

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 September 30, 2021

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**  
(State or other jurisdiction of  
incorporation or organization)

**123 Justison Street, Wilmington, Delaware**  
(Address of principal executive offices)

**46-4054283**  
(I.R.S. Employer  
Identification No.)

**19801**  
(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   
Non-accelerated filer

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 September 30, 2021, there were 161,172,372 shares of common stock outstanding.

# NAVIENT

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### Organization of Our Form 10-Q

The order and presentation of content in our Form 10-Q differs from the traditional Securities and Exchange Commission (SEC) Form 10-Q format. Our format is designed to improve readability and to better present how we organize and manage our business. See Appendix A, "Form 10-Q Cross-Reference Index" for a cross-reference index to the traditional SEC Form 10-Q format.

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## FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking” statements 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,” “goals,” or “target.” Such statements are based on management’s expectations as of the date of this filing and involve many risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties are discussed more fully under the section titled “Risk Factors” in our 2020 Annual Report on Form 10-K (the 2020 Form 10-K) and include, but are not limited to the following:

- the continuing impacts of the COVID-19 pandemic and related risks;
- the economic conditions and the creditworthiness of third parties;
- increased defaults on education loans held by us;
- the cost and availability of funding in the capital markets;
- the transition away from the LIBOR reference rate to an alternative reference rate;
- higher or lower than expected prepayments of loans could change the expected net interest income we receive or cause the bonds issued by a securitization trust to be paid at a differently speed than anticipated;
- our unhedged Floor Income is dependent on the future interest rate environment and therefore is variable;
- a reduction in our credit ratings;
- adverse market conditions or an inability to effectively manage our liquidity risk could negatively impact us;
- the interest rate characteristics of our assets do not always match those of our funding arrangements;
- our use of derivatives exposes us to credit and market risk;
- our ability to continually and effectively align our cost structure with our business operations;
- a failure of our operating systems, infrastructure or information technology systems;
- failure by any third party providing us material services or products or a breach or violation of law by one of these third parties;
- changes to applicable laws, rules, regulations and government policies and expanded regulatory and governmental oversight;
- our work with government clients exposes us to additional risks inherent in the government contracting environment;
- shareholder activism;
- federal funding constraints and spending policy changes may result in disruption of federal payments for services we provide to the government;
- shareholders’ percentage ownership in Navient may be diluted in the future;
- reputational risk and social factors;
- obligations owed to parties under various transaction agreements that were executed as part of the spin-off of Navient from SLM Corporation (the Spin-Off); and
- acquisitions or strategic investments that we pursue.

Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Form 10-Q and in other documents we file from time to time with the SEC that disclose risks and uncertainties that may affect our business.

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.

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.

## USE OF NON-GAAP FINANCIAL MEASURES

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, which is a non-GAAP financial measure. 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 include 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 disclosures in the notes to our consolidated financial statements for our business segments.

In addition to Core Earnings, we present the following non-GAAP financial measures: Tangible Equity, Adjusted Tangible Equity Ratio, Pro forma Adjusted Tangible Equity Ratio, and Earnings before Interest, Taxes, Depreciation and Amortization Expense (EBITDA) (for the Business Processing segment). See "Management's Discussion and Analysis – Non-GAAP Financial Measures" for a further discussion and a complete reconciliation between GAAP net income and Core Earnings.

## Overview and Fundamentals of Our 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's business consists of:*



- **Federal Education Loans**

We own a portfolio of \$54.4 billion of federally guaranteed Federal Family Education Loan Program (FFELP) Loans. We service and provide asset recovery services on this portfolio and for third parties, deploying data-driven approaches to support the success of our customers. Our flexible and scalable infrastructure manages large volumes of complex transactions with continued customer experience and efficiency improvements.

- **Consumer Lending**

We own, service and originate Private Education Loans that enable students to pursue higher education and economic opportunities. Our \$20.0 billion private loan portfolio demonstrates high customer success rates. Our loan origination business assists borrowers in refinancing their education loan debt and supports students and families in financing their higher education. In third-quarter 2021, we originated \$1.6 billion in Private Education Loans.

- **Business Processing**

We provide business processing solutions to a variety of public sector and health care organizations. We support over 500 clients – and their millions of clients, patients, and citizens – through a suite of solutions that leverages our scale, technology and customer experience expertise. Our data driven solutions enable our clients to focus on their missions and optimize their cash flow, and they enable individuals to successfully navigate complex programs, transactions, and decisions.

### ***Superior Operational Performance with a Strong Customer Service and Compliance Commitment***

We help our customers — both individuals and institutions — navigate the path to financial success through proactive service and innovative solutions.

- **Scalable, data-driven solutions.** Annually, we support tens of millions of people to conduct hundreds of millions of transactions and interactions. Designed using configurable architecture, our systems are built for scale and rapid implementation. We harness the power of data to build tailored programs that optimize our clients' results.

We leverage our multichannel communication platform, predictive analytics, and decades of insight to stay in touch with borrowers and address challenges that may arise. As the COVID-19 pandemic hit, we quickly implemented payment relief options for millions of borrowers.

In our Business Processing segment, using cloud-based solutions, we rapidly staffed, trained, and activated several call centers of thousands of remote staff for states needing urgent support during the COVID-19 pandemic.

Across all our businesses, we use real-time dashboards and data visualization tools to monitor performance metrics and identify, track, and address trends and opportunities.

- **Simplify complex processes.** On our clients' behalf, we help individuals successfully navigate a broad spectrum of complex transactions.

For example, our staff and systems strive to streamline and simplify the student loan repayment process, so borrowers can more easily understand their available choices and make informed decisions for their situation. We simplified the government's process for enrolling in federal income-driven repayment plans by creating an agent-assisted e-sign enrollment process, greatly increasing completion.

