter 2020 include:

- FFELP Loan delinquency rate decreased 5% from 11.0% in the year-ago quarter to 10.5%, and the forbearance rate increased 19% from 12.7% in the year-ago quarter to 15.1%;
- originated $1.9 billion of Private Education Refinance Loans, a 92% increase from $984 million in the year-ago quarter;
- Private Education Loan delinquency rate decreased 31% from 5.2% in the year-ago quarter to 3.6%, and the forbearance rate increased 176% from 2.5% in the year-ago quarter to 6.9%;
- EBITDA decreased 71% to $4 million in our Business Processing segment, primarily due to contract terminations and expirations that occurred in the second half of 2019, the impact of COVID-19 on certain activities and one-time efficiency initiative costs;
- in April, the Business Processing segment won two significant contracts in connection with assisting certain states to implement programs under the CARES Act;
- contingent collections receivables inventory in our Business Processing segment remained stable at $15 billion;
- adopted CECL on January 1, 2020, resulting in a $620 million reduction to equity (see “Allowance for Loan Losses” for further discussion);
- repurchased 23.0 million common shares;
- paid $31 million in common stock dividends;
- adjusted tangible equity ratio of 3.2%;
- issued $1.9 billion of Private Education Loan asset-backed securities (“ABS”) and $700 million of unsecured debt; and
- held $1.1 billion of cash at March 31, 2020.

### Results of Operations

We present the results of operations below first on a consolidated basis in accordance with GAAP. Following our discussion of consolidated earnings results on a GAAP basis, we present our results on a segment basis. We have four reportable segments: Federal Education Loans, Consumer Lending, Business Processing and Other. These segments operate in distinct business environments and we manage and evaluate the financial performance of these segments using non-GAAP financial measures we call Core Earnings (see "Non-GAAP Financial Measures – Core Earnings" for further discussion).

### GAAP Statements of Income (Unaudited)

| | Three Months Ended March 31, | | Increase (Decrease) | |
|---|---|---|---|---|
| (In millions, except per share data) | 2020 | 2019 | $ | % |
| Interest income: | | | | |
| FFELP Loans | $ 571 | $ 763 | $ (192) | (25)% |
| Private Education Loans | 404 | 443 | (39) | (9) |
| Other loans | — | 1 | (1) | (100) |
| Cash and investments | 12 | 27 | (15) | (56) |
| Total interest income | 987 | 1,234 | (247) | (20) |
| Total interest expense | 714 | 949 | (235) | (25) |
| Net interest income | 273 | 285 | (12) | (4) |
| Less: provisions for loan losses | 95 | 76 | 19 | 25 |
| Net interest income after provisions for loan losses | 178 | 209 | (31) | (15) |
| Other income (loss): | | | | |
| Servicing revenue | 58 | 62 | (4) | (6) |
| Asset recovery and business processing revenue | 110 | 119 | (9) | (8) |
| Other income (loss) | 7 | 16 | (9) | (56) |
| Gains on debt repurchases | — | 15 | (15) | (100) |
| Gains (losses) on derivative and hedging activities, net | (223) | 7 | (230) | (3,286) |
| Total other income (loss) | (48) | 219 | (267) | (122) |
| Expenses: | | | | |
| Operating expenses | 251 | 256 | (5) | (2) |
| Goodwill and acquired intangible assets impairment and amortization expense | 5 | 7 | (2) | (29) |
| Restructuring/other reorganization expenses | 5 | 1 | 4 | 400 |
| Total expenses | 261 | 264 | (3) | (1) |
| Income (loss) before income tax expense (benefit) | (131) | 164 | (295) | (180) |
| Income tax expense (benefit) | (25) | 36 | (61) | (169) |
| **Net income (loss)** | $ (106) | $ 128 | $ (234) | (183)% |
| **Basic earnings (loss) per common share** | $ (.53) | $ .52 | $ (1.05) | (202)% |
| **Diluted earnings (loss) per common share** | $ (.53) | $ .52 | $ (1.05) | (202)% |
| Dividends per common share | $ .16 | $ .16 | $ — | —% |

**Consolidated Earnings Summary — GAAP Basis**

**Three Months Ended March 31, 2020 Compared with Three Months Ended March 31, 2019**

Net loss was $106 million, or $0.53 diluted loss per common share, compared with net income of $128 million, or $0.52 diluted earnings per common share, for the year-ago period.

The primary contributors to the change in net income are as follows:

- Net interest income decreased by $12 million, primarily as a result of the continued natural paydown of the FFELP and non-refinance Private Education Loan portfolios which was partially offset by the growth in the Private Education Refinance Loan portfolio and an increase in FFELP Floor Income as a result of lower interest rates.
- Provisions for loan losses increased $19 million (see "Allowance for Loan Losses") for a discussion regarding the transition to CECL on January 1, 2020):
  - The provision for FFELP Loan losses decreased $2 million.
  - The provision for Private Education Loan losses increased $21 million. Provision of $89 million in first-quarter 2020 is primarily related to an increase in expected losses due to COVID-19's negative impact on the current and forecasted economic conditions.
- Servicing revenue decreased $4 million primarily due to the natural paydown of the FFELP Loan portfolio serviced for third parties.
- Asset recovery and business processing revenue decreased $9 million primarily as a result of contract terminations and expirations that occurred in the second half of 2019, as well as the impact of COVID-19 on certain Business Processing segment business lines (temporary stoppage of certain collection/processing activity and lower volume in the toll business).
- Net gains on debt repurchases decreased by $15 million. There were no debt repurchases in first-quarter 2020 compared to $46 million repurchased at a $15 million gain in the year-ago period.
- Net losses on derivative and hedging activities increased $230 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which impact the valuations of our Floor Income Contracts, basis swaps, foreign currency hedges and other derivative instruments during each period. Valuations of derivative instruments fluctuate based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may vary significantly in future periods. In particular, the net loss in first-quarter 2020 was primarily related to the significant reduction in interest rates and resulting impact on the mark-to-market of the derivatives used to economically hedge floor income that do not qualify for hedge accounting.
- Excluding net regulatory-related costs of $7 million in the first quarters of 2020 and 2019, operating expenses decreased $5 million primarily as a result of ongoing cost saving initiatives across the Company.
- During the first quarters of 2020 and 2019, the Company incurred $5 million and $1 million, respectively, of restructuring/other reorganization expenses in connection with an effort to reduce costs and improve operating efficiency. These charges were due primarily to severance-related costs.

We repurchased 23.0 million and 9.4 million shares of our common stock during the first quarters of 2020 and 2019, respectively. As a result of repurchases, our average outstanding diluted shares decreased by 45 million common shares (or 18 percent) from the year-ago period.

**Non-GAAP Financial Measures**

In addition to financial results reported on a GAAP basis, Navient also provides certain performance measures which are non-GAAP financial measures. The following non-GAAP financial measures are presented within this Form 10-Q: (1) Core Earnings, (2) Adjusted Tangible Equity Ratio and (3) EBITDA for the Business Processing segment.

**1. Core Earnings**

We prepare financial statements and present financial results in accordance with GAAP. However, we also evaluate our business segments and present financial results on a basis that differs from GAAP. We refer to this different basis of presentation as Core Earnings. We provide this Core Earnings basis of presentation on a consolidated basis and for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our Core Earnings basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide Core Earnings disclosure in the notes to our consolidated financial statements for our business segments.

Core Earnings are not a substitute for reported results under GAAP. We use Core Earnings to manage our business segments because Core Earnings reflect adjustments to GAAP financial results for two items, discussed below, that can create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that Core Earnings provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information because we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. When compared to GAAP results, the two items we remove to result in our Core Earnings presentations are:

(1) Mark-to-market gains/losses resulting from our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness; and

(2) The accounting for goodwill and acquired intangible assets.

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our Core Earnings basis of presentation does not. Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, there is no comprehensive, authoritative guidance for management reporting. Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Accordingly, our Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our performance with that of other financial services companies based upon Core Earnings. Core Earnings results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, our board of directors, credit rating agencies, lenders and investors to assess performance.

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The following tables show Core Earnings for each reportable segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP and reported in "Note 12 — Segment Reporting."

| | Three Months Ended March 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Adjustments | | | |
| (Dollars in millions) | Federal Education Loans | Consumer Lending | Business Processing | Other | Total Core Earnings | Reclassi-fications | Additions/ (Subtractions) | Total Adjustments(1) | Total GAAP |
| Interest income: | | | | | | | | | |
| Education loans | $ 582 | $ 404 | $ — | $ — | $ 986 | $ 3 | $ (14) | $ (11) | $ 975 |
| Other loans | — | — | — | — | — | — | — | — | — |
| Cash and investments | 6 | 2 | — | 4 | 12 | — | — | — | 12 |
| Total interest income | 588 | 406 | — | 4 | 998 | 3 | (14) | (11) | 987 |
| Total interest expense | 456 | 210 | — | 35 | 701 | 7 | 6 | 13 | 714 |
| Net interest income (loss) | 132 | 196 | — | (31) | 297 | (4) | (20) | (24) | 273 |
| Less: provisions for loan losses | 6 | 89 | — | — | 95 | — | — | — | 95 |
| Net interest income (loss) after provisions for loan losses | 126 | 107 | — | (31) | 202 | (4) | (20) | (24) | 178 |
| Other income (loss): | | | | | | | | | |
| Servicing revenue | 56 | 2 | — | — | 58 | — | — | — | 58 |
| Asset recovery and business processing revenue | 53 | — | 57 | — | 110 | — | — | — | 110 |
| Other income (loss) | 4 | — | — | 3 | 7 | 4 | (227) | (223) | (216) |
| Total other income (loss) | 113 | 2 | 57 | 3 | 175 | 4 | (227) | (223) | (48) |
| Expenses: | | | | | | | | | |
| Direct operating expenses | 83 | 39 | 54 | — | 176 | — | — | — | 176 |
| Unallocated shared services expenses | — | — | — | 75 | 75 | — | — | — | 75 |
| Operating expenses | 83 | 39 | 54 | 75 | 251 | — | — | — | 251 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | 5 | 5 | 5 |
| Restructuring/other reorganization expenses | — | — | — | 5 | 5 | — | — | — | 5 |
| Total expenses | 83 | 39 | 54 | 80 | 256 | — | 5 | 5 | 261 |
| Income (loss) before income tax expense (benefit) | 156 | 70 | 3 | (108) | 121 | — | (252) | (252) | (131) |
| Income tax expense (benefit)(2) | 37 | 16 | 1 | (26) | 28 | — | (53) | (53) | (25) |
| Net income (loss) | $ 119 | $ 54 | $ 2 | $ (82) | $ 93 | $ — | $ (199) | $ (199) | $ (106) |

(1) Core Earnings adjustments to GAAP:

| | Three Months Ended March 31, 2020 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Acquired Intangibles | Total |
| Net interest income (loss) after provisions for loan losses | $ (24) | $ — | $ (24) |
| Total other income (loss) | (223) | — | (223) |
| Goodwill and acquired intangible asset impairment and amortization | — | 5 | 5 |
| Total Core Earnings adjustments to GAAP | $ (247) | $ (5) | (252) |
| Income tax expense (benefit) | | | (53) |
| Net income (loss) | | | $ (199) |

(2) Income taxes are based on a percentage of net income before tax for the individual reportable segment.

| (Dollars in millions) | Federal Education Loans | Consumer Lending | Business Processing | Other | Total Core Earnings | Reclassi-fications | Additions/ (Subtractions) | Total Adjustments(1) | Total GAAP |
|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended March 31, 2019 | | | | | Adjustments | | | |
| Interest income: | | | | | | | | | |
| Education loans | $ 779 | $ 443 | $ — | $ — | $ 1,222 | $ 1 | $ (17) | $ (16) | $ 1,206 |
| Other loans | 1 | — | — | — | 1 | — | — | — | 1 |
| Cash and investments | 16 | 5 | — | 6 | 27 | — | — | — | 27 |
| Total interest income | 796 | 448 | — | 6 | 1,250 | 1 | (17) | (16) | 1,234 |
| Total interest expense | 650 | 261 | — | 39 | 950 | 4 | (5) | (1) | 949 |
| Net interest income (loss) | 146 | 187 | — | (33) | 300 | (3) | (12) | (15) | 285 |
| Less: provisions for loan losses | 8 | 68 | — | — | 76 | — | — | — | 76 |
| Net interest income (loss) after provisions for loan losses | 138 | 119 | — | (33) | 224 | (3) | (12) | (15) | 209 |
| Other income (loss): | | | | | | | | | |
| Servicing revenue | 59 | 3 | — | — | 62 | — | — | — | 62 |
| Asset recovery and business processing revenue | 51 | — | 68 | — | 119 | — | — | — | 119 |
| Other income (loss) | 9 | — | — | 5 | 14 | (1) | 10 | 9 | 23 |
| Gains on debt repurchases | — | — | — | 15 | 15 | 4 | (4) | — | 15 |
| Total other income (loss) | 119 | 3 | 68 | 20 | 210 | 3 | 6 | 9 | 219 |
| Expenses: | | | | | | | | | |
| Direct operating expenses | 91 | 38 | 55 | — | 184 | — | — | — | 184 |
| Unallocated shared services expenses | — | — | — | 72 | 72 | — | — | — | 72 |
| Operating expenses | 91 | 38 | 55 | 72 | 256 | — | — | — | 256 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | 7 | 7 | 7 |
| Restructuring/other reorganization expenses | — | — | — | 1 | 1 | — | — | — | 1 |
| Total expenses | 91 | 38 | 55 | 73 | 257 | — | 7 | 7 | 264 |
| Income (loss) before income tax expense (benefit) | 166 | 84 | 13 | (86) | 177 | — | (13) | (13) | 164 |
| Income tax expense (benefit)(2) | 39 | 19 | 3 | (20) | 41 | — | (5) | (5) | 36 |
| Net income (loss) | $ 127 | $ 65 | $ 10 | $ (66) | $ 136 | $ — | $ (8) | $ (8) | $ 128 |

(1) Core Earnings adjustments to GAAP:

| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Acquired Intangibles | Total |
|---|---|---|---|
| | Three Months Ended March 31, 2019 | | |
| Net interest income (loss) after provisions for loan losses | $ (15) | $ — | $ (15) |
| Total other income (loss) | 9 | — | 9 |
| Goodwill and acquired intangible asset impairment and amortization | — | 7 | 7 |
| Total Core Earnings adjustments to GAAP | $ (6) | $ (7) | (13) |
| Income tax expense (benefit) | | | (5) |
| Net income (loss) | | | $ (8) |

(2) Income taxes are based on a percentage of net income before tax for the individual reportable segment.

The following discussion summarizes the differences between Core Earnings and GAAP net income and details each specific adjustment required to reconcile our Core Earnings segment presentation to our GAAP earnings.

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| **Core Earnings net income** | $ 93 | $ 136 |
| Core Earnings adjustments to GAAP: | | |
| Net impact of derivative accounting | (247) | (6) |
| Net impact of goodwill and acquired intangible assets | (5) | (7) |
| Net income tax effect | 53 | 5 |
| Total Core Earnings adjustments to GAAP | (199) | (8) |
| **GAAP net income (loss)** | $ (106) | $ 128 |

(1) **Derivative Accounting:** Core Earnings exclude periodic gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP, as well as the periodic mark-to-market gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These gains and losses occur in our Federal Education Loans, Consumer Lending and Other reportable segments. Under GAAP, for our derivatives that are held to maturity, the mark-to-market gain or loss over the life of the contract will equal $0 except for Floor Income Contracts, where the mark-to-market gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria are met. The gains and losses recorded in "Gains (losses) on derivative and hedging activities, net" and interest expense (for qualifying fair value hedges) are primarily caused by interest rate and foreign currency exchange rate volatility and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate and foreign currency risk management strategy. However, some of our derivatives, primarily Floor Income Contracts and certain basis swaps, do not qualify for hedge accounting treatment and the stand-alone derivative must be adjusted to fair value in the income statement with no consideration for the corresponding change in fair value of the hedged item.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the education loans underlying the Floor Income embedded in those education loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Additionally, the term, the interest rate index, and the interest rate index reset frequency of the Floor Income Contract can be different than that of the education loans. Under derivative accounting treatment, the upfront contractual payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the fair value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income paid to the counterparties to vary. This is economically offset by the change in the amount of Floor Income earned on the underlying education loans but that offsetting change in fair value is not recognized. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Therefore, for purposes of Core Earnings, we have removed the mark-to-market gains and losses related to these contracts and added back the amortization of the net contractual premiums received on the Floor Income Contracts. The amortization of the net contractual premiums received on the Floor Income Contracts for Core Earnings is reflected in education loan interest income. Under GAAP accounting, the premiums received on the Floor Income Contracts are recorded as revenue in the "gains (losses) on derivative and hedging activities, net" line item by the end of the contracts' lives.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to hedge our education loan assets that are primarily indexed to LIBOR or Prime. The accounting for derivatives requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required for hedge accounting treatment. Additionally, some of our FFELP Loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps economically hedging these FFELP Loans do not meet the criteria for hedge accounting treatment. As a result, under GAAP, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting between GAAP and Core Earnings net income.