- **Improve customer experience and success.** We continually make enhancements in an effort to improve customer experience, drawing from a variety of inputs including customer surveys, research panels, analysis of customer inquiries, transactions and activities, and complaint data, and regulator commentary. Across our businesses, our customer-facing representatives are trained and measured to provide empathetic, accurate support.
  - **Repayment plan education and outreach:** We help federal student loan borrowers understand the wide range of 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.
  - **Advocating for enhancements to student loans:** Navient has been a leader in recommending policy reforms that would enhance the student loan outcomes. 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.
  - **Office of the Customer Advocate:** 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.
  - **Private loan modification program:** In 2009, we pioneered the creation of a loan modification program to help Private Education Loan borrowers needing additional assistance. As of September 30, 2021, \$785 million 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.
  - **Serving military customers:** 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.
  - **Financial literacy:** We also continue to offer free resources to help customers and the general public build knowledge on personal finance topics, including videos, articles and online tools.
- **Commitment to compliance.** Our rigorous compliance posture ensures adherence with laws and regulations and helps protect our clients, customers, employees and shareholders. We use a "Three Lines of Defense" compliance framework, considered best practice by the U.S. Federal Financial Institutions Examination Council (FFIEC). This framework and other compliance protocols ensure we adhere to key industry laws and regulations including: Fair and Accurate Credit Transactions Act (FACTA); Fair Credit Reporting Act (FCRA); Fair Debt Collection Practices Act (FDCPA); Equal Credit Opportunity Act (ECOA); Federal Information Security Management Act (FISMA); Gramm-Leach-Bliley Act (GLBA); Health Insurance Portability and Accountability Act (HIPAA); IRS Publication 1075; Servicemembers Civil Relief Act (SCRA); Military Lending Act (MLA); Telephone Consumer Protection Act (TCPA); Unfair, Deceptive, or Abusive Acts and Practices (UDAAP); state laws; and state and city licensing.

- **Deliver superior performance.** Navient delivers value for our clients and customers. Whether supporting student loan borrowers to successfully manage their loans, delivering new citizen services for public sector agencies, or helping a state manage backlogs or recover revenue to support essential services, we deliver results.

Federal loan borrowers serviced by Navient were on average 34% less likely to default than their peers serviced elsewhere, based on analysis of Cohort Default Rates released 2015 through 2020. During the COVID-19 pandemic, we quickly and accurately delivered assistance to student loan borrowers. We are consistently a top performer in our asset recovery business and deliver superior service to our public and private sector clients. We regularly leverage data-driven insights, scale, technology and customer service to deliver value to our clients.

Our Business Processing segment regularly outperforms our clients' expectations and the results delivered by our competition. For example:

- o For one client, we delivered efficiency results 30% higher than our client's other vendors.
- o We have increased our transportation clients' revenue by up to 15%.

- **Corporate Social Responsibility.** We are committed to contributing to the social and economic wellbeing of our local communities, to fostering the success of our customers, to supporting a culture of integrity, inclusion and equality in our workforce, and to integrating environmental responsibility into our business. More information about our environmental, social and governance commitments is available at [about.Navient.com](http://about.Navient.com).

### **Strong Financial Performance Resulting in a Strong Capital Return**

Our third-quarter 2021 results continue to build upon our previous year's results demonstrating the strength of our business model and our ability to deliver predictable and meaningful cash flow and earnings in all types of economic environments. Adjusted Core Earnings<sup>(1)</sup> per share grew 50% on a year-to-date basis compared to the year-ago period.

Our significant earnings generate significant capital which results in a strong capital return to our investors. Navient expects to continue to return excess capital to shareholders through dividends and share repurchases in accordance with our capital allocation policy.

By optimizing capital adequacy and allocating capital to highly accretive opportunities, including organic growth and acquisitions, we remain well positioned to pay dividends and repurchase stock, while maintaining appropriate leverage that supports our credit ratings and ensures ongoing access to capital markets.

<b>(Dollars and shares in millions)</b>	<u>Q3-21</u>	<u>Q3-20</u>
Shares repurchased	7.0	7.7
Reduction in shares outstanding	4%	4%
Total repurchases in dollars	\$ 150	\$ 65
Dividends paid	\$ 26	\$ 31

At September 30, 2021, \$150 million remained in share repurchase authorization.

To inform our capital allocation decisions, we use the Adjusted Tangible Equity Ratio, in addition to other metrics. As anticipated, the implementation of ASU No. 2016-13, "Financial Instruments – Credit Losses" (CECL), on January 1, 2020, reduced our capital ratios, which we have rebuilt during 2020 and 2021. In addition, our GAAP equity was reduced in 2020 as a result of the net mark-to-market losses related to derivative accounting primarily due to the significant decline in interest rates. Our Adjusted Tangible Equity Ratio<sup>(1)</sup> was 6.4% as of September 30, 2021. In addition, our Pro forma Adjusted Tangible Equity Ratio<sup>(1)</sup> at September 30, 2021, which excludes the cumulative net mark-to-market losses related to derivative accounting that will reverse to zero as the contracts mature, was 8.0%.

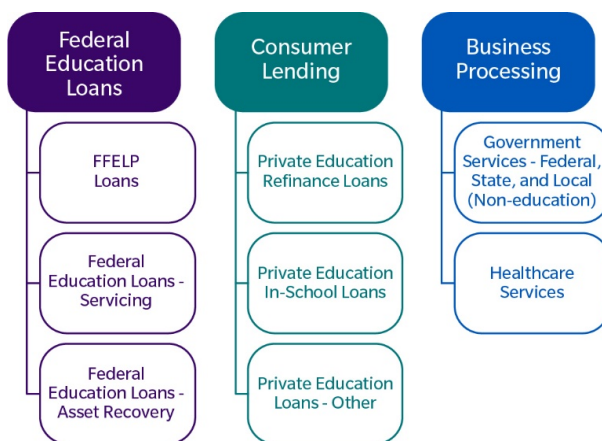
<b>(Dollars in millions)</b>	<u>Q1-20</u>	<u>Q2-20</u>	<u>Q3-20</u>	<u>Q4-20</u>	<u>YTD-20</u>	<u>Q1-21</u>	<u>Q2-21</u>	<u>Q3-21</u>
Capital Returned <sup>(2)</sup>	\$ 366	\$ 31	\$ 96	\$ 30	\$ 523	\$ 129	\$ 227	\$ 176
Adjusted Tangible Equity Ratio <sup>(1)</sup>	3.2%	3.6%	4.1%	5.0%	5.0%	6.2%	6.3%	6.4%
Pro forma Adjusted Tangible Equity Ratio <sup>(1)</sup>	5.3%	6.0%	6.4%	7.1%	7.1%	8.1%	8.0%	8.0%

<sup>(1)</sup> Item is a non-GAAP financial measure. For a description and reconciliation, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures."

<sup>(2)</sup> Capital Returned is defined as share repurchases and dividends paid.

## How We Organize Our Business

We operate our business in three primary segments: Federal Education Loans, Consumer Lending and Business Processing.