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| **Core Earnings derivative adjustments:** | | |
| Gains (losses) on derivative and hedging activities, net, included in other income | $ (223) | $ 7 |
| Plus: Gains (losses) on fair value hedging activity included in interest expense | (9) | 2 |
| Total gains(losses) | (232) | 9 |
| Plus: Reclassification of settlement expense/(income) on derivative and hedging activities, net(1) | (4) | 1 |
| Mark-to-market gains (losses) on derivative and hedging activities, net(2) | (236) | 10 |
| Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings | (14) | (17) |
| Other derivative accounting adjustments(3) | 3 | 1 |
| Total net impact of derivative accounting | $ (247) | $ (6) |

(1) Derivative accounting requires net settlement income/expense on derivatives that do not qualify as hedges to be recorded in a separate income statement line item below net interest income. Under our Core Earnings presentation, these settlements are reclassified to the income statement line item of the economically hedged item. For our Core Earnings net interest income, this would primarily include (a) reclassifying the net settlement amounts related to our Floor Income Contracts to education loan interest income and (b) reclassifying the net settlement amounts related to certain of our interest rate swaps to debt interest expense. The table below summarizes these net settlements on derivative and hedging activities and the associated reclassification on a Core Earnings basis.

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| **Reclassification of settlements on derivative and hedging activities:** | | |
| Net settlement expense on Floor Income Contracts reclassified to net interest income | $ (3) | $ (1) |
| Net settlement income (expense) on interest rate swaps reclassified to net interest income | 7 | 4 |
| Net realized gains (losses) on terminated derivative contracts reclassified to other income | — | (4) |
| Total reclassifications of settlements on derivative and hedging activities | $ 4 | $ (1) |

(2) “Mark-to-market gains (losses) on derivative and hedging activities, net” is comprised of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Floor Income Contracts | $ (180) | $ 2 |
| Basis swaps | 33 | (9) |
| Foreign currency hedges | 10 | 18 |
| Other | (99) | (1) |
| Total mark-to-market gains (losses) on derivative and hedging activities, net | $ (236) | $ 10 |

(3) Other derivative accounting adjustments consist of adjustments related to: (1) foreign currency denominated debt that is adjusted to spot foreign exchange rates for GAAP where such adjustments are reversed for Core Earnings and (2) certain terminated derivatives that did not receive hedge accounting treatment under GAAP but were economic hedges under Core Earnings and, as a result, such gains or losses are amortized into Core Earnings over the life of the hedged item.

*Cumulative Impact of Derivative Accounting under GAAP compared to Core Earnings*

As of March 31, 2020, derivative accounting has decreased GAAP equity by approximately $629 million as a result of cumulative net mark-to-market losses (after tax) recognized under GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these after-tax mark-to-market net gains and losses related to derivative accounting.

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Beginning impact of derivative accounting on GAAP equity | $ (235) | $ (34) |
| Net impact of net mark-to-market gains (losses) under derivative accounting[1] | (394) | (75) |
| Ending impact of derivative accounting on GAAP equity | $ (629) | $ (109) |

(1) Net impact of net mark-to-market gains (losses) under derivative accounting is composed of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Total pre-tax net impact of derivative accounting recognized in net income[2] | $ (247) | $ (6) |
| Tax and other impacts of derivative accounting adjustments | 62 | 1 |
| Change in mark-to-market gains (losses) on derivatives, net of tax recognized in other comprehensive income | (209) | (70) |
| Net impact of net mark-to-market gains (losses) under derivative accounting | $ (394) | $ (75) |

(2) See "Core Earnings derivative adjustments" table above.

*Hedging Embedded Floor Income*

Net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods. As of March 31, 2020, the remaining amortization term of the net floor premiums was approximately 3 years. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

In addition to using Floor Income Contracts, we also use pay-fixed interest rate swaps to hedge the embedded Floor Income within FFELP Loans. These interest rate swaps qualify as GAAP hedges and are accounted for as cash flow hedges of variable rate debt. For GAAP, mark-to-market gains and losses on these hedges are recorded in accumulated other comprehensive income. Hedged Floor Income from these cash flow hedges that has not been recognized into Core Earnings and GAAP as of the respective period-ends is presented in the table below. This hedged Floor Income will be recognized in Core Earnings and GAAP in future periods and is presented net of tax. As of March 31, 2020, the remaining hedged period is approximately 5 years. Historically, we have used pay-fixed interest rate swaps on a periodic basis to hedge embedded Floor Income and depending upon market conditions and pricing, we may enter into swaps in the future. The balance of unrecognized hedged Floor Income will increase as we enter into new swaps and decline as revenue is recognized.

| (Dollars in millions) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Unamortized net Floor premiums (net of tax) | $ (66) | $ (112) |
| Unrecognized hedged Floor Income related to pay-fixed interest rate swaps (net of tax) | (437) | (592) |
| Total hedged Floor Income, net of tax[1][2] | $ (503) | $ (704) |

(1) $(658) million and $(914) million on a pre-tax basis as of March 31, 2020 and March 31, 2019, respectively.

(2) Of the $503 million as of March 31, 2020, approximately $144 million, $163 million and $105 million will be recognized as part of Core Earnings net income in the remainder of 2020, 2021 and 2022, respectively.

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(2) **Goodwill and Acquired Intangible Assets:** Our Core Earnings exclude goodwill and intangible asset impairment and the amortization of acquired intangible assets. The following table summarizes the goodwill and acquired intangible asset adjustments.

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Core Earnings goodwill and acquired intangible asset adjustments | $ (5) | $ (7) |

**2. Adjusted Tangible Equity Ratio**

This measures the ratio of Navient's tangible equity to its tangible assets. We adjust this ratio to exclude the assets and equity associated with our FFELP portfolio because FFELP Loans are no longer originated and the FFELP portfolio bears a 3% maximum loss exposure under the terms of the federal guaranty. Management believes that excluding this portfolio from the ratio enhances its usefulness to investors. Management uses this ratio, in addition to other metrics, for analysis and decision making related to capital allocation decisions. The adjusted tangible equity ratio is calculated as:

| (Dollars in millions) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| GAAP equity | $ 2,035 | $ 3,430 |
| Less: | | |
| Goodwill and acquired intangible assets | 752 | 780 |
| Equity held for FFELP Loans | 312 | 350 |
| Adjusted tangible equity | $ 971 | $ 2,300 |
| Divided by: | | |
| Total assets | $ 93,245 | $ 100,579 |
| Less: | | |
| Goodwill and acquired intangible assets | 752 | 780 |
| FFELP Loans | 62,492 | 69,908 |
| Adjusted tangible assets | $ 30,001 | $ 29,891 |
| Adjusted tangible equity ratio | 3.2% | 7.7% |

**3. Earnings before Interest, Taxes, Depreciation and Amortization Expense ("EBITDA")**

This measures the operating performance of the Business Processing segment and is used by management and equity investors to monitor operating performance and determine the value of those businesses. EBITDA for the Business Processing segment is calculated as:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| Pre-tax income | $ 3 | $ 13 |
| Plus: | | |
| Depreciation and amortization expense[1] | 1 | 1 |
| EBITDA | $ 4 | $ 14 |
| Divided by: | | |
| Total revenue | $ 57 | $ 68 |
| EBITDA margin | 7% | 21% |

(1) There is no interest expense in this segment.

**Reportable Segment Earnings Summary — Core Earnings Basis**

**Federal Education Loans Segment**

The following table presents Core Earnings results for our Federal Education Loans segment.

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 | % Increase (Decrease) 2020 vs. 2019 |
|---|---|---|---|
| Interest income: | | | |
| FFELP Loans | $ 582 | $ 779 | (25)% |
| Other loans | — | 1 | (100) |
| Cash and investments | 6 | 16 | (63) |
| Total interest income | 588 | 796 | (26) |
| Total interest expense | 456 | 650 | (30) |
| Net interest income | 132 | 146 | (10) |
| Less: provision for loan losses | 6 | 8 | (25) |
| Net interest income after provision for loan losses | 126 | 138 | (9) |
| Other income: | | | |
| Servicing revenue | 56 | 59 | (5) |
| Asset recovery and business processing revenue | 53 | 51 | 4 |
| Other income | 4 | 9 | (56) |
| Total other income | 113 | 119 | (5) |
| Direct operating expenses | 83 | 91 | (9) |
| Income before income tax expense | 156 | 166 | (6) |
| Income tax expense | 37 | 39 | (5) |
| Core Earnings | $ 119 | $ 127 | (6)% |

***Highlights***

- Core Earnings were $119 million compared to $127 million in the year-ago quarter.
- Net interest income decreased $14 million primarily due to the natural paydown of the portfolio.
- Provision for loan losses decreased $2 million. See “Allowance for Loan Losses” for discussion regarding transition to CECL on January 1, 2020.
  - Charge-offs were $19 million compared with $17 million in first-quarter 2019. CECL requires the charge-offs to include the premium or discount related to defaulted loans which increased the first-quarter 2020 charge-offs by $5 million.
  - Delinquencies greater than 30 days were $5.3 billion compared with $6.3 billion in first-quarter 2019.
  - Forbearances were $9.0 billion, up $650 million from $8.3 billion in first-quarter 2019.
- Other revenue decreased $6 million primarily due to a $7 million decrease in servicing revenue of which $3 million relates to the wind down of transition services fee revenue.
- Operating expenses were $8 million lower primarily as a result of ongoing efficiency initiatives.

Core Earnings key performance metrics are as follows:

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Segment net interest margin | .81% | .80% |
| FFELP Loans: | | |
| FFELP Loan spread | .87% | .87% |
| Provision for loan losses | $ 6 | $ 8 |
| Charge-offs | $ 19 | $ 17 |
| Charge-off rate | .15% | .11% |
| Greater than 30-days delinquency rate | 10.5% | 11.0% |
| Greater than 90-days delinquency rate | 5.4% | 5.2% |
| Forbearance rate | 15.1% | 12.7% |
| Average FFELP Loans | $ 63,894 | $ 71,226 |
| Ending FFELP Loans, net | $ 62,492 | $ 69,908 |
| (Dollars in billions) | | |
| Number of accounts serviced for ED (in millions) | 5.6 | 5.9 |
| Total federal loans serviced | $ 285 | $ 293 |
| Contingent collections receivables inventory | $ 13.6 | $ 26.8 |

***Segment Net Interest Margin***

The following table includes the Core Earnings basis Federal Education Loans segment net interest margin along with reconciliation to the GAAP basis segment net interest margin.

| | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| FFELP Loan yield | 3.07% | 4.02% |
| Hedged Floor Income | .37 | .38 |
| Unhedged Floor Income | .22 | .04 |
| FFELP Loan net yield | 3.66 | 4.44 |
| FFELP Loan cost of funds | (2.79) | (3.57) |
| FFELP Loan spread | .87 | .87 |
| Other interest-earning asset spread impact | (.06) | (.07) |
| Core Earnings basis segment net interest margin(1) | .81% | .80% |
| | | |
| Core Earnings basis segment net interest margin(1) | .81% | .80% |
| Adjustment for GAAP accounting treatment(2) | (.05) | (.04) |
| GAAP-basis segment net interest margin(1) | .76% | .76% |

(1) The average balances of our FFELP Loan Core Earnings basis interest-earning assets for the respective periods are:

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| FFELP Loans | $ 63,894 | $ 71,226 |
| Other interest-earning assets | 1,910 | 2,735 |
| Total FFELP Loan Core Earnings basis interest-earning assets | $ 65,804 | $ 73,961 |

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income, the reversal of the amortization of premiums received on Floor Income Contracts, and other derivative accounting adjustments. For further discussion of these adjustments, see section titled "Non-GAAP Financial Measures — Core Earnings" above.

The Company acquired $11 million of FFELP Loans in the first quarter of 2020. As of March 31, 2020, our FFELP Loan portfolio totaled $62.5 billion, comprised of $20.9 billion of FFELP Stafford Loans and $41.6 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios as of March 31, 2020 was 5 years and 7 years, respectively, assuming a Constant Prepayment Rate ("CPR") of 8% and 4%, respectively.

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### *Floor Income*

The following table analyzes on a Core Earnings basis the ability of the FFELP Loans in our portfolio to earn Floor Income after March 31, 2020 and 2019, based on interest rates as of those dates.

| (Dollars in billions) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Education loans eligible to earn Floor Income | $ 62.0 | $ 69.3 |
| Less: post-March 31, 2006 disbursed loans required to rebate Floor Income | (28.3) | (31.6) |
| Less: economically hedged Floor Income | (18.2) | (21.1) |
| Education loans eligible to earn Floor Income after rebates and economically hedged | $ 15.5 | $ 16.6 |
| Education loans earning Floor Income | $ 9.4 | $ .4 |

The following table presents a projection of the average balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has been economically hedged with derivatives for the period October 1, 2019 to December 31, 2024.

| (Dollars in billions) | April 1, 2020 to December 31, 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged | $ 17.7 | $ 12.6 | $ 11.0 | $ 6.5 | $ .9 |

### *FFELP Provision for Loan Losses*

The provision for FFELP Loan Losses was $6 million in first-quarter 2020, down $2 million from the year-ago quarter. See “Allowance for Loan Losses” for discussion regarding transition to CECL on January 1, 2020.

### *Servicing Revenue*

Servicing revenue decreased $3 million from the year-ago quarter primarily due to the natural paydown of the FFELP Loan portfolio serviced for third parties.

The Company services loans for approximately 5.6 million and 5.9 million customer accounts under its ED servicing contract as of March 31, 2020 and 2019, respectively. Third-party loan servicing fees in the three months ended March 31, 2020 and 2019 included $36 million and $37 million, respectively, of servicing revenue related to the ED servicing contract.

### *Asset Recovery and Business Processing Revenue*

Asset recovery and business processing revenue increased $2 million from the year-ago quarter, primarily as a result of higher account resolution.

### *Other Income*

Other income decreased $5 million primarily due to the wind down of transition services fee revenue.

### *Operating Expenses*

Operating expenses for the Federal Education Loans segment include costs incurred to acquire FFELP Loans and perform servicing and asset recovery activities on our FFELP Loan portfolio, federal education loans held by ED and other institutions. Expenses decreased $8 million primarily as a result of ongoing efficiency initiatives.

### Consumer Lending Segment

The following table presents Core Earnings results for our Consumer Lending segment.

| (Dollars in millions) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | % Increase (Decrease) 2020 vs. 2019 |
|---|---|---|---|
| Interest income: | | | |
| Private Education Loans | $ 404 | $ 443 | (9)% |
| Cash and investments | 2 | 5 | (60) |
| Interest income | 406 | 448 | (9) |
| Interest expense | 210 | 261 | (20) |
| Net interest income | 196 | 187 | 5 |
| Less: provision for loan losses | 89 | 68 | 31 |
| Net interest income after provision for loan losses | 107 | 119 | (10) |
| Servicing revenue | 2 | 3 | (33) |
| Direct operating expenses | 39 | 38 | 3 |
| Income before income tax expense | 70 | 84 | (17) |
| Income tax expense | 16 | 19 | (16) |
| Core Earnings | $ 54 | $ 65 | (17)% |

***Highlights***

- Originated $1.9 billion of Private Education Refinance Loans compared to $984 million in the year-ago quarter.
- Core Earnings were $54 million compared to $65 million in the year-ago quarter.
- Net interest income increased $9 million primarily due to the growth of the Refinance Loan portfolio and an improved net interest margin resulting from an improved cost of funds.
- Provision for loan losses increased $21 million. See “Allowance for Loan Losses” for discussion regarding transition to CECL on January 1, 2020. Provision of $89 million in first-quarter 2020 primarily related to an increase in expected losses due to COVID-19’s negative impact on the current and forecasted economic conditions. Private Education Loan performance results include:
  - Charge-offs were $68 million compared with $94 million in first-quarter 2019.
  - Private Education Loan delinquencies greater than 90 days: $347 million, down $212 million from $559 million in first-quarter 2019.
  - Private Education Loan delinquencies greater than 30 days: $769 million, down $372 million from first-quarter 2019.
  - Private Education Loan forbearances: $1.6 billion, up $1.0 billion from $575 million in first-quarter 2019.
- Expenses increased $1 million primarily due to the increase in loan originations which was offset by reduced expenses in connection with ongoing efficiency initiatives.