### ***Federal Education Loans Segment***

In this segment, Navient owns FFELP Loans and performs servicing and asset recovery services on this portfolio. We also service and perform asset recovery services on federal education loans owned by other institutions. Our servicing quality, data-driven strategies, and multichannel education about federal repayment options translate into positive results for the millions of borrowers we serve.

### ***Consumer Lending Segment***

In this segment, Navient owns, originates, acquires and services high-quality Refinance and In-School private education loans. We believe our more than 45 years of experience, product design, digital marketing strategies, and origination and servicing platform provide a unique competitive advantage. We see meaningful growth opportunities in originating Private Education Loans to financially responsible consumers, generating attractive long-term risk adjusted returns.

### ***Business Processing Segment***

In this segment, Navient performs business processing services for over 500 government and healthcare clients.

- **Government services:** We provide state governments, agencies, court systems, municipalities, and parking and tolling authorities with expert service, leveraging our scale, integrated technology solutions and data-driven approach. Our support enables our clients to better serve their constituents, meet rapidly changing needs, reduce their operating expenses, manage risk and maximize revenue opportunities.
- **Healthcare services:** We perform revenue cycle outsourcing, accounts receivable management, extended business office support, consulting engagements and public health programs. We offer customizable solutions for our clients that include hospitals, hospital systems, medical centers, large physician groups, other healthcare providers and departments of public health.

### ***Other Segment***

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



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

### Selected Historical Financial Information and Ratios

(In millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>GAAP Basis</b>				
Net income (loss)	\$ 173	\$ 207	\$ 728	\$ 227
Diluted earnings (loss) per common share	\$ 1.04	\$ 1.07	\$ 4.15	\$ 1.15
Weighted average shares used to compute diluted earnings per share	167	194	176	197
Return on assets	.86%	.94%	1.19%	.34%
<b>Core Earnings Basis(1)</b>				
Net income(1)	\$ 149	\$ 192	\$ 618	\$ 464
Diluted earnings per common share(1)	\$ .89	\$ .99	\$ 3.52	\$ 2.36
Adjusted diluted earnings per common share(1)	\$ .92	\$ 1.03	\$ 3.65	\$ 2.44
Weighted average shares used to compute diluted earnings per share	167	194	176	197
Net interest margin, Federal Education Loans segment	1.04%	1.03%	.99%	.97%
Net interest margin, Consumer Lending segment	2.98%	3.24%	2.98%	3.25%
Return on assets	.73%	.87%	1.01%	.69%
<b>Education Loan Portfolios</b>				
Ending FFELP Loans, net	\$ 54,350	\$ 59,559	\$ 54,350	\$ 59,559
Ending Private Education Loans, net	20,018	21,289	20,018	21,289
Ending total education loans, net	<u>\$ 74,368</u>	<u>\$ 80,848</u>	<u>\$ 74,368</u>	<u>\$ 80,848</u>
Average FFELP Loans	\$ 55,435	\$ 60,695	\$ 56,711	\$ 62,238
Average Private Education Loans	20,938	22,473	21,266	22,863
Average total education loans	<u>\$ 76,373</u>	<u>\$ 83,168</u>	<u>\$ 77,977</u>	<u>\$ 85,101</u>

(1) Item is a non-GAAP financial measure. For a description and reconciliation, see the section titled "Non-GAAP Financial Measures – Core Earnings."

## The Quarter in Review

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 include 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 certain Core Earnings disclosures in the notes to our consolidated financial statements for our business segments. See “Non-GAAP Financial Measures — Core Earnings” for a further discussion and a complete reconciliation between GAAP net income and Core Earnings.

Third-quarter 2021 GAAP net income was \$173 million (\$1.04 diluted earnings per share), compared with \$207 million (\$1.07 diluted Core Earnings per share) for the year-ago quarter. See “Results of Operations – Comparison of Third-Quarter 2021 Results with Third-Quarter 2020” for a discussion of the primary contributors to the change in GAAP earnings between periods.

Third-quarter 2021 Core Earnings net income was \$149 million (\$0.89 diluted Core Earnings per share), compared with \$192 million (\$0.99 diluted Core Earnings per share) for the year-ago quarter. Third-quarter 2021 and 2020 adjusted diluted Core Earnings<sup>(1)</sup> per share were \$0.92 and \$1.03, respectively. See “Segment Results” for a discussion of the primary contributors to the change in Core Earnings between periods.

### Financial highlights of third-quarter 2021 versus third-quarter 2020 include:

#### **Federal Education Loans segment:**

- Net income decreased \$15 million, or 11%, from \$137 million to \$122 million.
- FFELP Loan delinquency rate decreased from 9.3% to 8.5%.
- Received all required approvals and closed on the novation and transfer of our Department of Education (ED) servicing contract to a third party in October 2021.

#### **Consumer Lending segment:**

- Net income decreased \$37 million, or 34%, from \$110 million to \$73 million.
- Originated \$1.6 billion of Private Education Loans.
- Private Education Loan delinquency rate increased from 2.4% to 3.0%.

#### **Business Processing segment:**

- EBITDA<sup>(1)</sup> increased \$15 million, or 65%, from \$23 million to \$38 million, primarily due to revenue earned from contracts to support states.
- Revenue increased \$32 million, or 36%, to \$122 million.

#### **Capital, funding and liquidity:**

- Adjusted Tangible Equity Ratio<sup>(1)</sup> increased to 6.4% from 4.1%.
- Repurchased \$150 million of common shares. An additional \$150 million repurchase authority remains outstanding.
- Paid \$26 million in common stock dividends.
- Issued \$2.0 billion in term asset-backed securities (ABS).
- Repurchased \$757 million of unsecured debt, resulting in a pre-tax loss of \$20 million (\$0.09 per share). There was no repurchase activity in the year-ago quarter.

#### **Expenses:**

- Adjusted Core Earnings expenses<sup>(1)</sup> increased \$18 million to \$242 million. This increase was primarily a result of an \$18 million increase in expenses in the Business Processing segment.

<sup>(1)</sup> Item is a non-GAAP financial measure. For a description and reconciliation, see “Non-GAAP Financial Measures.”