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Core Earnings key performance metrics are as follows:

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Segment net interest margin | 3.31% | 3.22% |
| Private Education Loans (including Refinance Loans): | | |
| Private Education Loan spread | 3.51% | 3.45% |
| Provision for loan losses | $ 89 | $ 68 |
| Charge-offs | $ 68 | $ 94 |
| Charge-off rate | 1.3% | 1.7% |
| Greater than 30-days delinquency rate | 3.6% | 5.2% |
| Greater than 90-days delinquency rate | 1.6% | 2.6% |
| Forbearance rate | 6.9% | 2.5% |
| Average Private Education Loans | $ 23,112 | $ 22,761 |
| Ending Private Education Loans, net | $ 22,338 | $ 22,141 |
| Private Education Refinance Loans: | | |
| Charge-offs | $ 2 | $ 1 |
| Greater than 90-days delinquency rate | .1% | —% |
| Average Private Education Refinance Loans | $ 7,149 | $ 3,644 |
| Ending Private Education Refinance Loans | $ 7,722 | $ 4,026 |
| Private Education Refinance Loan originations | $ 1,890 | $ 984 |

***Segment Net Interest Margin***

The following table shows the Core Earnings basis Consumer Lending segment net interest margin along with reconciliation to the GAAP basis segment net interest margin before provision for loan losses.

| | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Private Education Loan yield | 7.04% | 7.89% |
| Private Education Loan cost of funds | (3.53) | (4.44) |
| Private Education Loan spread | 3.51 | 3.45 |
| Other interest-earning asset spread impact | (.20) | (.23) |
| Core Earnings basis segment net interest margin(1) | 3.31% | 3.22% |
| | | |
| Core Earnings basis segment net interest margin(1) | 3.31% | 3.22% |
| Adjustment for GAAP accounting treatment(2) | .03 | .06 |
| GAAP basis segment net interest margin(1) | 3.34% | 3.28% |

(1) The average balances of our Private Education Loan Core Earnings basis interest-earning assets for the respective periods are:

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Private Education Loans | $ 23,112 | $ 22,761 |
| Other interest-earning assets | 752 | 797 |
| Total Private Education Loan Core Earnings basis interest-earning assets | $ 23,864 | $ 23,558 |

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income and other derivative accounting adjustments. For further discussion of these adjustments, see section titled "Non-GAAP Financial Measures — Core Earnings" above.

As of March 31, 2020, our Private Education Loan portfolio totaled $22.3 billion. The weighted-average life of this portfolio as of March 31, 2020 was 5 years assuming a CPR of 9%.

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*Private Education Loan Provision for Loan Losses*

Provision for loan losses increased $21 million. See “Allowance for Loan Losses” for discussion regarding transition to CECL on January 1, 2020. Provision of $89 million in first-quarter 2020 primarily related to an increase in expected losses due to COVID-19’s negative impact on the current and forecasted economic conditions.

*Operating Expenses*

Operating expenses for our Consumer Lending segment include costs incurred to originate, acquire, service and collect on our consumer loan portfolio. Operating expenses were $39 million and $38 million for the quarters ended March 31, 2020 and 2019, respectively. Expenses were $1 million higher primarily due to an increase in loan originations which was offset by reduced expenses in connection with ongoing efficiency initiatives.

**Business Processing Segment**

The following table presents Core Earnings results for our Business Processing segment.

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 | % Increase (Decrease) 2020 vs. 2019 |
|---|---|---|---|
| Business processing revenue | $ 57 | $ 68 | (16)% |
| Direct operating expenses | 54 | 55 | (2) |
| Income before income tax expense | 3 | 13 | (77) |
| Income tax expense | 1 | 3 | (67) |
| Core Earnings | $ 2 | $ 10 | (80)% |

*Highlights*

- Core Earnings were $2 million compared to $10 million in the year-ago quarter.
- Revenue declined $11 million primarily as a result of contract terminations and expirations that occurred in the second half of 2019, as well as the impact of COVID-19 on certain business lines (temporary stoppage of certain collection/processing activity and lower volume in the toll business).
- EBITDA was $4 million, down 71% from the year-ago quarter with the EBITDA margin decreasing 67%. The decrease in EBITDA and the EBITDA margin is a result of the revenue decline discussed above, the impact of COVID-19 on certain business lines, as well as the cost of implementing efficiency initiatives.
- Contingent collections receivables inventory remained stable at $15 billion.

Key segment metrics are as follows:

| (Dollars in billions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Revenue from government services | $ 33 | $ 42 |
| Revenue from healthcare services | 24 | 26 |
| Total fee revenue | $ 57 | $ 68 |
| EBITDA(1) | $ 4 | $ 14 |
| EBITDA Margin(1) | 7% | 21% |
| Contingent collections receivables inventory (in billions) | $ 15.1 | $ 15.0 |

(1) See “Non-GAAP Financial Measures – Earnings before Interest, Taxes, Depreciation and Amortization Expense (‘EBITDA’)” for an explanation and reconciliation of these metrics.

**Other Segment**

The following table presents Core Earnings results of our Other segment.

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 | % Increase (Decrease) 2020 vs. 2019 |
|---|---|---|---|
| Net interest loss after provision for loan losses | $ (31) | $ (33) | (6)% |
| Other income: | | | |
| Other income | 3 | 5 | (40) |
| Gains on debt repurchases | — | 15 | (100) |
| Total other income | 3 | 20 | (85) |
| Expenses: | | | |
| Unallocated shared services expenses: | | | |
| Unallocated information technology costs | 21 | 19 | 11 |
| Unallocated corporate costs | 54 | 53 | 2 |
| Total unallocated shared services expenses | 75 | 72 | 4 |
| Restructuring/other reorganization expenses | 5 | 1 | 400 |
| Total expenses | 80 | 73 | 10 |
| Loss before income tax benefit | (108) | (86) | 26 |
| Income tax benefit | (26) | (20) | 30 |
| Core Earnings (loss) | $ (82) | $ (66) | 24% |

***Net Interest Loss after Provision for Loan Losses***

Net interest loss after provision for loan losses is due to the negative carrying cost of our corporate liquidity portfolio. The decrease in the net interest loss is a result of the decrease in the size of the corporate liquidity portfolio primarily in connection with a decreasing unsecured debt balance.

***Gains on Debt Repurchases***

Net gains on debt repurchases decreased by $15 million. There were no debt repurchases in first-quarter 2020 compared to $46 million repurchased at a $15 million gain in the year-ago period.

***Unallocated Shared Services Expenses***

Unallocated shared services expenses are comprised of costs primarily related to certain executive management, the board of directors, accounting, finance, legal, human resources, compliance and risk management, regulatory-related costs, stock-based compensation expense, and information technology costs related to infrastructure and operations. Regulatory-related costs include actual settlement amounts as well as third-party professional fees we incur in connection with such regulatory matters. On an adjusted basis, expenses increased $3 million. Adjusted expenses exclude $7 million of regulatory-related costs in the first quarters of 2020 and 2019.

***Restructuring/Other Reorganization Expenses***

During the first quarters of 2020 and 2019, the Company incurred $5 million and $1 million, respectively, of restructuring/other reorganization expense in connection with an effort to reduce costs and improve operating efficiency. The charges were due primarily to severance-related costs.

**Financial Condition**

This section provides additional information regarding the changes in our loan portfolio assets and related liabilities as well as credit quality and performance indicators related to our loan portfolio.

***Average Balance Sheets — GAAP***

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| (Dollars in millions) | Balance | Rate | Balance | Rate |
| **Average Assets** | | | | |
| FFELP Loans | $ 63,894 | 3.59% | $ 71,226 | 4.35% |
| Private Education Loans | 23,112 | 7.04 | 22,761 | 7.89 |
| Other loans | 9 | 8.67 | 73 | 8.77 |
| Cash and investments | 4,091 | 1.20 | 4,707 | 2.30 |
| Total interest-earning assets | 91,106 | 4.36% | 98,767 | 5.07% |
| Non-interest-earning assets | 3,007 | | 3,472 | |
| Total assets | $ 94,113 | | $ 102,239 | |
| **Average Liabilities and Equity** | | | | |
| Short-term borrowings | $ 8,285 | 3.36% | $ 5,817 | 4.09% |
| Long-term borrowings | 81,598 | 3.18 | 91,382 | 3.95 |
| Total interest-bearing liabilities | 89,883 | 3.20% | 97,199 | 3.96% |
| Non-interest-bearing liabilities | 1,373 | | 1,524 | |
| Equity | 2,857 | | 3,516 | |
| Total liabilities and equity | $ 94,113 | | $ 102,239 | |
| Net interest margin | | 1.20% | | 1.17% |

***Rate/Volume Analysis — GAAP***

The following rate/volume analysis shows the relative contribution of changes in interest rates and asset volumes.

| | Increase | Change Due To | |
|---|---|---|---|
| (Dollars in millions) | (Decrease) | Rate | Volume |
| **Three Months Ended March 31, 2020 vs. 2019** | | | |
| Interest income | $ (247) | $ (166) | $ (81) |
| Interest expense | (235) | (175) | (60) |
| Net interest income | $ (12) | $ 9 | $ (21) |

***Summary of our Education Loan Portfolio***

*Ending Education Loan Balances, net*

| (Dollars in millions) | March 31, 2020 FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
|---|---|---|---|---|---|
| Total education loan portfolio: | | | | | |
| In-school[1] | $ 40 | $ — | $ 40 | $ 17 | $ 57 |
| Grace, repayment and other[2] | 21,066 | 41,697 | 62,763 | 23,404 | 86,167 |
| Total[3] | 21,106 | 41,697 | 62,803 | 23,421 | 86,224 |
| Allowance for loan losses[3] | (206) | (105) | (311) | (1,083) | (1,394) |
| Total education loan portfolio | $ 20,900 | $ 41,592 | $ 62,492 | $ 22,338 | $ 84,830 |
| % of total FFELP | 33% | 67% | 100% | | |
| % of total | 25% | 49% | 74% | 26% | 100% |

| (Dollars in millions) | December 31, 2019 FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
|---|---|---|---|---|---|
| Total education loan portfolio: | | | | | |
| In-school[1] | $ 41 | $ — | $ 41 | $ 19 | $ 60 |
| Grace, repayment and other[2] | 21,387 | 42,666 | 64,053 | 23,303 | 87,356 |
| Total, gross | 21,428 | 42,666 | 64,094 | 23,322 | 87,416 |
| Unamortized premium/(discount) | 337 | 208 | 545 | (617) | (72) |
| Receivable for partially charged-off loans | — | — | — | 588 | 588 |
| Allowance for loan losses | (42) | (22) | (64) | (1,048) | (1,112) |
| Total education loan portfolio | $ 21,723 | $ 42,852 | $ 64,575 | $ 22,245 | $ 86,820 |
| % of total FFELP | 34% | 66% | 100% | | |
| % of total | 25% | 49% | 74% | 26% | 100% |

(1) Loans for customers still attending school and are not yet required to make payments on the loan.

(2) Includes loans in deferment or forbearance.

(3) In connection with the adoption of CECL on January 1, 2020, (1) the $528 premium and $550 million discount on the FFELP Loans and Private Education Loans, respectively, as of March 31, 2020, is now included as part of the respective loan balance for this disclosure and (2) the receivable for partially charged-off loans has been reclassified from the Private Education Loan balance to the allowance for loan loss. Both of these changes are prospective in nature as prior balances are not restated under CECL.

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*Average Education Loan Balances (net of unamortized premium/discount)*

| | Three Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
| Total | $ 21,640 | $ 42,254 | $ 63,894 | $ 23,112 | $ 87,006 |
| % of FFELP | 34% | 66% | 100% | | |
| % of total | 25% | 48% | 73% | 27% | 100% |

| | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
| Total | $ 24,323 | $ 46,903 | $ 71,226 | $ 22,761 | $ 93,987 |
| % of FFELP | 34% | 66% | 100% | | |
| % of total | 26% | 50% | 76% | 24% | 100% |

*Education Loan Activity*

| | Three Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 21,723 | $ 42,852 | $ 64,575 | $ 22,245 | $ 86,820 |
| Acquisitions (originations and purchases) | 6 | 5 | 11 | 1,910 | 1,921 |
| Capitalized interest and premium/discount amortization | 187 | 187 | 374 | 71 | 445 |
| Consolidations to third parties | (272) | (320) | (592) | (152) | (744) |
| Repayments and other | (744) | (1,132) | (1,876) | (1,736) | (3,612) |
| Ending balance | $ 20,900 | $ 41,592 | $ 62,492 | $ 22,338 | $ 84,830 |

| | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 24,641 | $ 47,612 | $ 72,253 | $ 22,245 | $ 94,498 |
| Acquisitions (originations and purchases) | 38 | 44 | 82 | 992 | 1,074 |
| Capitalized interest and premium/discount amortization | 194 | 193 | 387 | 90 | 477 |
| Consolidations to third parties | (413) | (433) | (846) | (162) | (1,008) |
| Repayments and other | (805) | (1,163) | (1,968) | (1,024) | (2,992) |
| Ending balance | $ 23,655 | $ 46,253 | $ 69,908 | $ 22,141 | $ 92,049 |

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***FFELP Loan Portfolio Performance***

*FFELP Loan Delinquencies and Forbearance*

| | FFELP Loan Delinquencies | | | |
|---|---|---|---|---|
| | March 31, 2020 | | March 31, 2019 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 3,291 | | $ 3,809 | |
| Loans in forbearance[2] | 8,998 | | 8,348 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 45,216 | 89.5% | 50,921 | 89.0% |
| Loans delinquent 31-60 days[3] | 1,631 | 3.2 | 2,114 | 3.7 |
| Loans delinquent 61-90 days[3] | 969 | 1.9 | 1,194 | 2.1 |
| Loans delinquent greater than 90 days[3] | 2,698 | 5.4 | 3,006 | 5.2 |
| Total FFELP Loans in repayment | 50,514 | 100% | 57,235 | 100% |
| Total FFELP Loans, gross | 62,803 | | 69,392 | |
| FFELP Loan unamortized premium[4] | — | | 583 | |
| Total FFELP Loans | 62,803 | | 69,975 | |
| FFELP Loan allowance for losses | (311) | | (67) | |
| FFELP Loans, net | $ 62,492 | | $ 69,908 | |
| Percentage of FFELP Loans in repayment | | 80.4% | | 82.5% |
| Delinquencies as a percentage of FFELP Loans in repayment | | 10.5% | | 11.0% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance | | 15.1% | | 12.7% |

(1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

(2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

(4) In connection with the adoption of CECL on January 1, 2020, the $528 million premium as of March 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure. This change is prospective in nature as prior balances are not restated under CECL.

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***Private Education Loan Portfolio Performance***

*Private Education Loan Delinquencies and Forbearance*

| | Private Education Loan Delinquencies | | | |
|---|---|---|---|---|
| | March 31, 2020 | | March 31, 2019 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 603 | | $ 784 | |
| Loans in forbearance[2] | 1,583 | | 575 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 20,466 | 96.4% | 20,886 | 94.8% |
| Loans delinquent 31-60 days[3] | 265 | 1.3 | 358 | 1.6 |
| Loans delinquent 61-90 days[3] | 157 | .7 | 224 | 1.0 |
| Loans delinquent greater than 90 days[3] | 347 | 1.6 | 559 | 2.6 |
| Total Private Education Loans in repayment | 21,235 | 100% | 22,027 | 100% |
| Total Private Education Loans, gross | 23,421 | | 23,386 | |
| Private Education Loan unamortized discount[4] | — | | (724) | |
| Total Private Education Loans | 23,421 | | 22,662 | |
| Private Education Loan receivable for partially charged-off loans[4] | — | | 657 | |
| Private Education Loan allowance for losses | (1,083) | | (1,178) | |
| Private Education Loans, net | $ 22,338 | | $ 22,141 | |
| Percentage of Private Education Loans in repayment | | 90.7% | | 94.2% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 3.6% | | 5.2% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 6.9% | | 2.5% |
| Percentage of Private Education Loans with a cosigner[5] | | 43% | | 54% |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.

(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

(4) In connection with the adoption of CECL on January 1, 2020, (1) the $550 million discount as of March 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure and (2) the receivable for partially charged-off loans has been reclassified from the Private Education Loan balance to the allowance for loan loss. Both of these changes are prospective in nature as prior balances are not restated under CECL.

(5) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 65% for both periods presented.

***Allowance for Loan Losses***

See “Note 1 – Significant Accounting Policies” for discussion of the adoption of CECL on January 1, 2020, and the related transition adjustment. The following table summarizes the activity in the allowance for loan losses during first-quarter 2020:

| (Dollars in millions) | Three Months Ended March 31, 2020 Private Education Loans | FFELP Loans | Total |
|---|---|---|---|
| Beginning balance (as of January 1, 2020 after transition adjustment to CECL) | $ 1,045 | $ 324 | $ 1,369 |
| Total provision | 89 | 6 | 95 |
| Charge-offs[1] | (68) | (19) | (87) |
| Decrease in expected future recoveries on charged-off loans[2] | 17 | — | 17 |
| Ending balance | 1,083 | 311 | 1,394 |
| Plus: expected future recoveries on charged-off loans[2] | 571 | — | 571 |
| Ending balance excluding expected future recoveries on charged-off loans[3] | $ 1,654 | $ 311 | $ 1,965 |
| Charge-offs as a percentage of average loans in repayment (annualized) | 1.27% | .15% | |
| Allowance coverage of charge-offs (annualized)[3] | 6.0 | 4.1 | |
| Allowance as a percentage of the ending total loan balance[3] | 7.1% | .5% | |
| Allowance as a percentage of ending loans in repayment[3] | 7.8% | .6% | |
| Ending total loans | $ 23,421 | $ 62,803 | |
| Average loans in repayment | $ 21,601 | $ 52,460 | |
| Ending loans in repayment | $ 21,235 | $ 50,514 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, at the time of charge-off, the expected recovery amount is transferred from the education loan balance to the allowance for loan loss and is referred to as the “expected future recoveries on charged-off loans.” For FFELP Loans, the recovery is received at the time of charge-off.

(2) At the end of each month, for Private Education Loans that are 212 or more days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this as the expected future recoveries on charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for Private Education Loan losses with an offsetting reduction in the expected future recoveries on charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. The following table summarizes the activity in the expected future recoveries on charged-off loans:

| (Dollars in millions) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Beginning of period expected recoveries | $ 588 | $ 674 |
| Expected future recoveries of current period defaults | 13 | 20 |
| Recoveries | (28) | (34) |
| Charge-offs | (2) | (3) |
| End of period expected recoveries | $ 571 | $ 657 |
| Change in balance during period | $ (17) | $ (17) |

(3) The allowance used for these metrics excludes the expected future recoveries on charged-off loans to better reflect the current expected credit losses remaining in the portfolio.

The following table summarizes the activity in the allowance for loan losses for the year-ago period.

| (Dollars in millions) | Three Months Ended March 31, 2019 Private Education Loans | FFELP Loans | Total |
|---|---|---|---|
| Allowance at beginning of period | $ 1,201 | $ 76 | $ 1,277 |
| Total provision | 68 | 8 | 76 |
| Total charge-offs(1) | (94) | (17) | (111) |
| Reclassification of interest reserve(2) | 3 | — | 3 |
| Allowance at end of period | $ 1,178 | $ 67 | $ 1,245 |
| Charge-offs as a percentage of average loans in repayment (annualized) | 1.7% | .11% | |
| Allowance coverage of charge-offs (annualized) | 3.1 | 1.0 | |
| Allowance as a percentage of ending total loans | 4.9% | .10% | |
| Allowance as a percentage of ending loans in repayment | 5.3% | .12% | |
| Ending total loans(3) | $ 24,043 | $ 69,392 | |
| Average loans in repayment | $ 22,061 | $ 58,222 | |
| Ending loans in repayment | $ 22,027 | $ 57,235 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. The table below summarizes the activity in the Private Education Loan receivable for partially charged-off loans. For FFELP Loans, the recovery is received at the time of charge-off.

| (Dollars in millions) | Three Months Ended March 31, 2019 |
|---|---|
| Receivable at beginning of period | $ 674 |
| Expected future recoveries of current period defaults | 20 |
| Recoveries | (34) |
| Charge-offs | (3) |
| Receivable at end of period | $ 657 |

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.

(3) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

## Liquidity and Capital Resources

### *Funding and Liquidity Risk Management*

The following "Liquidity and Capital Resources" discussion concentrates on our Federal Education Loans and Consumer Lending segments. Our Business Processing and Other segments require minimal capital and funding. See "Navient's Response to COVID-19" for a discussion of COVID-19's impact on liquidity and capital resources.

We define liquidity as cash and high-quality liquid assets that we can use to meet our cash requirements. Our two primary liquidity needs are: (1) servicing our debt and (2) our ongoing ability to meet our cash needs for running the operations of our businesses (including derivative collateral requirements) throughout market cycles, including during periods of financial stress. Secondary liquidity needs, which can be adjusted as needed, include the origination of Private Education Loans, acquisitions of Private Education Loan and FFELP Loan portfolios, acquisitions of companies, the payment of common stock dividends and the repurchase of common stock under common share repurchase programs. To achieve these objectives, we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources including the issuance of unsecured debt and the issuance of secured debt primarily through asset-backed securitizations and/or other financing facilities.

We define our liquidity risk as the potential inability to meet our obligations when they become due without incurring unacceptable losses or to invest in future asset growth and business operations at reasonable market rates. Our primary liquidity risk relates to our ability to service our debt, meet our other business obligations and to continue to grow our business. The ability to access the capital markets is impacted by general market and economic conditions, our credit ratings, as well as the overall availability of funding sources in the marketplace. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions, including over-the-counter derivatives.

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change, from time to time, based on our financial performance, industry and market dynamics and other factors. Other factors that influence our credit ratings include the ratings agencies' assessment of the general operating environment, our

relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices. A negative change in our credit rating could have a negative effect on our liquidity because it might raise the cost and availability of funding and potentially require additional cash collateral or restrict cash currently held as collateral on existing borrowings or derivative collateral arrangements. It is our objective to improve our credit ratings so that we can continue to efficiently access the capital markets even in difficult economic and market conditions. We have unsecured debt that totaled $9.5 billion at March 31, 2020. Three credit rating agencies currently rate our long-term unsecured debt at below investment grade.

We expect to fund our ongoing liquidity needs, including the repayment of $1.1 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash, investments and unencumbered FFELP Loan and Private Education Refinance Loan portfolios, the predictable operating cash flows provided by operating activities ($453 million in the three months ended March 31, 2020), the repayment of principal on unencumbered education loan assets, and the distribution of overcollateralization from our securitization trusts. We may also, depending on market conditions and availability, draw down on our secured FFELP Loan and Private Education Loan facilities, issue term ABS, enter into additional Private Education Loan ABS repurchase facilities, or issue additional unsecured debt.

We originate Private Education Loans. We also have purchased and may purchase, in future periods, Private Education Loan and FFELP Loan portfolios from third parties. Those originations and purchases are part of our ongoing liquidity needs. We repurchased 23.0 million common shares for $335 million in the first quarter of 2020 and have $665 million of remaining share repurchase authority as of March 31, 2020.

***Sources of Liquidity and Available Capacity***

*Ending Balances*

| (Dollars in millions) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Sources of primary liquidity:** | | |
| Total unrestricted cash and liquid investments | $ 1,084 | $ 1,233 |
| Unencumbered FFELP Loans | 209 | 319 |
| Unencumbered Private Education Refinance Loans | 427 | 414 |
| Total GAAP and Core Earnings basis | $ 1,720 | $ 1,966 |

*Average Balances*

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in millions) | 2020 | 2019 |
| **Sources of primary liquidity:** | | |
| Total unrestricted cash and liquid investments | $ 1,151 | $ 992 |
| Unencumbered FFELP Loans | 336 | 638 |
| Unencumbered Private Education Refinance Loans | 694 | 635 |
| Total GAAP and Core Earnings basis | $ 2,181 | $ 2,265 |

Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under the FFELP Loan asset-backed commercial paper (“ABCP”) facilities will vary and be subject to each agreement’s borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of March 31, 2020 and 2019, the maximum additional capacity under these facilities was $768 million and $1.3 billion, respectively. For the three months ended March 31, 2020 and 2019, the average maximum additional capacity under these facilities was $852 million and $1.1 billion, respectively. As of March 31, 2020, the maturity dates of these facilities ranged from November 2020 to April 2021.

Liquidity may also be available from our Private Education Loan ABCP facilities. Maximum borrowing capacity under the Private Education Loan-other facilities will vary and be subject to each agreement’s borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered Private Education Loans. As of March 31, 2020 and 2019, the maximum additional capacity under these facilities was $539 million and $1.3 billion, respectively. For the three months ended March 31, 2020 and 2019, the average maximum additional capacity under these facilities was $886 million and $956 million, respectively. As of March 31, 2020, the maturity dates of these facilities ranged from June 2020 to December 2021.

At March 31, 2020, we had a total of $5.6 billion of unencumbered tangible assets inclusive of those listed in the table above as sources of primary liquidity. Total unencumbered education loans comprised $2.7 billion of our unencumbered tangible assets of which $2.5 billion and $209 million related to Private Education Loans and FFELP Loans, respectively. In addition, as of March 31, 2020, we had $6.6 billion of encumbered net assets (i.e., overcollateralization) in our various financing facilities (consolidated variable interest entities). Since the fourth quarter of 2015, we have closed on $4.3 billion of Private Education Loan ABS Repurchase Facilities. These repurchase facilities are collateralized by Residual Interests in previously issued Private Education Loan ABS trusts. These are examples of how we can effectively finance previously encumbered assets to generate additional liquidity in addition to the unencumbered assets we traditionally have encumbered in the past. Additionally, these repurchase facilities had a cost of funds lower than that of a new unsecured debt issuance.

For further discussion of our various sources of liquidity, our access to the ABS market, our asset-backed financing facilities, and our issuance of unsecured debt, see “Note 6 — Borrowings” in our Annual Report on Form 10-K for the year ended December 31, 2019.

The following table reconciles encumbered and unencumbered assets and their net impact on GAAP total tangible equity.

| (Dollars in billions) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Net assets of consolidated variable interest entities (encumbered assets) — FFELP Loans | $ 4.1 | 4.3 |
| Net assets of consolidated variable interest entities (encumbered assets) — Private Education Loans | 2.5 | 3.2 |
| Tangible unencumbered assets[1] | 5.6 | 5.6 |
| Senior unsecured debt | (9.5) | (9.5) |
| Mark-to-market on unsecured hedged debt[2] | (.8) | (.4) |
| Other liabilities, net | (.6) | (.6) |
| Total tangible equity — GAAP Basis[1] | $ 1.3 | $ 2.6 |

(1) At March 31, 2020 and December 31, 2019, excludes goodwill and acquired intangible assets, net, of $752 million and $757 million, respectively.

(2) At March 31, 2020 and December 31, 2019, there were $743 million and $332 million, respectively, of net gains (losses) on derivatives hedging this debt in unencumbered assets, which partially offset these gains (losses).

*First-Quarter 2020 Financing Transactions*

During the first-quarter 2020, Navient issued $1.9 billion in Private Education Loan ABS and $700 million in unsecured debt.

*Shareholder Distributions*

During the first-quarter 2020, we paid $31 million in common stock dividends ($0.16 per share).

We repurchased 23.0 million common shares for $335 million in the first quarter of 2020. There is $665 million of remaining share repurchase authority outstanding at March 31, 2020.

***Counterparty Exposure***

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us. Risks associated with our lending portfolio are discussed in the section titled “Financial Condition — FFELP Loan Portfolio Performance” and “— Private Education Loan Portfolio Performance.”

Our investment portfolio is comprised of very short-term securities issued by a diversified group of highly rated issuers, limiting our counterparty exposure. Additionally, our investing activity is governed by board of director approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by Master Agreements, Schedules, and Credit Support Annexes (“CSAs”) developed by the International Swaps and Derivatives Association, Inc. (“ISDA documentation”). In particular, Navient’s CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All corporate derivative contracts entered into by Navient that are not cleared through a derivatives clearing organization are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Corporate derivative contracts entered into by Navient that are cleared through a derivatives clearing organization are settled daily by participants on a

multilateral, net basis, which mitigates counterparty credit exposure. Our securitization trusts with swaps have ISDA documentation with protections against counterparty risk. The collateral calculations contemplated in the ISDA documentation of our securitization trusts require collateral based on the fair value of the derivative which may be adjusted for additional collateral based on rating agency criteria requirements considered within the collateral agreement. The trusts are not required to post collateral to the counterparties. In all cases, our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties' credit risk when determining the fair value of derivative positions on our exposure net of collateral.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates, may require us to return cash collateral held or may require us to post collateral to counterparties. See "Note 7 — Derivative Financial Instruments" in our 2019 Form 10-K for more information on the amount of cash that has been received and delivered to derivative counterparties.

The table below highlights exposure related to our derivative counterparties at March 31, 2020.

| (Dollars in millions) | Corporate Contracts | Securitization Trust Contracts |
|---|---|---|
| Exposure, net of collateral | $ 12 | $ — |
| Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3 | 100% | —% |
| Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3 | 91% | —% |

***Core Earnings Basis Borrowings***

The following tables present the ending balances, average balances and average interest rates of our Core Earnings basis borrowings. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment. (See "Non-GAAP Financial Measures — Core Earnings — Derivative Accounting — Reclassification of Settlements on Derivative and Hedging Activities" of this Item 2.)

*Ending Balances*

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Short Term | Long Term | Total | Short Term | Long Term | Total |
| Unsecured borrowings: | | | | | | |
| Senior unsecured debt[1] | $ 1,129 | $ 8,353 | $ 9,482 | $ 1,052 | $ 8,461 | $ 9,513 |
| Total unsecured borrowings | 1,129 | 8,353 | 9,482 | 1,052 | 8,461 | 9,513 |
| Secured borrowings: | | | | | | |
| FFELP Loan securitizations[2] | 134 | 57,988 | 58,122 | 72 | 59,735 | 59,807 |
| Private Education Loan securitizations[3] | 1,635 | 12,538 | 14,173 | 2,120 | 11,430 | 13,550 |
| FFELP Loan — other facilities | 2,712 | 711 | 3,423 | 2,783 | 617 | 3,400 |
| Private Education Loan — other facilities | 2,460 | 1,427 | 3,887 | 2,114 | 1,513 | 3,627 |
| Other[4] | 372 | — | 372 | 338 | — | 338 |
| Total secured borrowings | 7,313 | 72,664 | 79,977 | 7,427 | 73,295 | 80,722 |
| Core Earnings basis borrowings | 8,442 | 81,017 | 89,459 | 8,479 | 81,756 | 90,235 |
| Adjustment for GAAP accounting treatment | 10 | 280 | 290 | 4 | (41) | (37) |
| GAAP basis borrowings | $ 8,452 | $ 81,297 | $ 89,749 | $ 8,483 | $ 81,715 | $ 90,198 |

(1) Includes principal amount of $1.1 billion and $1.1 billion of short-term debt as of March 31, 2020 and December 31, 2019, respectively. Includes principal amount of $8.4 billion and $8.5 billion of long-term debt as of March 31, 2020 and December 31, 2019, respectively.

(2) Includes $134 million and $72 million of short-term debt related to the FFELP Loan ABS repurchase facilities ("FFELP Loan Repurchase Facilities") as of March 31, 2020 and December 31, 2019, respectively. Includes $172 million and $231 million of long-term debt related to the FFELP Loan Repurchase Facilities as of March 31, 2020 and December 31, 2019, respectively.