## Navient's Response to COVID-19

The World Health Organization first declared the COVID-19 outbreak a pandemic on March 13, 2020 by which time the economic impact of the crisis was beginning to take hold, impacting the global economy and our results of operations. The COVID-19 pandemic was subsequently declared a national emergency. In response to the COVID-19 pandemic, many state, local, and foreign governments put in place quarantines, executive orders, shelter-in-place orders, and restrictions in order to control the spread of the disease. Such orders or restrictions resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions, and cancellation or postponement of events. They also led to a general decline in economic activity and consumer confidence and increases in job losses and unemployment. While certain COVID-19 vaccines have been approved and have become widely available for use in the United States, there are many parts of the country where the vaccination rate is significantly below 50%. As a result, although the economy has improved since the pandemic began, it is still uncertain when or if normal pre-pandemic economic activity and business operations will resume and what effect the Delta or other variants will have on the global economy. In this section, we will highlight our response to the global pandemic and its continuing impact on our business and operations. We suggest that the information below should be read in conjunction with our risk factors included in "Risk Factors — The Impact of COVID-19 and Related Risk" in our 2020 Form 10-K.

### *Our Team Members*

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 enable 90% of our team to work from home. As of September 30, 2021, approximately 85% of our team remains on 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. We currently anticipate that some of our team members will begin returning to the office later this year. As we plan for the return to office process, it is likely to take place in stages and we anticipate that the environment may require a continuation of various safety protocols.

### *Customers and Education Loan Performance*

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. In compliance with the CARES Act and through subsequent legislative and executive actions, we have placed all loans owned by ED into forbearance and suspended payments and interest accrual until January 31, 2022. 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 and we have offered COVID-19 relief options such as the use of forbearance to those borrowers. Private Education Loans in forbearance decreased to \$814 million or 3.9% of the portfolio at September 30, 2021, after peaking at \$3.4 billion or 14.7% during the second quarter of 2020. This compared to \$604 million or 2.7% of the portfolio at December 31, 2019, prior to the impact of COVID-19. Despite the COVID-19 crisis, we have seen most borrowers continue to make payments according to their payment plans. And while forbearance rates are slightly higher today than they were pre-pandemic, the balance of loans delinquent has declined – our Private Education Loan delinquency rate declined from 4.6% at December 31, 2019 to 3.0% as of September 30, 2021. Our Private Education Loan charge-offs declined 49% to \$184 million for the full year of 2020 compared with \$364 million in full year 2019. This decline was due to the strength of the economy heading into March 2020 as well as a result of the COVID-19 forbearance granted to borrowers. We see this continued decline with charge-offs of \$39 million in third-quarter 2021 compared to \$40 million in the year-ago quarter. We do expect defaults to begin to increase in 2022 given the default timing impact of the use of forbearance and the end of various payment relief and stimulus benefits recently, and in the future, which our allowance for loan losses captures. Our total reserves were \$1.65 billion (excluding the expected future recoveries on charged-off loans) at September 30, 2021, which represent reserves equal to 6.6% of our Private Education Loans and 0.5% of our FFELP Loan portfolio. While we are paying close attention to the needs of our customers, it is too early to know the full impact of this crisis or the path and timing of the recovery.

In the first quarter of 2020, our Private Education Refinance Loan originations of \$1.9 billion represented a 92% increase over the year-ago quarter. With the onset of the crisis in March 2020, we reduced our marketing efforts and tightened credit until we had greater visibility into the uncertainty and volatility in the capital markets and the overall economic outlook. This resulted in second-quarter 2020 originations of \$238 million. With improved visibility in both credit and funding costs, we restarted marketing efforts in the third quarter of 2020 and increased third-quarter and fourth-quarter originations to \$1.3 billion and \$1.1 billion, respectively. Total originations were \$4.6 billion in 2020 compared to \$4.9 billion in 2019. First-quarter, second-quarter and third-quarter 2021 Private Education Refinance Loan originations were \$1.7 billion, \$1.3 billion and \$1.5 billion, respectively.

## *Clients and Business Processing Segment Performance*

In our Business Processing Segment (BPS), EBITDA<sup>(1)</sup> increased to \$38 million from \$23 million in the year-ago quarter. This increase is a result of being able to transition hundreds of our experienced BPS colleagues and adapt our technology enabled solutions to support state clients working to help residents access unemployment benefits implemented in the CARES Act, as well as to perform contact tracing and vaccine administration services. These new services have generated revenue in 2020 and the first nine months of 2021 that more than offset the negative revenue impact BPS is experiencing as a result of COVID-19 which includes lower transaction-related placements in both government services and health care revenue cycle management. For the remainder of 2021 we expect the revenue from the unemployment contracts related to the CARES Act and contact tracing and vaccine administration contracts to decline as the economy recovers and the need decreases. We also expect revenue from the core parts of the business to continue to improve into 2022 to pre-COVID-19 levels if the economy continues to improve.

## *Liquidity, Financings and Capital*

The impact of the COVID-19 crisis on the capital markets was significant during the early part of the crisis, decreasing the number of transactions brought to market and increasing the pricing of those that were successfully marketed. However, in the second half of 2020 the capital markets began to improve with ready access to the markets, albeit at a higher cost than pre-COVID-19 levels. In the first nine months of 2021, we issued \$500 million of unsecured debt and \$7.5 billion of ABS below pre-COVID-19 cost of funds levels. Throughout the crisis we have maintained a strong liquidity position. As of September 30, 2021, we had \$1.7 billion of primary sources of liquidity, \$1.1 billion of which was cash. We also had, as of September 30, 2021, additional capacity in our funding facilities of \$2.6 billion for Private Education Loans and \$184 million for FFELP Loans. In addition, cash flow from our loan portfolio and services contracts remains strong as our very seasoned loan portfolio experiences lower levels of stress.

We ended the quarter with an Adjusted Tangible Equity Ratio<sup>(1)</sup> of 6.4% compared to 5.0% as of December 31, 2020. In 2020, our GAAP equity was reduced due to the implementation of CECL on January 1, 2020 as well as a result of the net mark-to-market losses related to derivative accounting as a result of the significant decrease in interest rates. These mark-to-market losses recognized under GAAP cumulatively totaled \$417 million (after tax) as of September 30, 2021. This decrease will reverse over time as these derivatives mature. The resulting Pro forma Adjusted Tangible Equity Ratio<sup>(1)</sup>, which excludes these cumulative mark-to-market losses, was 8.0% at September 30, 2021. We expect our capital levels to continue to rebuild over the course of 2021.

## *Other Matters*

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, manage our financial systems, or maintain our internal control over financial reporting and our disclosure controls and procedures. See "Critical Accounting Policies and Estimates" in our 2020 Form 10-K for a discussion of how COVID-19 impacted our allowance for loan loss and our conclusion of goodwill not being impaired.