(3) Includes $1.6 billion and $2.1 billion of short-term debt related to the Private Education Loan ABS repurchase facilities ("Private Education Loan Repurchase Facilities") as of March 31, 2020 and December 31, 2019, respectively. Includes $260 million and $194 million of long-term debt related to the Private Education Loan Repurchase Facilities as of March 31, 2020 and December 31, 2019, respectively.

(4) "Other" primarily includes the obligation to return cash collateral held related to derivative exposures.

Secured borrowings comprised 89% of our Core Earnings basis debt outstanding at March 31, 2020 and December 31, 2019.

*Average Balances*

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| (Dollars in millions) | Average Balance | Average Rate | Average Balance | Average Rate |
| Unsecured borrowings: | | | | |
| Senior unsecured debt | $ 9,819 | 5.98% | $ 11,463 | 6.84% |
| Total unsecured borrowings | 9,819 | 5.98 | 11,463 | 6.84 |
| Secured borrowings: | | | | |
| FFELP Loan securitizations(1) | 58,991 | 2.64 | 64,955 | 3.41 |
| Private Education Loan securitizations(2) | 13,839 | 3.43 | 13,347 | 4.32 |
| FFELP Loan — other facilities | 3,387 | 2.65 | 5,036 | 3.59 |
| Private Education Loan — other facilities | 3,506 | 2.98 | 2,146 | 4.02 |
| Other(3) | 341 | 1.84 | 252 | 4.85 |
| Total secured borrowings | 80,064 | 2.79 | 85,736 | 3.58 |
| Core Earnings basis borrowings | $ 89,883 | 3.14% | $ 97,199 | 3.97% |
| | | | | |
| Core Earnings basis borrowings | $ 89,883 | 3.14% | $ 97,199 | 3.97% |
| Adjustment for GAAP accounting treatment | — | .06 | — | (.01) |
| GAAP basis borrowings | $ 89,883 | 3.20% | $ 97,199 | 3.96% |

(1) Includes $307 million and $273 million of debt related to the FFELP Loan Repurchase Facilities for the three months ended March 31, 2020 and 2019, respectively.

(2) Includes $2.2 billion and $2.5 billion of debt related to the Private Education Loan Repurchase Facilities for the three months ended March 31, 2020 and 2019, respectively.

(3) "Other" primarily includes the obligation to return cash collateral held related to derivative exposures.

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). A discussion of our critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, goodwill and intangible assets, and fair value measurement can be found in our 2019 Form 10-K. There were no significant changes to these critical accounting policies during the three months ended March 31, 2020 except for the adoption of CECL which materially changed our allowance for loan loss, as discussed below. We have also provided discussion below on how COVID-19 impacted the Allowance for loan loss as of March 31, 2020, as well as how COVID-19 was considered in our assessment of goodwill impairment as of March 31, 2020. See "Note 8 – Fair Value Measurements" for a discussion on COVID-19's impact on fair values as of March 31, 2020.

*Allowance for Loan Losses*

On January 1, 2020 we adopted CECL. See "Note 1 – Significant Accounting Policies" for a discussion of our accounting policy under CECL and the related transition adjustment as of the January 1, 2020 adoption. See "Note 2 – Allowance for Loan Losses" for the impact of CECL in first-quarter 2020.

We have determined that, for modeling current expected credit losses, in general, we can reasonably estimate expected losses that incorporate current and forecasted economic conditions over a three-year period. After this "reasonable and supportable" period, there is a two-year reversion period to Navient's actual long-term historical loss experience over a full economic life cycle. The model used to project losses utilizes key credit quality indicators of the loan portfolio and predicts how those attributes are expected to perform in connection with the forecasted economic conditions. In connection with this methodology:

- Our modeling of current expected credit losses utilizes historical loan repayment experience since 2008 identifying loan variables (key credit quality indicators) that are significantly predictive of loans that will default and predicts how loans will perform in connection with the forecasted economic conditions. The key credit quality indicators used by the model for Private Education loans are FICO scores, school type (not-for-profit or for-profit), the existence of a cosigner, whether a loan is a TDR, loan status and loan seasoning. For FFELP loans the key credit quality indicators are loan status and loan type (Stafford, Consolidation and Rehab loans). We make estimates regarding prepayments when determining our expected credit losses which are derived in the same manner as discussed above.

- The forecasted economic conditions used in our modeling of expected losses are provided by a third party. Several forecast scenarios are provided which represent the baseline economic expectations as well as favorable and adverse scenarios. We analyze and evaluate the alternative scenarios for reasonableness and determine the appropriate weighting of these alternative scenarios based upon the current economic conditions and our view of the likelihood and risks of the alternative scenarios.
- We use historical customer payment experience to estimate the amount of future recoveries on defaulted private education loans. We use judgment in determining whether historical performance is representative of what we expect to collect in the future. The expected future recoveries on defaulted FFELP loans is based on the contractual government guarantee (which generally limits the maximum loss to 3% of the loan balance).
- Once our loss model calculations are performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be made. These adjustments may include, but are not limited to, changes in lending and collection policies and practices as well as the effect of other external factors such as legal or regulatory requirements.

We included an increase in the March 31, 2020 allowance for loan losses due to COVID-19 (see “Navient’s Response to COVID-19” for further discussion of COVID-19). This increase was based on an evaluation of current and forecasted economic conditions directly taking into consideration the negative impact of COVID-19 on the U.S. economy. We evaluated and considered several forecasted economic scenarios when making this adjustment. We also considered the characteristics of our loan portfolio and its expected behavior in the forecasted economic scenarios. If future economic conditions as a result of COVID-19 are significantly worse than what was assumed as a part of this assessment, specifically related to the severity and length of the downturn and subsequent recovery, it could result in additional allowance for loan loss being recorded in future periods.

The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates and assumptions that may be susceptible to significant changes. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, or management’s assumptions or practices were to change, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement.

*Goodwill*

Navient tests goodwill as of October 1 each year or at interim dates if an event occurs or circumstances exist such that it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value.  Such an event or circumstance is a triggering event. If it is concluded that a triggering event has occurred at an interim date, a Step 1 impairment test must be performed. During the latter half of the first quarter, COVID-19 created significant disruption in the U.S. economy (see “Navient’s Response to COVID-19” for further discussion of COVID-19). In addition to a considerable decline in Navient’s stock price, the pandemic and restrictions aimed at limiting the spread of COVID-19, such as social distancing, impacted the macroeconomic conditions which impact our reporting units with goodwill, the industry and markets in which these reporting units operate, their cost structures and, to some degree, their expected 2020 financial performance. As a result, we assessed whether a triggering event occurred.

We assessed relevant qualitative factors to determine whether it is “more-likely-than-not” that the fair value of an individual reporting unit is less than its carrying value. We considered the amount of excess fair values over the carrying values of each reporting unit as of October 1, 2019 when we last performed a Step 1 goodwill impairment test. The concluded fair values of the reporting units at October 1, 2019 were substantially in excess of their carrying amounts. Additionally, fair values resulting from sensitivity analyses factoring in more conservative discount rates and growth rates for each reporting unit also yielded fair values in excess of the carrying values of each reporting unit.

Despite COVID-19, the cash flows for our FFELP Loans, Private Education Loans-Legacy and Federal Education Loan Servicing reporting units are very predictable. The outlook and associated long-term cash flow projections of these reporting units have not changed significantly since our 2019 assessment. For the Private Education Loan Refinance reporting unit, we considered origination volume and the demand for its refinance loan products as well as Navient’s strong liquidity position and ability to issue Private Education Loan ABS comprised entirely of the reporting unit’s refinance loans albeit at a higher interest rate. For Government and Healthcare Services, we also considered the short and long-term outlook for these businesses which includes the temporary stoppage of certain collection and processing activity and lower volume in the toll business but also considering that no contracts have been terminated due to COVID-19 and two significant additional contracts were acquired in April 2020 to implement programs under the CARES Act. Based on these qualitative factors, we concluded that it is not “more-likely-than-not” that the fair value of an individual reporting unit is less than its carrying value, and as a result, COVID-19 and its impact to Navient’s individual reporting units as we currently perceive them do not constitute a triggering event. If future economic conditions as a result of COVID-19 are significantly worse than what was assumed as a part of this assessment, specifically related to the severity and length of the downturn and subsequent recovery, it could result in potential impairment of goodwill in future periods.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Sensitivity Analysis

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at March 31, 2020 and December 31, 2019, based upon a sensitivity analysis performed by management assuming a hypothetical increase and decrease in market interest rates of 100 basis points. The earnings sensitivities assume an immediate increase and decrease in market interest rates of 100 basis points and are applied only to financial assets and liabilities, including hedging instruments, that existed at the balance sheet date and do not take into account any new assets, liabilities or hedging instruments that may arise over the next 12 months.

| | As of March 31, 2020 Impact on Annual Earnings If: Interest Rates | | As of March 31, 2019 Impact on Annual Earnings If: Interest Rates | |
|---|---|---|---|---|
| (Dollars in millions, except per share amounts) | Increase 100 Basis Points | Decrease 100 Basis Points | Increase 100 Basis Points | Decrease 100 Basis Points |
| **Effect on Earnings:** | | | | |
| Change in pre-tax net income before mark-to-market gains (losses) on derivative and hedging activities[1] | $ (63) | $ 41 | $ (12) | $ 27 |
| Mark-to-market gains (losses) on derivative and hedging activities | 145 | (243) | (11) | (85) |
| Increase (decrease) in income before taxes | $ 82 | $ (202) | $ (23) | $ (58) |
| Increase (decrease) in net income after taxes | $ 63 | $ (156) | $ (18) | $ (45) |
| Increase (decrease) in diluted earnings per common share | $ .33 | $ (.80) | $ (.07) | $ (.18) |

(1) If decreasing interest rates by 100 basis points results in a negative interest rate, we assume the interest rate is 0% for this disclosure (as opposed to being a negative interest rate).

| (Dollars in millions) | At March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Decrease of 100 Basis Points | |
| | Fair Value | $ | % | $ | % |
| **Effect on Fair Values:** | | | | | |
| Assets | | | | | |
| Education Loans | $ 80,971 | $ (435) | (1)% | $ 687 | 1% |
| Other earning assets | 4,084 | — | — | — | — |
| Other assets | 4,331 | (348) | (8) | 377 | 9 |
| Total assets gain/(loss) | $ 89,386 | $ (783) | (1)% | $ 1,064 | 1% |
| Liabilities | | | | | |
| Interest-bearing liabilities | $ 82,287 | $ (412) | (1)% | $ 449 | 1% |
| Other liabilities | 1,448 | (410) | (28) | 527 | 36 |
| Total liabilities (gain)/loss | $ 83,735 | $ (822) | (1)% | $ 976 | 1% |

| (Dollars in millions) | At December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Decrease of 100 Basis Points | |
| | Fair Value | $ | % | $ | % |
| **Effect on Fair Values:** | | | | | |
| Assets | | | | | |
| Education Loans | $ 87,462 | $ (277) | —% | $ 449 | 1% |
| Other earning assets | 3,992 | — | — | — | — |
| Other assets | 4,091 | (45) | (1) | 297 | 7 |
| Total assets gain/(loss) | $ 95,545 | $ (322) | —% | $ 746 | 1% |
| Liabilities | | | | | |
| Interest-bearing liabilities | $ 89,815 | $ (411) | —% | $ 445 | —% |
| Other liabilities | 1,356 | (67) | (5) | 417 | 31 |
| Total liabilities (gain)/loss | $ 91,171 | $ (478) | (1)% | $ 862 | 1% |

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate education loan portfolio with floating rate debt and our fixed rate education loan portfolio with fixed rate debt. However, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets. In addition, due to the ability of some FFELP Loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the education loan earns at the fixed borrower rate and the funding remains floating. During 2020 and 2019, certain FFELP Loans were earning Floor Income and we locked in a portion of that Floor Income through the use of derivative contracts. The result of these hedging transactions was to fix the relative spread between the education loan asset rate and the variable rate liability.

In the preceding tables, under the scenario where interest rates increase or decrease by 100 basis points, the change in pre-tax net income before the mark-to-market gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our unhedged loans being in a fixed-rate mode due to Floor Income, while being funded with variable rate debt in low interest rate environments; and (ii) a portion of our fixed rate assets being funded with variable rate liabilities. Both items will generally cause income to decrease when interest rates increase and income to increase when interest rates decrease. The decrease in income in both periods when interest rates increase 100 basis points is due primarily to item (i) above. The increase in income in both periods when interest rates decrease 100 basis points is due primarily to item (i) above also. The relative changes in the impacts between 2020 and 2019 are primarily a result of interest rates being significant lower in 2020 compared to 2019 resulting in the portfolio earning significantly greater unhedged floor income in 2020.

In the preceding tables, under the scenario where interest rates increase or decrease by 100 basis points, the change in mark-to-market gains (losses) on derivative and hedging activities in 2020 and 2019 is primarily due to (i) the notional amount and remaining term of our derivative portfolio and related hedged debt and (ii) the interest rate environment. In 2020 and 2019 the mark to market gains (losses) are primarily related to derivatives that don’t qualify for hedge accounting that are used to economically hedge floor income as well as the origination of fixed rate Private

Education Refinance loans. As a result of not qualifying for hedge accounting there is not an offsetting mark to market of the hedged item in this analysis. The mark to market gains (losses) are significantly higher in 2020 than 2019 as a result of: (1) Interest rates being significantly lower in 2020 than 2019 resulting in a significant increase in the amount of floor income and (2) A significant increase in the notional amount of derivatives hedging the origination of private education loans due to higher origination volume overall compared to the prior period.

In addition to interest rate risk addressed in the preceding tables, we are also exposed to risks related to foreign currency exchange rates. Foreign currency exchange risk is primarily the result of foreign currency denominated debt issued by us. When we issue foreign denominated corporate unsecured and securitization debt, our policy is to use cross currency interest rate swaps to swap all foreign currency denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging instrument and hedged items matching. The balance sheet interest bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross-currency interest rate swaps in other assets or other liabilities. In the current economic environment, volatility in the spread between spot and forward foreign exchange rates has resulted in mark-to-market impacts to current-period earnings which have not been factored into the above analysis. The earnings impact is noncash, and at maturity of the instruments the cumulative mark-to-market impact will be zero. Navient has not issued foreign currency denominated debt since 2008.

**Asset and Liability Funding Gap**

The tables below present our assets and liabilities (funding) arranged by underlying indices as of March 31, 2020. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the “gains (losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

Management analyzes interest rate risk and in doing so includes all derivatives that are economically hedging our debt whether they qualify as effective hedges or not (Core Earnings basis). Accordingly, we are also presenting the asset and liability funding gap on a Core Earnings basis in the table that follows the GAAP presentation.

*GAAP Basis:*

| Index (Dollars in billions) | Frequency of Variable Resets | Assets | Funding[1] | Funding Gap |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $ 3.0 | $ — | $ 3.0 |
| 3-month Treasury bill | annual | .2 | — | .2 |
| Prime | annual | .2 | — | .2 |
| Prime | quarterly | 2.1 | — | 2.1 |
| Prime | monthly | 7.2 | — | 7.2 |
| 3-month LIBOR | quarterly | .4 | 29.1 | (28.7) |
| 3-month LIBOR | daily | — | 2.2 | (2.2) |
| 1-month LIBOR | monthly | 4.6 | 34.9 | (30.3) |
| 1-month LIBOR | daily | 59.2 | — | 59.2 |
| Non-Discrete reset[2] | monthly | — | 8.6 | (8.6) |
| Non-Discrete reset[3] | daily/weekly | 4.0 | .4 | 3.6 |
| Fixed Rate[4] | | 12.3 | 18.0 | (5.7) |
| Total | | $ 93.2 | $ 93.2 | $ — |

(1) Funding (by index) includes all derivatives that qualify as hedges.

(2) Funding consists of auction rate ABS and ABCP facilities.

(3) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes the obligation to return cash collateral held related to derivatives exposures.

(4) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders’ equity.