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.

(1) Item is a non-GAAP financial measure. For a description and reconciliation, see "Non-GAAP Financial Measures."

## Results of Operations

### GAAP Income Statements (Unaudited)

(In millions, except per share data)	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2021	2020	\$	%	2021	2020	\$	%
<b>Interest income:</b>								
FFELP Loans	\$ 368	\$ 410	\$ (42)	(10)%	\$ 1,106	\$ 1,435	\$ (329)	(23)%
Private Education Loans	291	350	(59)	(17)	905	1,117	(212)	(19)
Cash and investments	1	1	—	—	2	15	(13)	(87)
<b>Total interest income</b>	<b>660</b>	<b>761</b>	<b>(101)</b>	<b>(13)</b>	<b>2,013</b>	<b>2,567</b>	<b>(554)</b>	<b>(22)</b>
Total interest expense	326	425	(99)	(23)	995	1,658	(663)	(40)
<b>Net interest income</b>	<b>334</b>	<b>336</b>	<b>(2)</b>	<b>(1)</b>	<b>1,018</b>	<b>909</b>	<b>109</b>	<b>12</b>
Less: provisions for loan losses	22	14	8	57	(66)	153	(219)	(143)
<b>Net interest income after provisions for loan losses</b>	<b>312</b>	<b>322</b>	<b>(10)</b>	<b>(3)</b>	<b>1,084</b>	<b>756</b>	<b>328</b>	<b>43</b>
<b>Other income (loss):</b>								
Servicing revenue	47	54	(7)	(13)	149	163	(14)	(9)
Asset recovery and business processing revenue	135	125	10	8	416	337	79	23
Other income (loss)	3	—	3	100	9	17	(8)	(47)
Gains on sales of loans	—	—	—	—	78	—	78	100
Losses on debt repurchases	(20)	—	(20)	100	(32)	—	(32)	100
Gains (losses) on derivative and hedging activities, net	(5)	(2)	(3)	150	21	(255)	276	108
<b>Total other income (loss)</b>	<b>160</b>	<b>177</b>	<b>(17)</b>	<b>(10)</b>	<b>641</b>	<b>262</b>	<b>379</b>	<b>145</b>
<b>Expenses:</b>								
Operating expenses	248	232	16	7	758	695	63	9
Goodwill and acquired intangible assets impairment and amortization expense	4	5	(1)	(20)	14	16	(2)	(13)
Restructuring/other reorganization expenses	—	3	(3)	(100)	8	9	(1)	(11)
<b>Total expenses</b>	<b>252</b>	<b>240</b>	<b>12</b>	<b>5</b>	<b>780</b>	<b>720</b>	<b>60</b>	<b>8</b>
Income before income tax expense	220	259	(39)	(15)	945	298	647	217
Income tax expense	47	52	(5)	(10)	217	71	146	206
<b>Net income</b>	<b>\$ 173</b>	<b>\$ 207</b>	<b>\$ (34)</b>	<b>(16)%</b>	<b>\$ 728</b>	<b>\$ 227</b>	<b>\$ 501</b>	<b>221%</b>
<b>Basic earnings per common share</b>	<b>\$ 1.05</b>	<b>\$ 1.08</b>	<b>\$ (.03)</b>	<b>(3%)</b>	<b>\$ 4.20</b>	<b>\$ 1.16</b>	<b>\$ 3.04</b>	<b>262%</b>
<b>Diluted earnings per common share</b>	<b>\$ 1.04</b>	<b>\$ 1.07</b>	<b>\$ (.03)</b>	<b>(3%)</b>	<b>\$ 4.15</b>	<b>\$ 1.15</b>	<b>\$ 3.00</b>	<b>261%</b>
Dividends per common share	\$ .16	\$ .16	\$ —	—%	\$ .48	\$ .48	\$ —	—%

### GAAP Comparison of Third-Quarter 2021 Results with Third-Quarter 2020

For the three months ended September 30, 2021, net income was \$173 million, or \$1.04 diluted earnings per common share, compared with net income of \$207 million, or \$1.07 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 \$2 million, primarily as a result of the continued natural paydown of the FFELP and non-refinance Private Education Loan portfolios, as well as the \$1.6 billion of Private Education Loan sales in first-quarter 2021. Partially offsetting this decrease was a \$13 million increase in mark-to-market gains on fair value hedges recorded in interest expense and the growth in the Private Education Refinance Loan portfolio.
- Provisions for loan losses increased \$8 million from \$14 million to \$22 million:
  - The provision for FFELP loan losses decreased \$4 million to \$0.
  - The provision for Private Education Loan losses increased \$12 million from \$10 million to \$22 million.

The provision for loan losses in both periods primarily related to loan originations. There has been an improvement in the current and forecasted economic conditions since the prior period, but such improvement has not mitigated the uncertainty related to the potential negative impact on the portfolio from the end of various payment relief and stimulus benefits recently and in the future.

- Asset recovery and business processing revenue increased \$10 million primarily as a result of a \$31 million increase in revenue earned in our Business Processing segment primarily due to contracts to support states in providing pandemic relief services, as well as revenue from our traditional Business Processing segment services we perform for our government and healthcare services clients. These increases were partially offset by the impact of COVID-19 on certain collection activities and the planned wind-down of the ED asset recovery contract in the Federal Education Loan segment.
- Losses on debt repurchases increased \$20 million. We repurchased \$757 million of debt at a \$20 million loss in the current quarter. There were no debt repurchases in the year-ago quarter.
- Net losses on derivative and hedging activities increased \$3 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which impact the valuations of derivative instruments including Floor Income Contracts, basis swaps and foreign currency hedges 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.
- Excluding net regulatory-related expenses of \$6 million and \$8 million in the third quarters of 2021 and 2020, respectively, operating expenses were \$242 million and \$224 million in the third quarters of 2021 and 2020, respectively. This \$18 million increase was primarily a result of an \$18 million increase in expenses in the Business Processing segment in connection with the increase in segment revenue. Included in current period operating expenses is \$42.5 million of litigation expense in connection with reaching preliminary agreements to settle two separate cases related to certain investors in Navient stock and unsecured debt, resulting in \$0 net expense due to offsetting insurance reimbursements. See "Note 9 – Commitments and Contingencies" for further discussion.
- During the three months ended September 30, 2021 and 2020, respectively, the Company incurred \$0 and \$3 million, respectively of restructuring/other reorganization expenses in connection with an effort to reduce costs and improve operating efficiency. These charges were primarily due to facility lease terminations and severance-related costs.

We repurchased 7.0 million and 7.7 million shares of our common stock during the third quarters of 2021 and 2020, respectively. As a result of repurchases, our average outstanding diluted shares decreased by 27 million common shares (or 14%) from the year-ago period.

### **Comparison of Nine Months Ended September 30, 2021 Results with Nine Months Ended September 30, 2020**

For the nine months ended September 30, 2021, net income was \$728 million, or \$4.15 diluted earnings per common share, compared with net income of \$227 million, or \$1.15 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 increased by \$109 million, primarily as a result of an \$89 million increase in mark-to-market gains on fair value hedges recorded in interest expense. Also contributing to the increase is the growth in the Private Education Refinance Loan portfolio. Partially offsetting this increase is the continued natural paydown of the FFELP and non-refinance Private Education Loan portfolios, as well as the \$1.6 billion of Private Education Loan sales in first-quarter 2021.
- Provisions for loan losses decreased \$219 million from \$153 million to \$(66) million:
  - The provision for FFELP loan losses decreased \$13 million to \$0.
  - The provision for Private Education Loan losses decreased \$206 million from \$140 million to \$(66) million.

The negative provision for the current period of \$(66) million was comprised of \$49 million in connection with loan originations less the reversal of both \$107 million of allowance for loan losses in connection with the sale of approximately \$1.6 billion of Private Education Loans, as well as \$8 million related to a decrease in expected losses for the overall portfolio. There has been an improvement in the current and forecasted economic conditions since December 31, 2020, but such improvement has not mitigated the uncertainty related to the potential negative impact on the portfolio from the end of various payment relief and stimulus benefits recently and in the future. The provision in the year-ago period primarily related to an increase in expected losses due to COVID-19's negative impact on the current and forecasted economic conditions that occurred subsequent to the adoption of CECL on January 1, 2020.

- Asset recovery and business processing revenue increased \$79 million primarily as a result of a \$152 million increase in revenue earned in our Business Processing segment primarily due to contracts to support states in providing pandemic relief services, as well as revenue from our traditional Business Processing segment services we perform for our government and healthcare services clients. These increases were partially offset by the impact of COVID-19 on certain collection activities and the planned wind-down of the ED asset recovery contract in the Federal Education Loan segment.
- Gains on sales of loans increased \$78 million in connection with the sale of approximately \$1.6 billion of Private Education Loans in 2021. There were no such sales in the year-ago period. The sale of Private Education Loans was comprised as follows:
  - Approximately \$590 million of non-Refinance Loans, resulting in a \$48 million gain on sale (of which \$560 million were sold in the first quarter and \$30 million were sold in the second quarter); and
  - Approximately \$1.03 billion of Refinance Loans, resulting in a \$30 million gain on sale. In addition, there was a \$13 million gain related to derivatives that were used to hedge this transaction that did not qualify for hedge accounting. As a result, this gain related to the derivatives was included as a part of "gains (losses) on derivative and hedging activities, net" on the income statement.
- Losses on debt repurchases increased \$32 million. We repurchased \$1.5 billion of debt at a \$32 million loss in the current period. There were no debt repurchases in the year-ago period.
- Net losses on derivative and hedging activities decreased \$276 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which impact the valuations of derivative instruments including Floor Income Contracts, basis swaps and foreign currency hedges 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 the nine months ended September 30, 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 FFELP Loan Floor Income that do not qualify for hedge accounting. For the nine months ended September 30, 2021, interest rates have increased which has resulted in mark-to-market gains on these instruments.

- Excluding net regulatory-related expenses of \$22 million and \$13 million in the nine months ended September 30, 2021 and 2020, respectively, operating expenses were \$736 million and \$682 million in the nine months ended September 30, 2021 and 2020, respectively. This \$54 million increase was primarily a result of a \$90 million increase in expenses in the Business Processing segment in connection with the increase in segment revenue, with an offsetting \$36 million decrease in expenses primarily in the Federal Education Loans segment as a result of the decrease of Federal Education Loan asset recovery revenue discussed above. Regulatory-related expenses in the year-ago period are net of \$10 million of insurance reimbursements for costs related to such matters.  
Included in current period operating expenses is \$42.5 million of litigation expense in connection with reaching preliminary agreements to settle two separate cases related to certain investors in Navient stock and unsecured debt, resulting in \$0 net expense due to offsetting insurance reimbursements. See “Note 9 – Commitments and Contingencies” for further discussion.
- During the nine months ended September 30, 2021 and 2020, respectively, the Company incurred \$8 million and \$9 million, respectively of restructuring/other reorganization expenses in connection with an effort to reduce costs and improve operating efficiency. These charges were primarily due to facility lease terminations and severance-related costs.

We repurchased 26.9 million and 30.6 million shares of our common stock during the nine months ended September 30, 2021 and 2020, respectively. As a result of repurchases, our average outstanding diluted shares decreased by 21 million common shares (or 11%) from the year-ago period.



## Segment Results

### Federal Education Loans Segment

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

(Dollars in millions)	Three Months Ended September 30,		% Increase (Decrease)	Nine Months Ended September 30,		% Increase (Decrease)
	2021	2020	2021 vs. 2020	2021	2020	2021 vs. 2020
Interest income:						
FFELP Loans	\$ 353	\$ 393	(10)%	\$ 1,062	\$ 1,430	(26)%
Cash and investments	—	—	—	—	7	(100)
Total interest income	353	393	(10)	1,062	1,437	(26)
Total interest expense	202	232	(13)	627	974	(36)
Net interest income	151	161	(6)	435	463	(6)
Less: provision for loan losses	—	4	(100)	—	13	(100)
Net interest income after provision for loan losses	151	157	(4)	435	450	(3)
Other income:						
Servicing revenue	47	53	(11)	146	158	(8)
Asset recovery and business processing revenue	13	35	(63)	39	126	(69)
Other income	1	(1)	200	3	8	(63)
Total other income	61	87	(30)	188	292	(36)
Direct operating expenses	53	64	(17)	170	217	(22)
Income before income tax expense	159	180	(12)	453	525	(14)
Income tax expense	37	43	(14)	107	124	(14)
Core Earnings	\$ 122	\$ 137	(11)%	\$ 346	\$ 401	(14)%

### Comparison of Third-Quarter 2021 Results with Third-Quarter 2020

- Core Earnings were \$122 million compared to \$137 million.
- Net interest income decreased \$10 million, primarily due to the natural paydown of the portfolio.
- Provision for loan losses decreased \$4 million.
  - Charge-offs were \$8 million compared with \$9 million.
  - Delinquencies greater than 30 days were \$3.8 billion compared with \$4.5 billion.
  - Forbearances were \$8.0 billion, down \$73 million from \$8.1 billion. Forbearances have declined by approximately \$9.2 billion from the COVID-19 peak in second-quarter 2020.
- Other revenue decreased \$26 million which was primarily a result of the impact of COVID-19 on certain collection activities as well as the planned wind-down of an asset recovery contract.
- Expenses were \$11 million lower primarily as a result of the decrease in asset recovery revenue discussed above.