The “Funding Gaps” in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that typically convert quarterly reset three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges and, as a result, the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

*Core Earnings Basis:*

| Index (Dollars in billions) | Frequency of Variable Resets | Assets | Funding[1] | Funding Gap |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $ 3.0 | $ — | $ 3.0 |
| 3-month Treasury bill | annual | .2 | — | .2 |
| Prime | annual | .2 | — | .2 |
| Prime | quarterly | 2.1 | — | 2.1 |
| Prime | monthly | 7.2 | — | 7.2 |
| 3-month LIBOR | quarterly | .4 | 1.5 | (1.1) |
| 3-month LIBOR | daily | — | 2.2 | (2.2) |
| 1-month LIBOR | monthly | 4.6 | 61.1 | (56.5) |
| 1-month LIBOR | daily | 59.2 | — | 59.2 |
| Non-Discrete reset[2] | monthly | — | 8.6 | (8.6) |
| Non-Discrete reset[3] | daily/weekly | 4.0 | .4 | 3.6 |
| Fixed Rate[4] | | 11.9 | 19.0 | (7.1) |
| Total | | $ 92.8 | $ 92.8 | $ — |

(1) Funding (by index) includes all derivatives that management considers economic hedges of interest rate risk and reflects how we internally manage our interest rate exposure.

(2) Funding consists of auction rate ABS and ABCP facilities.

(3) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes the obligation to return cash collateral held related to derivatives exposures.

(4) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders' equity.

We use interest rate swaps and other derivatives to achieve our risk management objectives. Our asset liability management strategy is to match assets with debt (in combination with derivatives) that have the same underlying index and reset frequency or, when economical, have interest rate characteristics that we believe are highly correlated. The use of funding with index types and reset frequencies that are different from our assets exposes us to interest rate risk in the form of basis and repricing risk. This could result in our cost of funds not moving in the same direction or with the same magnitude as the yield on our assets. While we believe this risk is low, as all of these indices are short-term with rate movements that are highly correlated over a long period of time, market disruptions (which have occurred in prior years) can lead to a temporary divergence between indices resulting in a negative impact to our earnings.

**Weighted Average Life**

The following table reflects the weighted average life of our earning assets and liabilities at March 31, 2020.

| (Averages in Years) | Weighted Average Life |
|---|---|
| **Earning assets** | |
| Education loans | 6.1 |
| Other loans | 3.3 |
| Cash and investments | .1 |
| Total earning assets | 5.8 |
| **Borrowings** | |
| Short-term borrowings | .6 |
| Long-term borrowings | 5.9 |
| Total borrowings | 5.4 |

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, 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 March 31, 2020. Based on this evaluation, our chief principal executive and principal financial officers concluded that, as of March 31, 2020, 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 is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our chief principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. We believe that these claims, lawsuits and other actions will not, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations, except as otherwise disclosed. Most of these matters are claims including individual and class action lawsuits against our servicing or business processing subsidiaries alleging the violation of state or federal laws in connection with servicing or collection activities on their education loans and other debts.

In the ordinary course of our business, the Company and our subsidiaries and affiliates receive information and document requests and investigative demands from State Attorneys General, U.S. Attorneys, legislative committees, individual members of Congress and administrative agencies. These requests may be informational or regulatory in nature and may relate to our business practices, the industries in which we operate, or companies with whom we conduct business. Generally, our practice has been and continues to be to cooperate with these bodies and to be responsive to any such requests.

The number of these inquiries and the volume of related information demands continue to increase and therefore continue to increase the time, costs and resources we must dedicate to timely respond to these requests and may, depending on their outcome, result in payments of restitution, fines and penalties.

***Certain Cases***

During the first quarter of 2016, Navient Corporation, certain Navient officers and directors, and the underwriters of certain Navient securities offerings were sued in three putative securities class action lawsuits filed on behalf of certain investors in Navient stock or Navient unsecured debt. These three cases, which were filed in the U.S. District Court for the District of Delaware, were consolidated by the District Court, with Lord Abbett Funds appointed as Lead Plaintiff. The caption of the consolidated case is *Lord Abbett Affiliated Fund, Inc., et al. v. Navient Corporation, et al.* The plaintiffs filed their amended and consolidated complaint in September 2016. In September 2017, the Court granted the Navient defendants' motion and dismissed the complaint in its entirety with leave to amend. The plaintiffs filed a second amended complaint with the court in November 2017 and the Navient defendants filed a motion to dismiss the second amended complaint in January 2018. In January 2019, the Court granted-in-part and denied-in-part the Navient defendants' motion to dismiss. The Navient defendants deny the allegations and intend to vigorously defend against the allegation in this lawsuit. Discovery is on-going. Additionally, two putative class actions have been filed in the U.S. District Court for the District of New Jersey captioned *Eli Pope v. Navient Corporation, John F. Remondi, Somsak Chivavibul and Christian Lown,* and *Melvin Gross v. Navient Corporation, John F. Remondi, Somsak Chivavibul and Christian M. Lown,* both of which allege violations of the federal securities laws under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. After the cases were consolidated by the Court in February 2018 under the caption *In RE Navient Corporation Securities Litigation*, the plaintiffs filed a consolidated amended complaint in April 2018 and the Company filed a motion to dismiss in June 2018. In December 2019, the Court denied the Company's motion to dismiss and discovery is on-going. The Company continues to deny the allegations and intends to vigorously defend itself.

The Company has been named as defendant in a number of putative class action cases alleging violations of various state and federal consumer protection laws including the Telephone Consumer Protection Act ("TCPA"), the Consumer Financial Protection Act of 2010 ("CFPA"), the Fair Credit Reporting Act ("FCRA"), the Fair Debt Collection Practices Act ("FDCPA") and various other state consumer protection laws. The Company denies the allegations and intends to vigorously defend these claims. The Company has also been named as a defendant in putative class actions alleging violations of various state and federal consumer protection laws related to borrowers and the Public Service Loan Forgiveness program, each of which has been dismissed, withdrawn or a preliminary settlement reached.

In January 2017, the Consumer Financial Protection Bureau (the "CFPB") and Attorneys General for the State of Illinois and the State of Washington initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of certain Federal and State consumer protection statutes, including the CFPA, FCRA, FDCPA and various state consumer protection laws. In October 2017, the Attorney General for the Commonwealth of Pennsylvania initiated a civil action against Navient Corporation and Navient Solutions, LLC ("Solutions"), containing similar alleged violations of the CFPA and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. Additionally, in 2018 the Attorneys General for the States of California and Mississippi initiated similar actions against the Company and certain subsidiaries alleging violations of various state and federal consumer protection laws. In addition to these matters, a number of lawsuits have been filed by nongovernmental parties or, in the future, may be filed by additional governmental or nongovernmental parties seeking damages or other remedies related to similar issues raised by the CFPB and the State Attorneys General. As the Company has previously stated, we believe the suits improperly seek to impose penalties on Navient based on new, unannounced servicing standards applied retroactively only against one servicer, and that the allegations are false. We therefore

have denied these allegations and intend to vigorously defend against the allegations in each of these cases. For additional information on these civil actions, please refer to section entitled "Regulatory Matters" below.

At this point in time, except as noted above, the Company is unable to anticipate the timing of a resolution or the impact that these legal proceedings may have on the Company's consolidated financial position, liquidity, results of operation or cash flows. As a result, it is not possible at this time to estimate a range of potential exposure, if any, for amounts that may be payable in connection with these matters and reserves have not been established. It is possible that an adverse ruling or rulings may have a material adverse impact on the Company.

***Regulatory Matters***

In addition, Navient and its subsidiaries are subject to examination or regulation by the SEC, CFPB, FFIEC, ED and various state licensing or other regulatory agencies as part of its ordinary course of business. Items or matters similar to or different from those described above may arise during the course of those examinations. We also routinely receive inquiries or requests from various regulatory entities or bodies or government agencies concerning our business or our assets. Generally, the Company endeavors to cooperate with each such inquiry or request.

As previously disclosed, the Company and various of its subsidiaries have been subject to the following investigations and inquiries:

- In December 2013, Navient received Civil Investigative Demands ("CIDs") issued by the Illinois Attorney General, the Washington Attorney General and multiple other State Attorneys General. According to the CIDs, the investigations were initiated to ascertain whether any practices declared to be unlawful under the Consumer Fraud and Deceptive Business Practices Act have occurred or are about to occur. The Company subsequently received separate but similar CIDs or subpoenas from the Attorneys General for the District of Columbia, Kansas, Oregon, Colorado, New Jersey and New York. We have and in the future may receive additional CIDs or subpoenas and other inquiries from these or other Attorneys General with respect to similar or different matters.
- In April 2014, Solutions received a CID from the CFPB as part of the CFPB's separate investigation regarding allegations relating to Navient's disclosures and assessment of late fees and other matters. Navient has received a series of supplemental CIDs on these matters. In August 2015, Solutions received a letter from the CFPB notifying Solutions that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise ("NORA") process, the CFPB's Office of Enforcement was considering recommending that the CFPB take legal action against Solutions. The NORA letter related to a previously disclosed investigation into Solutions' disclosures and assessment of late fees and other matters and states that, in connection with any action, the CFPB may seek restitution, civil monetary penalties and corrective action against Solutions. The Company responded to the NORA letter in September 2015.
- In November 2014, Pioneer received a CID from the CFPB as part of an investigation regarding Pioneer's activities relating to rehabilitation loans and collection of defaulted student debt. In May 2019, Pioneer received a similar CID from the New York Department of Financial Services (the "NY DFS").
- In December 2014, Solutions received a subpoena from the NY DFS as part of its inquiry with regard to whether persons or entities have engaged in fraud or misconduct with respect to a financial product or service under New York Financial Services Law or other laws.

In January 2017, the CFPB initiated a civil action naming Navient Corporation and several of its subsidiaries as defendants alleging violations of Federal and State consumer protection statutes, including the DFPA, FCRA, FDCPA and various state consumer protection laws. The CFPB, Washington Attorney General and Illinois Attorney General lawsuits relate to matters which were covered under the CIDs or the NORA letter discussed above. In addition, various State Attorneys General have filed suits alleging violations of various state and federal consumer protection laws covering matters similar to those covered by the CIDs or the NORA letter. As stated above, we have denied these allegations and intend to vigorously defend against the allegations in each of these cases. Navient has no reserves related to these matters.

Under the terms of the Separation and Distribution Agreement between the Company and SLM BankCo, Navient agreed to indemnify SLM BankCo for claims, actions, damages, losses or expenses that may arise from the conduct of activities of pre-Spin-Off SLM BankCo occurring prior to the Spin-Off other than those specifically excluded in that agreement. Also as part of the Separation and Distribution Agreement, SLM BankCo agreed to indemnify Navient for certain claims, actions, damages, losses or expenses subject to the terms, conditions, and limitations set forth in that agreement. As a result, subject to the terms, conditions and limitations set forth in that agreement, Navient agreed to indemnify and hold harmless Sallie Mae and its subsidiaries, including Sallie Mae Bank from liabilities arising out of the regulatory matters and CFPB and State Attorneys General lawsuits mentioned above. In addition, we asserted various claims for indemnification against Sallie Mae and Sallie Mae Bank for these specifically excluded items arising out of the CFPB and the State Attorneys General lawsuits if and to the extent any indemnified liabilities exist now or in the future. We expect these various indemnification claims to be resolved at a future date as the cases move toward conclusion. Navient has no reserves related to indemnification matters with SLM BankCo as of March 31, 2020.

***OIG Audit***

The Office of the Inspector General (the “OIG”) of ED commenced an audit regarding Special Allowance Payments (“SAP”) on September 10, 2007. In September 2013, we received the final audit determination of Federal Student Aid (the “Final Audit Determination”) on the final audit report issued by the OIG in August 2009 related to this audit. The Final Audit Determination concurred with the final audit report issued by the OIG and instructed us to make adjustment to our government billing to reflect the policy determination. In August 2016, we filed our notice of appeal to the Administrative Actions and Appeals Service Group of ED, and a hearing was held in April 2017. In March 2019, the administrative law judge hearing the appeal affirmed the audit’s findings, holding the then-existing Dear Colleague letter relied upon by the Company and other industry participants was inconsistent with the statutory framework creating the SAP rules applicable to loans funded by certain types of debt obligations at issue. We have appealed the administrative law judge’s decision to the Secretary of Education given Navient’s adherence to ED-issued guidance and the potential impact on participants in any ED program student loan servicers if such guidance is deemed unreliable and may not be relied upon. We continue to believe that our SAP billing practices were proper, considering then-existing ED guidance and lack of applicable regulations. The Company established a reserve for this matter in 2014 and does not believe, at this time, that an adverse ruling would have a material effect on the Company as a whole.

## Item 1A. Risk Factors

The risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the “Form 10-K”) should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. These are not the only risks to which we are exposed. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Form 10-K primarily to reflect the impact of the COVID-19 on our business and operations. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Form 10-K.

**The impact of COVID-19 and related risks could materially affect our results of operations, financial position and/or liquidity.**

Beginning in the first quarter of 2020, the global pandemic related to the novel coronavirus COVID-19 began to impact the global economy and our results of operations. In March 2020, the COVID-19 pandemic was declared a national emergency. In response to the COVID-19 pandemic, many state, local, and foreign governments have put in place, and others in the future may put in place, quarantines, executive orders, shelter-in-place orders, and similar government orders and restrictions in order to control the spread of the disease. In the general economy, these orders or restrictions, or the perception that these orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions, and cancellation or postponement of events as well as a general decline in economic activity and consumer confidence and increases in job losses and unemployment. Because of the size and breadth of this pandemic, all the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time.

Additional risks presented by the ongoing effects of COVID-19 include the following:

***Economic conditions and the creditworthiness of third parties could have a material adverse effect on our business, results of operations, financial condition and stock price.***

As a result of the world-wide, U.S. federal and state responses to COVID-19 as well as the overall economic conditions, the unemployment rate increased significantly and is expected to show additional increases of an uncertain magnitude as the prolonged impact of the pandemic takes effect. As a result, we are experiencing significant increases in the number of requests for forbearance and other loan modifications in our education loan portfolios. General economic and employment conditions, including employment rates for recent college graduates, can have a significant impact on loan delinquency and default rates. An extended or worsening deterioration in the economy could further adversely affect the credit quality of our borrowers, resulting in an increased occurrence of defaults and/or requiring more frequent use of loan modification tools. As a result of COVID-19 we have experienced lower delinquency rates in both our FFELP and Private Education loan portfolios as a result of the significant increases in forbearance rates. While we cannot predict the duration of the COVID-19 crisis, its impact on employment and the speed with which the economy recovers, we are paying close attention to our customers in an effort to assess the path and timing of any potential recovery. Our FFELP Loans are insured or guaranteed by state or not-for-profit agencies and are also protected by contractual rights to recovery from the United States pursuant to guaranty agreements among ED and these agencies. These guarantees generally cover at least 97% of a FFELP Loan’s principal and accrued interest upon default. We bear the full credit exposure on the loans in our Consumer Lending portfolio. If actual loan performance is worse than our estimates, it could materially affect our allowance for loan losses and the related provision for loan losses in our statements of income adversely affecting our results of operation. Future defaults could be higher than anticipated due to a variety of these factors that are outside of our control. In an effort to quantify our assessment, we have looked toward other significant economic crises including the great recession and more recent regional natural disasters to guide us. Higher credit-related losses and weaker credit

quality could negatively affect our business, financial condition and results of operations and limit our funding options, including our access to the capital markets.

***Our business is affected by the cost and availability of funding in the capital markets.***

The capital markets are experiencing significant volatility resulting from COVID-19 and its impact on the economy. This volatility can adversely affect financing costs when compared to historical norms or make funding unavailable at any costs. In addition to COVID-19, additional factors that could make financing more expensive or unavailable to us include, but are not limited to, financial losses, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry generally, counterparty availability, negative credit rating actions with respect to us, asset-backed securities sponsored by us or the U.S. federal government, changes affecting our assets, the ability of existing or future Navient-sponsored securitization trusts to hedge interest rate and currency risk, corporate and regulatory actions, absolute and comparative interest rate changes, general economic conditions and the legal, regulatory and tax environments governing funding transactions, including existing or future securitization and derivatives transactions. While the U.S. government has implemented or announced various programs to support, among other things, corporate debt, commercial paper and certain classes of asset-backed securities, the timing, effectiveness or impact of these programs is unknown at this time. If financing is difficult, expensive or unavailable, our results of operations, cash flow or financial condition could be materially and adversely affected. We cannot provide any assurance that the cost and availability of funding in the capital markets will not continue to be impacted by the pandemic.