Key performance metrics are as follows:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Segment net interest margin	1.04%	1.03%	.99%	.97%
FFELP Loans:				
FFELP Loan spread	1.10%	1.10%	1.05%	1.04%
Provision for loan losses	\$ —	\$ 4	\$ —	\$ 13
Charge-offs	\$ 8	\$ 9	\$ 19	\$ 40
Charge-off rate	.07%	.07%	.06%	.11%
Greater than 30-days delinquency rate	8.5%	9.3%	8.5%	9.3%
Greater than 90-days delinquency rate	4.3%	3.5%	4.3%	3.5%
Forbearance rate	15.4%	14.3%	15.4%	14.3%
Average FFELP Loans	\$ 55,435	\$ 60,695	\$ 56,711	\$ 62,238
Ending FFELP Loans, net	\$ 54,350	\$ 59,559	\$ 54,350	\$ 59,559

(Dollars in billions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Number of accounts serviced for ED (in millions)(1)	5.6	5.6	5.6	5.6
Total federal loans serviced(1)	\$ 284	\$ 284	\$ 284	\$ 284
Contingent collections receivables inventory	\$ 11.8	\$ 13.9	\$ 11.8	\$ 13.9

(1) Received all required approvals and closed on the novation and transfer of our ED servicing contract to a third party in October 2021. As of September 30, 2021, Navient serviced \$221 billion of federal loans under its servicing contract with ED.

### Net Interest Margin

The following table details the net interest margin.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
FFELP Loan yield	1.90%	1.98%	1.90%	2.40%
Hedged Floor Income	.42	.42	.41	.40
Unhedged Floor Income	.20	.18	.19	.27
FFELP Loan net yield	2.52	2.58	2.50	3.07
FFELP Loan cost of funds	(1.42)	(1.48)	(1.45)	(2.03)
FFELP Loan spread	1.10	1.10	1.05	1.04
Other interest-earning asset spread impact	(.06)	(.07)	(.06)	(.07)
Net interest margin(1)	1.04%	1.03%	.99%	.97%

(1) The average balances of the interest-earning assets for the respective periods are:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
FFELP Loans	\$ 55,435	\$ 60,695	\$ 56,711	\$ 62,238
Other interest-earning assets	1,801	1,861	1,809	1,875
Total FFELP Loan interest-earning assets	\$ 57,236	\$ 62,556	\$ 58,520	\$ 64,113

As of September 30, 2021, our FFELP Loan portfolio totaled \$54.4 billion, comprised of \$18.6 billion of FFELP Stafford Loans and \$35.8 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios as of September 30, 2021 was 6 years and 7 years, respectively, assuming a Constant Prepayment Rate (CPR) of 9% and 5%, respectively.

## 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 September 30, 2021 and 2020, based on interest rates as of those dates.

<b>(Dollars in billions)</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Education loans eligible to earn Floor Income	\$ 54.1	\$ 59.1
Less: post-March 31, 2006 disbursed loans required to rebate Floor Income	(24.9)	(27.0)
Less: economically hedged Floor Income	(13.3)	(17.7)
Education loans eligible to earn Floor Income after rebates and economically hedged	\$ 15.9	\$ 14.4
Education loans earning Floor Income	\$ 10.6	\$ 9.2

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, 2021 to December 31, 2025.

<b>(Dollars in billions)</b>	<b>October 1, 2021 to December 31, 2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged	\$ 13.2	\$ 11.8	\$ 7.3	\$ 1.6	\$ .6

## Provision for Loan Losses

The provision for FFELP Loan Losses was \$0 in third-quarter 2021, down \$4 million from the year-ago quarter.

## Servicing Revenue

The Company serviced loans for approximately 5.6 million customer accounts under its ED servicing contract as of September 30, 2021, unchanged from September 30, 2020. Third-party loan servicing fees in the three months ended September 30, 2021 and 2020 included \$34 million and \$36 million, respectively, of servicing revenue related to the ED servicing contract.

In October 2021, we received all required approvals and transferred our loan servicing contract for 5.6 million ED owned student loan accounts from Navient to a third party through a contract novation. As a result, as previously planned, Navient no longer is a party to the ED servicing contract. To aid in the transition, Navient will provide certain services into 2022 to the third party through a transition services agreement. As part of the transaction, approximately 800 Navient employees on the ED loan servicing team will transfer to the third party, which is expected to occur later in the fourth quarter 2021.

## Asset Recovery and Business Processing Revenue

Asset recovery and business processing revenue decreased \$22 million primarily as a result of the impact of COVID-19 on certain collection and processing activities (temporary stoppage or other restrictions on certain activities) and the planned wind-down of the ED asset recovery contract.

## Operating Expenses

Expenses were \$11 million lower primarily as a result of the decrease in asset recovery revenue discussed above.