***Expanded regulatory and governmental oversight of our businesses will increase our costs and risks.***

Legislative and regulatory responses to COVID-19 may have a significant impact on our education loan portfolios. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law. In compliance with the CARES Act, we quickly suspended payments and interest accrual on all loans owned by ED until September 30, 2020. While the CARES Act applies only to loans owned by ED, several states have announced various initiatives to suspend payment obligations for private student loan borrowers in those states. Additionally, on March 25, 2020, ED announced that private collection agencies were required to stop making outbound collection calls and sending letters or billing statements to borrowers in default. In addition, in April 2020, various restrictions around the servicing and collection of Private Education Loans were enacted by certain states. The Company has announced that these practices are available to borrowers nationwide. Due to the impact of new legislation and regulation, guidance and actions, coupled with the likelihood of additional changes or additions to the local, state and federal statutes, regulations and practices applicable to our business, we are not able to estimate the ultimate impact of changes in law on our financial results, business operations or strategies. We believe that the cost of responding to and complying with these evolving laws and regulations, as well as any guidance from enforcement actions, will continue to increase, as will the risk of penalties and fines from any enforcement actions that may be imposed on our businesses. Our profitability, results of operations, financial condition, cash flows or future business prospects could be materially and adversely affected as a result.

***A failure of our operating systems or infrastructure could disrupt our business, cause significant losses, result in regulatory action or damage our reputation.***

The COVID-19 crisis has caused us to drastically modify the manner in which we conduct our business. As the COVID-19 crisis evolved, we took early and decisive action to protect the health and safety of our teammates. We expanded our work-from-home capabilities and implemented best practices for safety and hygiene to protect those who are unable to work remotely. We were able to quickly and successfully move 90% of our team to a work-from-home status. While most of our operations can be performed remotely and are operating effectively at the present, there is no guarantee that this will continue or that we will continue to be as effective while working remotely because our team is dispersed, many employees may have additional personal needs to attend to (such as looking after children as a result of school closures or a family member who becomes sick), and employees may become sick themselves and be unable to work.

Despite the steps we have taken to transition to this new working environment, and the plans and facilities we have in place, our ability to conduct business may be adversely affected by a prolonged disruption in the infrastructure that supports our business. This may include a disruption involving electrical, communications, Internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding efforts to maintain business continuity, a disruptive event impacting our processing locations could adversely affect our business, financial condition and results of operations. As conditions improve and restrictions are lifted, similar uncertainties exist with the return to work process.

## Item 1B. Unresolved Staff Comments

None.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

***Share Repurchases***

The following table provides information relating to our purchase of shares of our common stock in the three months ended March 31, 2020.

| (In millions, except per share data) | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2) | Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs(2) |
|---|---|---|---|---|
| **Period:** | | | | |
| January 1 — January 31, 2020 | 22.4 | $ 14.70 | 22.2 | $ 675 |
| February 1 — February 29, 2020 | 1.0 | 13.95 | .5 | $ 669 |
| March 1 — March 31, 2020 | .5 | 10.41 | .3 | $ 665 |
| Total first-quarter 2020 | 23.9 | $ 14.57 | 23.0 | |

(1) The total number of shares purchased includes: (i) shares purchased under the stock repurchase program discussed below, and (ii) shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercise of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.

(2) In October 2019, our board of directors approved an additional $1 billion multi-year share repurchase program.

The closing price of our common stock on the NASDAQ Global Select Market on March 31, 2020 was $7.58.

## Item 3. Defaults upon Senior Securities

Nothing to report.

## Item 4. Mine Safety Disclosures

Nothing to report.

## Item 5. Other Information

Nothing to report.

### Item 6. Exhibits

The following exhibits are furnished or filed, as applicable:

| | |
|---|---|
| 10.1†* | Form of Navient Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Agreement. |
| 10.2†* | Form of Navient Corporation 2014 Omnibus Incentive Plan Restricted Stock Unit Agreement. |
| 10.3†* | Form of Navient Corporation 2014 Omnibus Incentive Plan Independent Director Restricted Stock Agreement. |
| 31.1* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

† Management Contract or Compensatory Plan or Arrangement
* Filed herewith
** Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NAVIENT CORPORATION
(Registrant)

By: /s/ CHRISTIAN M. LOWN
Christian M. Lown
Chief Financial Officer
*(Principal Financial Officer)*

Date: May 1, 2020

**Navient Corporation 2014 Omnibus Incentive Plan**
**Performance Stock Unit Agreement**

Pursuant to the terms and conditions of the Navient Corporation 2014 Omnibus Incentive Plan, amended and restated as of May 24, 2018 (the "Plan"), the Compensation and Personnel Committee (the "Committee") of the Navient Corporation Board of Directors ("Board") hereby grants to ________________ (the "Grantee") on _____________, 2020 (the "Grant Date") an award (the "Award") of __________ shares of Performance Stock Units ("PSUs"), which represent the right to acquire shares of common stock of Navient Corporation (the "Corporation") subject to the following terms and conditions of this Performance Stock Unit Agreement (the "Agreement"):

1. Vesting Schedule. Unless vested earlier as set forth below, the PSUs will vest, and will be settled in shares of the Corporation's common stock, based on the following vesting terms:

- Subject to the other provisions of this Section 1, a specified percentage of the total PSUs granted shall vest based on the Corporation's performance for fiscal years 2020, 2021 and 2022 in the aggregate, as shown in the following performance chart:

| Performance Metric* | Weight | Percentage of PSUs Vesting** | | | |
|---|---|---|---|---|---|
| | | 0% | 50% | 100% | 150% |
| Net Student Loan Cash Flows | 70% | Less than $6.75 billion | $6.75 billion | $7.8 billion | $8.7 billion or greater |
| Return on Equity | 10% / 10% / 10% | Less than 18.6% | 18.6% | 20.6% | 22.6% |

* Net Student Loan Cash Flows performance targets and range for 2020-2022 in the aggregate. Return on Equity (ROE) performance targets and range for 2020 only. ROE performance targets and range for 2021 and 2022 to be established by the Committee at the beginning of each respective year, with each year's performance counting 1/3 towards the total 30% weight. Vesting of any PSUs earned based on ROE performance for a given year remain subject to Grantee's continued employment through the Vesting Date, subject to the terms below.

** For points between each performance level, the vesting percentages will be interpolated.

- Each vested PSU will be settled in shares of the Corporation's common stock. PSUs shall vest on the second business day after the Corporation's annual report on Form 10-K for the fiscal year 2022 is filed, and in no event later than March 15, 2023.
- "Net Student Loan Cash Flows" shall mean the Corporation's aggregate cash flows net of secured borrowings from student loans realized for the fiscal years 2020, 2021 and 2022, including student loan cash flows realized from new acquisitions, but excluding the impact of cash flows for fiscal years beyond 2022 that are accelerated through securitizing or pledging unencumbered student loans or through loan sales.

- “Return on Equity” shall mean a percentage equal to the Corporation’s “core earnings” net income for each of fiscal years 2020, 2021 and 2022, divided by average stockholder’s equity for each such year (determined using the average balance of stockholder’s equity on a “core earnings” basis for each quarter in a given year), using yearly “core earnings” net income as shown in the segment reporting footnote in the Corporation’s audited financial statements as published in the Corporation’s annual report on Form 10-K, excluding the impact of any regulatory and restructuring costs.

2. Employment Termination; Death; Disability. Except as provided below, if the Grantee ceases to be an employee of the Corporation (or a Subsidiary) for any reason, he/she shall forfeit any portion of the Award that has not vested as of the date of such termination of employment.

If not previously vested, the Award will continue to vest, and will be settled in shares of the Corporation’s common stock, subject to the original performance goals and performance period set forth above, and on the original vesting terms and vesting dates set forth above, in the event that the Grantee’s employment is terminated by the Corporation (or a Subsidiary) for any reason other than for Cause.

If not previously vested, a portion of the Award (as determined below) will continue to vest, and will be settled in shares of the Corporation’s common stock, subject to the original performance goals and performance period set forth above, and on the original vesting terms and vesting dates set forth above, in the event that the Grantee voluntarily ceases to be an employee of the Corporation (or a Subsidiary) due to Retirement. For purposes of the immediately preceding sentence: (i) the entire Award will continue to vest if the Grantee ceases employment on or after the third anniversary of the Grant Date; (ii) two-thirds of the Award will continue to vest if the Grantee ceases employment on or after the second anniversary (but before the third anniversary) of the Grant Date; (iii) one-third of the Award will continue to vest if the Grantee ceases employment on or after the first anniversary (but before the second anniversary) of the Grant Date; and (iv) no portion of the Award will vest if the Grantee ceases employment before the first anniversary of the Grant Date.

If not previously vested, the Award will vest, and will be settled in shares of the Corporation’s common stock, at the target levels set forth above, upon death or Disability (provided that such Disability qualifies as a “disability” within the meaning of Treasury Regulation Section 1.409A-3(i)(4)).

The Award shall be forfeited upon termination of employment due to Cause.

3. Change in Control. Notwithstanding anything to the contrary in this Agreement:

- In the event of a Change in Control described in clause (b) of the definition thereof in which the acquiring or surviving company in the transaction does not assume or continue outstanding Awards upon the Change in Control, then any portion of the Award that is not vested shall vest based on the level of achievement of the performance

goals in Section 1 through the end of the month immediately preceding or coinciding with the date of the Change in Control, and shall be converted into shares of common stock as of immediately prior to the consummation of the Change in Control. The Committee shall proportionately reduce the "Net Student Loan Cash Flows" and the "Return on Equity" performance goals in Section 1 above based on the portion of the performance period elapsed through the end of the month immediately preceding or coinciding with the date of the Change in Control.

- In the event of either (x) a Change in Control described in clause (a) of the definition thereof, or (y) a Change in Control described in clause (b) of the definition thereof in which the acquiring or surviving company in the transaction assumes or continues outstanding Awards, no acceleration of vesting shall occur upon such Change in Control, and the Award shall continue to vest in accordance with Section 1 hereof; provided, however, that if Grantee's employment shall terminate within twenty-four months following such a Change in Control for any reason other than (i) by the Corporation (or a Subsidiary), or the surviving or acquiring entity in the transaction (as the case may be), for Cause, or (ii) by Grantee's voluntary termination of employment that is not a Retirement or a termination of employment for Good Reason, any portion of the Award not previously vested shall immediately become vested at the 100% target level set forth in the vesting schedules herein, and shall be settled in shares of the Corporation's common stock, upon such employment termination. Upon any termination of employment during such twenty-four month period described in clause (i) or (ii) of the preceding sentence, any unvested portion of the Award shall be forfeited. Upon any termination of employment occurring after the end of such twenty-four month period, vesting and settlement of any remaining unvested portion of the Award shall be governed by Section 2 hereof.

- Notwithstanding anything stated herein, the Plan or in the Navient Corporation Change in Control Severance Plan for Senior Officers, this Award shall not be subject to the terms set forth in the Navient Corporation Change in Control Severance Plan for Senior Officers.

4. Taxes; Dividends. The Grantee of the Award shall make such arrangements as may reasonably be required by the Corporation, including transferring a sufficient number of shares of the Corporation's stock, to satisfy the income and employment tax withholding requirements that accrue upon the Award becoming vested or, if applicable, settled in shares of the Corporation's common stock (by approving this Agreement, the Committee hereby approves the transfer of such shares to the Corporation for purposes of SEC Rule 16b-3). Dividends declared on an unvested Award will not be paid currently. Instead, amounts equal to such dividends will be credited to an account established on behalf of the Grantee and such amounts will be deemed to be invested in additional shares of the Corporation's common stock ("Dividend Equivalents"). Such Dividend Equivalents will be subject to the same vesting schedule to which the Award is subject. Upon vesting of any portion of the Award, the amount of Dividend Equivalents allocable to such Award (and any fractional share amount) will also vest and will be converted into shares of the

Corporation’s common stock (provided that any fractional share amount shall be paid in cash).

5. Section 409A. For purposes of Section 409A of the Internal Revenue Code, the regulations and other guidance thereunder and any state law of similar effect (collectively “Section 409A”), each payment and benefit payable under this Agreement is hereby designated as a separate payment. The parties intend that all PSUs provided under this Agreement and shares issuable hereunder comply with the requirements of Section 409A so that none of the payments or benefits will be subject to the adverse tax penalties imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the PSUs is to be accelerated in connection with the Grantee’s termination of service, such accelerated PSUs will not be settled by virtue of such acceleration until and unless the Grantee has a “separation from service” within the meaning of Section Treasury Regulation 1-409A-1(h), as determined by the Corporation, in its sole discretion. Further, and notwithstanding anything in the Plan or this Agreement to the contrary, if (x) any of the PSUs to be provided in connection with the Grantee’s separation from service do not qualify for any reason to be exempt from Section 409A, (y) the Grantee is, at the time of such separation from service, a “specified employee” (as defined in Treasury Regulation Section 1.409A-1(i)) and (z) the settlement of such PSUs would result in the imposition of additional tax under Section 409A if such settlement occurs on or within the six (6) month period following the Grantee’s separation from service, then, to the extent necessary to avoid the imposition of such additional taxation, the settlement of any such PSUs during such six (6) month period will accrue and will not be settled until the date six (6) months and one (1) day following the date of the Grantee’s separation from service and on such date (or, if earlier, the date of the Grantee’s death), such PSUs will be settled.

6. Clawback Provision. Notwithstanding anything to the contrary herein, the Award shall be subject to any recoupment or clawback policy that is adopted by the Corporation, including any policy that is adopted after the Grant Date, or any recoupment or clawback policy that becomes applicable to the Corporation pursuant to any requirement of law or any exchange listing requirement, in either case to the extent provided therein.

7. Securities Law Compliance. The Corporation may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any transfer or sale by the Grantee of any shares of the Corporation’s common stock, including without limitation (a) restrictions under an insider trading policy and (b) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the shares of the Corporation’s common stock. The sale of the shares must also comply with other applicable laws and regulations governing the sale of such shares.

8. Data Privacy. As an essential term of this award, the Grantee consents to the collection, use and transfer, in electronic or other form, of personal data as described herein for the exclusive purpose of implementing, administering and managing Grantee’s participation

in the Plan. By accepting this award, the Grantee acknowledges that the Corporation holds certain personal information about the Grantee, including, but not limited to, name, home address and telephone number, date of birth, social security number or other identification number, salary, tax rates and amounts, nationality, job title, any shares of stock held in the Corporation, details of all options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding, for the purpose of implementing, administering and managing the Plan ("Data"). Grantee acknowledges that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in jurisdictions that may have different data privacy laws and protections, and Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Grantee or the Corporation may elect to deposit any shares of the Corporation's common stock. Grantee acknowledges that Data may be held to implement, administer and manage the Grantee's participation in the Plan as determined by the Corporation, and that Grantee may request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, provided however, that refusing or withdrawing Grantee's consent may adversely affect Grantee's ability to participate in the Plan.

9. Electronic Delivery. The Corporation may, in its sole discretion, decide to deliver any documents related to any awards granted under the Plan by electronic means or to request Grantee's consent to participate in the Plan by electronic means. Grantee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation, and such consent shall remain in effect throughout Grantee's term of service with the Corporation (or one of its subsidiaries) and thereafter until withdrawn in writing by Grantee.

10. Board Interpretation. The Grantee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Board and, where applicable, the Committee concerning any questions arising under this Agreement or the Plan.

11. No Right to Continued Employment. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon the Grantee any right to continued employment with the Corporation or any of its subsidiaries or affiliates.

12. Amendments for Accounting Charges. The Committee reserves the right to unilaterally amend this Agreement to reflect any changes in applicable law or financial accounting standards.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

14. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if personally delivered, telefaxed or telecopied to, or, if mailed, when received by, the other party at the following addresses:

If to the Corporation to:

Navient Corporation
Attn: Human Resources, Equity Plan Administration
123 Justison Street
Wilmington, DE 19801

If to the Grantee, to (i) the last address maintained in the Corporation's Human Resources files for the Grantee or (ii) the Grantee's mail delivery code or place of work at the Corporation (or its subsidiaries).

15. Plan Controls; Entire Agreement; Capitalized Terms. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan control, except as expressly stated otherwise herein. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature. Capitalized terms not defined herein shall have the meanings as described in the Plan.

16. Miscellaneous. In the event that any provision of this Agreement is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of this Agreement shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision. The headings in this Agreement are solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect. The Grantee shall cooperate and take such actions as may be reasonably requested by the Corporation in order to carry out the provisions and purposes of the Agreement. The Grantee is responsible for complying with all laws applicable to Grantee, including federal and state securities reporting laws.

**NAVIENT CORPORATION**

By: ________________________________________

Jack Remondi
President and Chief Executive Officer

**Accepted by:**

____________________________________________

____________________________________________
Date

**Exhibit 10.2**

# Navient Corporation 2014 Omnibus Incentive Plan
# Restricted Stock Unit Agreement

Pursuant to the terms and conditions of the Navient Corporation 2014 Omnibus Incentive Plan, amended and restated as of May 24, 2018 (the "Plan"), the Compensation and Personnel Committee (the "Committee") of the Navient Corporation Board of Directors (the "Board") hereby grants to __________________ (the "Grantee") on ______________, 2020 (the "Grant Date") an award (the "Award") of __________ Restricted Stock Units ("RSUs"), which represent the right to acquire shares of common stock of Navient Corporation (the "Corporation") subject to the following terms and conditions of this Restricted Stock Unit Agreement (the "Agreement"):

1. Vesting Schedule. Unless vested earlier as set forth below, the Award will vest, and will be converted into shares of common stock, in one-third increments the first, second, and third anniversary of the Grant Date.

2. Employment Termination; Death; Disability. Except as provided below, if the Grantee ceases to be an employee of the Corporation (or a Subsidiary) for any reason, he/she shall forfeit any portion of the Award that has not vested as of the date of such termination of employment.

   If not previously vested, the Award will continue to vest, and will be converted into shares of common stock, on the original vesting terms and vesting dates set forth above in the event that (i) the Grantee's employment is terminated by the Corporation (or a Subsidiary) for any reason other than for Cause, or (ii) the Grantee voluntarily ceases to be an employee of the Corporation (or a Subsidiary) due to Retirement.

   If not previously vested, the Award will vest, and will be converted into shares of common stock, upon death or Disability (provided that such Disability qualifies as a "disability" within the meaning of Treasury Regulation Section 1.409A-3(i)(4)).

   The Award shall be forfeited upon termination of employment due to Cause.

3. Change in Control. Notwithstanding anything to the contrary in this Agreement:

   (a) In the event of a Change in Control described in clause (b) of the definition thereof in which the acquiring or surviving company in the transaction does not assume or continue outstanding Awards upon the Change in Control, then any portion of the Award that is not vested shall become 100 percent vested, and shall be converted into shares of common stock as of immediately prior to the consummation of the Change in Control.

   (b) In the event of either (x) a Change in Control described in clause (a) of the definition thereof, or (y) a Change in Control described in clause (b) of the definition thereof in which the acquiring or surviving company in the transaction assumes or continues outstanding Awards, then no acceleration of vesting shall occur upon such Change in Control, and the Award shall continue to vest in accordance with Section 1 hereof; provided, however, that if Grantee's employment shall terminate

within twenty-four months following such Change in Control for any reason other than (i) by the Corporation (or a Subsidiary), or the surviving or acquiring entity in the transaction (as the case may be), for Cause, or (ii) by Grantee's voluntary termination of employment that is not a Retirement or a termination of employment for Good Reason, any portion of the Award not previously vested shall immediately become vested, and shall be converted into shares of common stock, upon such employment termination. Upon any termination of employment during such twenty-four month period described in clause (i) or (ii) of the preceding sentence, any unvested portion of the Award shall be forfeited. Upon any termination of employment occurring after the end of such twenty-four month period, vesting and settlement of any remaining unvested portion of the Award shall be governed by Section 2 hereof.

(c) Notwithstanding anything stated herein, the Plan or in the Navient Corporation Change in Control Severance Plan for Senior Officers, this Award shall not be subject to the terms set forth in the Navient Corporation Change in Control Severance Plan for Senior Officers.

4. Taxes; Dividends. The Grantee of the Award shall make such arrangements as may reasonably be required by the Corporation, including transferring a sufficient number of shares of the Corporation's stock, to satisfy the income and employment tax withholding requirements that accrue upon the Award becoming vested or, if applicable, settled in shares of the Corporation's common stock (by approving this Agreement, the Committee hereby approves the transfer of such shares to the Corporation for purposes of SEC Rule 16b-3). Dividends declared on an unvested Award will not be paid currently. Instead, amounts equal to such dividends will be credited to an account established on behalf of the Grantee and such amounts will be deemed to be invested in additional shares of the Corporation's common stock ("Dividend Equivalents"). Such Dividend Equivalents will be subject to the same vesting schedule to which the Award is subject. Upon vesting of any portion of the Award, the amount of Dividend Equivalents allocable to such Award (and any fractional share amount) will also vest and will be converted into shares of the Corporation's common stock (provided that any fractional share amount shall be paid in cash).

5. Section 409A. For purposes of Section 409A of the Internal Revenue Code, the regulations and other guidance thereunder and any state law of similar effect (collectively "Section 409A"), each payment and benefit payable under this Agreement is hereby designated as a separate payment. The parties intend that all RSUs provided under this Agreement and shares issuable hereunder comply with or be exempt from the requirements of Section 409A so that none of the payments or benefits will be subject to the adverse tax penalties imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the RSUs is to be accelerated in connection with the Grantee's termination of service, such accelerated RSUs will not be settled by virtue of such acceleration until and unless the Grantee has a "separation from service" within the meaning of Section Treasury Regulation 1-409A-1(h), as determined by the Corporation, in its sole discretion. Further, and notwithstanding anything in the Plan

or this Agreement to the contrary, if (x) any of the RSUs to be provided in connection with the Grantee's separation from service do not qualify for any reason to be exempt from Section 409A, (y) the Grantee is, at the time of such separation from service, a "specified employee" (as defined in Treasury Regulation Section 1.409A-1(i)) and (z) the settlement of such RSUs would result in the imposition of additional tax under Section 409A if such settlement occurs on or within the six (6) month period following the Grantee's separation from service, then, to the extent necessary to avoid the imposition of such additional taxation, the settlement of any such RSUs during such six (6) month period will accrue and will not be settled until the date six (6) months and one (1) day following the date of the Grantee's separation from service and on such date (or, if earlier, the date of the Grantee's death), such RSUs will be settled.

6. Clawback Provision. Notwithstanding anything to the contrary herein, the Award shall be subject to any recoupment or clawback policy that is adopted by the Corporation, including any policy that is adopted after the Grant Date, or any recoupment or clawback policy that becomes applicable to the Corporation pursuant to any requirement of law or any exchange listing requirement, in either case to the extent provided therein.

7. Securities Law Compliance. The Corporation may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any transfer or sale by the Grantee of any shares of the Corporation's common stock, including without limitation (a) restrictions under an insider trading policy and (b) restrictions that may be necessary in the absence of an effective registration statement under the Securities Act of 1933, as amended, covering the shares of the Corporation's common stock. The sale of the shares must also comply with other applicable laws and regulations governing the sale of such shares.

8. Data Privacy. As an essential term of this award, the Grantee consents to the collection, use and transfer, in electronic or other form, of personal data as described herein for the exclusive purpose of implementing, administering and managing Grantee's participation in the Plan. By accepting this award, the Grantee acknowledges that the Corporation holds certain personal information about the Grantee, including, but not limited to, name, home address and telephone number, date of birth, social security number or other identification number, salary, tax rates and amounts, nationality, job title, any shares of stock held in the Corporation, details of all options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding, for the purpose of implementing, administering and managing the Plan ("Data"). Grantee acknowledges that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in jurisdictions that may have different data privacy laws and protections, and Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Grantee or the Corporation may elect to deposit any shares of the Corporation's common stock. Grantee acknowledges that Data may be held to implement, administer and manage the Grantee's participation in the Plan as determined by the Corporation, and that Grantee may request additional information about the storage and processing of Data, require any

necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, provided however, that refusing or withdrawing Grantee's consent may adversely affect Grantee's ability to participate in the Plan.

9. Electronic Delivery. The Corporation may, in its sole discretion, decide to deliver any documents related to any awards granted under the Plan by electronic means or to request Grantee's consent to participate in the Plan by electronic means. Grantee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation, and such consent shall remain in effect throughout Grantee's term of service with the Corporation (or its subsidiaries) and thereafter until withdrawn in writing by Grantee.

10. Board Interpretation. The Grantee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Board and, where applicable, the Committee concerning any questions arising under this Agreement or the Plan.

11. No Right to Continued Employment. Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon the Grantee any right to continued employment with the Corporation or any of its subsidiaries or affiliates.

12. Amendments for Accounting Charges. The Committee reserves the right to unilaterally amend this Agreement to reflect any changes in applicable law or financial accounting standards.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

14. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if personally delivered, telefaxed or telecopied to, or, if mailed, when received by, the other party at the following addresses:

If to the Corporation to:

Navient Corporation
Attn: Human Resources, Equity Plan Administration
123 Justison Street
Wilmington, DE 19801

If to the Grantee, to (i) the last address maintained in the Corporation's Human Resources files for the Grantee or (ii) the Grantee's mail delivery code or place of work at the Corporation (or its subsidiaries).

15. Plan Controls; Entire Agreement; Capitalized Terms. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan control, except as expressly stated otherwise herein. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter

hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature. Capitalized terms not defined herein shall have the meanings as described in the Plan.

16. Miscellaneous. In the event that any provision of this Agreement is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of this Agreement shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision. The headings in this Agreement are solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect. The Grantee shall cooperate and take such actions as may be reasonably requested by the Corporation in order to carry out the provisions and purposes of the Agreement. The Grantee is responsible for complying with all laws applicable to Grantee, including federal and state securities reporting laws.

**NAVIENT CORPORATION**

By: ______________________________

Jack Remondi
President and Chief Executive Officer

**Accepted by:**

______________________________

______________________________
Date

**Exhibit 10.3**

## Navient Corporation 2014 Omnibus Incentive Plan
## Independent Director Restricted Stock Agreement

Pursuant to the terms and conditions of the Navient Corporation 2014 Omnibus Incentive Plan, amended and restated as of May 24, 2018 (the "Plan"), Navient Corporation (the "Corporation") hereby grants to __________________ (the "Grantee") _________ shares of common stock of the Corporation, par value $0.01 (the "Restricted Stock"), on ______________, 2020 (the "Grant Date") subject to the terms and conditions below. All capitalized terms used herein that are not defined shall have the meanings as set forth in the Plan.

- Twenty-five percent (25%) of the Restricted Stock will immediately vest and become transferable on the Grant Date and, unless vested earlier or forfeited as set forth below, an additional twenty-five percent (25%) of the Restricted Stock will vest and become transferable on May 1 following the Grant Date, an additional twenty-five percent (25%) of the Restricted Stock will vest and become transferable on August 1 following the Grant Date, and the final twenty-five percent (25%) of the Restricted Stock will vest and become transferable on November 1 following the Grant Date.

- Except as provided below, if the Grantee ceases to be a member of the Board of Directors of the Corporation for any reason, the Grantee will forfeit any portion of the Restricted Stock that has not vested as of the date his/her Board service ceases.

- If not previously vested or forfeited, the Restricted Stock will vest and become transferable upon any of the following events: (i) the Grantee's death or Disability or (ii) upon a Change in Control.

- The Restricted Stock will be held in an account in the Grantee's name at the Corporation's transfer agent, currently Computershare. The Grantee is entitled to vote the shares of Restricted Stock.

- Dividends declared on unvested shares of Restricted Stock will not be paid currently. Instead, amounts equal to such dividends will be credited to an account established on behalf of the Grantee and such amounts will be deemed to be invested in additional shares of the Corporation's common stock ("Dividend Equivalents"). Such Dividend Equivalents will be subject to the same vesting schedule to which the Restricted Stock is subject. At the time that the underlying Restricted Stock vests, the amount of Dividend Equivalents allocable to such Restricted Stock will also vest and will be settled in shares of the Corporation's common stock (provided that any fractional share amount shall be paid in cash). Dividend Equivalents declared on unvested shares of Restricted Stock are not subject to income tax until vesting, at which time they are taxed as ordinary income.

- The Corporation may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any transfer or sale by the Grantee of any shares of Common Stock, including without limitation (a) restrictions under an insider trading policy and (b) restrictions that may be necessary in the

absence of an effective registration statement under the Securities Act of 1933, as amended, covering the shares of the Corporation's common stock. The sale of the shares must also comply with other applicable laws and regulations governing the sale of such shares.

- As an essential term of this award, the Grantee consents to the collection, use and transfer, in electronic or other form, of personal data as described herein for the exclusive purpose of implementing, administering and managing Grantee's participation in the Plan. By accepting this award, the Grantee acknowledges that the Corporation holds certain personal information about the Grantee, including, but not limited to, name, home address and telephone number, date of birth, social security number or other identification number, salary, tax rates and amounts, nationality, job title, any shares of stock held in the Corporation, details of all options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding, for the purpose of implementing, administering and managing the Plan ("Data"). Grantee acknowledges that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in jurisdictions that may have different data privacy laws and protections, and Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Grantee or the Corporation may elect to deposit any shares of the Corporation's common stock. Grantee acknowledges that Data may be held to implement, administer and manage the Grantee's participation in the Plan as determined by the Corporation, and that Grantee may request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, provided however, that refusing or withdrawing Grantee's consent may adversely affect Grantee's ability to participate in the Plan.

- The Corporation may, in its sole discretion, decide to deliver any documents related to any awards granted under the Plan by electronic means or to request Grantee's consent to participate in the Plan by electronic means. Grantee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation, and such consent shall remain in effect throughout Grantee's term of service with the Corporation and thereafter until withdrawn in writing by Grantee.

- "Disability" means the absence of the Grantee from the Corporation's Board of Director's duties for 180 consecutive days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Corporation or its insurers and reasonably acceptable to the Grantee or the Grantee's legal representative.

- The Grantee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Outside Board and, where applicable, the Committee concerning any questions arising under this Agreement or the Plan.

- Nothing in the Plan, in this Agreement or any other instrument executed pursuant thereto or hereto shall confer upon the Grantee any right to continued service on the Board.

- The Outside Board and/or the Committee reserves the right to unilaterally amend this Agreement to reflect any changes in applicable law or financial accounting standards.

- This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

- All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if personally delivered, telefaxed or telecopied to, or, if mailed, when received by, the other party at the following addresses:

  If to the Corporation to:

  Navient Corporation
  Attn: Human Resources, Equity Plan Administration
  123 Justison Street
  Wilmington, DE 19801

  If to the Grantee, to the last address maintained in the Corporation's files for the Grantee.

- In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan control, except as expressly stated otherwise herein. This Agreement and the Plan together set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior oral and written and all contemporaneous or subsequent oral discussions, agreements and understandings of any kind or nature. Capitalized terms not defined herein shall have the meanings as described in the Plan.

- In the event that any provision of this Agreement is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of this Agreement shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision. The headings in this Agreement are solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect. The Grantee shall cooperate and take such actions as may be reasonably requested by the Corporation in order to carry out the provisions and

purposes of the Agreement. The Grantee is responsible for complying with all laws applicable to Grantee, including federal and state securities reporting laws.

**NAVIENT CORPORATION**

By: ______________________________________________

Jack Remondi
President and Chief Executive Officer

**Accepted by:**

______________________________________________

______________________________________________
Date

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, John F. Remondi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navient Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN F. REMONDI

John F. Remondi
Chief Executive Officer
(Principal Executive Officer)
May 1, 2020

**Exhibit 31.2**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Christian M. Lown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navient Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHRISTIAN M. LOWN
Christian M. Lown
Chief Financial Officer
(Principal Financial Officer)
May 1, 2020

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Navient Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Remondi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ JOHN F. REMONDI
John F. Remondi
Chief Executive Officer
(Principal Executive Officer)
May 1, 2020

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Navient Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christian M. Lown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ CHRISTIAN M. LOWN
Christian M. Lown
Chief Financial Officer
(Principal Financial Officer)
May 1, 2020