## Consumer Lending Segment

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

(Dollars in millions)	Three Months Ended September 30,		% Increase (Decrease) 2021 vs. 2020	Nine Months Ended September 30,		% Increase (Decrease) 2021 vs. 2020
	2021	2020		2021	2020	
Interest income:						
Private Education Loans	\$ 291	\$ 350	(17)%	\$ 905	\$ 1,117	(19)%
Cash and investments	1	—	100	1	3	(67)
Interest income	292	350	(17)	906	1,120	(19)
Interest expense	129	161	(20)	416	545	(24)
Net interest income	163	189	(14)	490	575	(15)
Less: provision for loan losses	22	10	120	(66)	140	(147)
Net interest income after provision for loan losses	141	179	(21)	556	435	28
Other income:						
Servicing revenue	—	1	(100)	3	5	(40)
Other income	—	—	—	1	—	100
Gains on sales of loans	—	—	—	91	—	100
Total other income	—	1	(100)	95	5	1,800
Direct operating expenses	45	37	22	124	109	14
Income before income tax expense	96	143	(33)	527	331	59
Income tax expense	23	33	(30)	123	78	58
Core Earnings	\$ 73	\$ 110	(34)%	\$ 404	\$ 253	60%

### Comparison of Third-Quarter 2021 Results with Third-Quarter 2020

- Originated \$1.6 billion of Private Education Loans, an increase of 22%, compared to \$1.3 billion. \$153 million and \$55 million of the originations were in-school loans, respectively.
- Core Earnings were \$73 million compared to \$110 million.
- Net interest income decreased \$26 million primarily due to the natural paydown of the non-refinance loan portfolio, as well as the \$1.6 billion of loan sales in first-quarter 2021. Partially offsetting this decrease was the growth of the Private Education Refinance Loan portfolio.
- Provision for loan losses increased \$12 million. The provision for loan losses in both periods primarily related to loan originations. There has been an improvement in the current and forecasted economic conditions since the prior period, but such improvement has not mitigated the uncertainty related to the potential negative impact on the portfolio from the end of various payment relief and stimulus benefits recently and in the future.
  - Excluding the \$16 million and \$23 million, respectively, related to the change in the portion of the loan amount charged off at default, charge-offs were \$39 million compared with \$40 million.
  - Private Education Loan delinquencies greater than 90 days: \$216 million, up \$81 million from \$135 million.
  - Private Education Loan delinquencies greater than 30 days: \$599 million, up \$100 million from \$499 million.
  - Private Education Loan forbearances: \$814 million, down \$53 million from \$867 million. Forbearances have declined by approximately \$2.6 billion from the COVID-19 peak in third-quarter 2020.
- Expenses were \$8 million higher primarily as a result of the increase in refinance and in-school loan originations.

Key performance metrics are as follows:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Segment net interest margin	2.98%	3.24%	2.98%	3.25%
Private Education Loans (including Refinance Loans):				
Private Education Loan spread	3.17%	3.45%	3.19%	3.45%
Provision for loan losses	\$ 22	\$ 10	\$ (66)	\$ 140
Charge-offs <sup>(1)</sup>	\$ 39	\$ 40	\$ 109	\$ 156
Charge-off rate <sup>(1)</sup>	.77%	.75%	.72%	1.00%
Greater than 30-days delinquency rate	3.0%	2.4%	3.0%	2.4%
Greater than 90-days delinquency rate	1.1%	.6%	1.1%	.6%
Forbearance rate	3.9%	4.0%	3.9%	4.0%
Average Private Education Loans	\$ 20,938	\$ 22,473	\$ 21,266	\$ 22,863
Ending Private Education Loans, net	\$ 20,018	\$ 21,289	\$ 20,018	\$ 21,289
Private Education Refinance Loans:				
Charge-offs	\$ 3	\$ 2	\$ 8	\$ 6
Greater than 90-days delinquency rate	.1%	—%	.1%	—%
Average Private Education Refinance Loans	\$ 8,987	\$ 7,768	\$ 8,622	\$ 7,543
Ending Private Education Refinance Loans	\$ 9,171	\$ 7,873	\$ 9,171	\$ 7,873
Private Education Refinance Loan originations	\$ 1,489	\$ 1,288	\$ 4,445	\$ 3,416

(1) Excluding the \$16 million and \$23 million of charge-offs on the expected future recoveries of charged off loans in third-quarters 2021 and 2020, respectively, that occurred as a result of changing the charge-off rate from 81.4% to 81.7% in third-quarter 2021 and from 81% to 81.4% in third-quarter 2020.

### Net Interest Margin

The following table details the net interest margin.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Private Education Loan yield	5.52%	6.19%	5.69%	6.52%
Private Education Loan cost of funds	(2.35)	(2.74)	(2.50)	(3.07)
Private Education Loan spread	3.17	3.45	3.19	3.45
Other interest-earning asset spread impact	(.19)	(.21)	(.21)	(.20)
Net interest margin <sup>(1)</sup>	2.98%	3.24%	2.98%	3.25%

(1) The average balances of the interest-earning assets for the respective periods are:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Private Education Loans	\$ 20,938	\$ 22,473	\$ 21,266	\$ 22,863
Other interest-earning assets	771	754	804	733
Total Private Education Loan interest-earning assets	\$ 21,709	\$ 23,227	\$ 22,070	\$ 23,596

As of September 30, 2021, our Private Education Loan portfolio totaled \$20.0 billion, comprised of \$9.2 billion of refinance loans and \$10.8 billion of non-refinance loans. The weighted-average life of these portfolios as of September 30, 2021 was 3 years and 5 years, respectively, assuming a Constant Prepayment Rate (CPR) of 20% and 9%, respectively.

### Provision for Loan Losses

Provision for loan losses increased \$12 million. The provision for loan losses in the current and year-ago quarters primarily related to loan originations. There has been an improvement in the current and forecasted economic conditions since the prior period, but such improvement has not mitigated the uncertainty related to the potential negative impact on the portfolio from the end of various payment relief and stimulus benefits recently and in the future.

### Gains on Sales of Loans

The sales of Private Education Loans for the nine months ended September 30, 2021 were comprised of the following transactions that occurred in the first quarter:

- Approximately \$590 million of non-Refinance Loans, resulting in a \$48 million gain on sale (of which \$560 million were sold in the first quarter and \$30 million were sold in the second quarter); and
- Approximately \$1.03 billion of Refinance Loans, resulting in a \$43 million gain on sale.

### Operating Expenses

Operating expenses were \$8 million higher as a result of the increase in refinance and in-school loan originations.

### Business Processing Segment

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

(Dollars in millions)	Three Months Ended September 30,		% Increase (Decrease) 2021 vs. 2020	Nine Months Ended September 30,		% Increase (Decrease) 2021 vs. 2020
	2021	2020		2021	2020	
Business processing revenue	\$ 122	\$ 90	36%	\$ 377	\$ 211	79%
Direct operating expenses	87	69	26	270	180	50
Income before income tax expense	35	21	67	107	31	245
Income tax expense	8	5	60	25	7	257
<b>Core Earnings</b>	<b>\$ 27</b>	<b>\$ 16</b>	<b>69%</b>	<b>\$ 82</b>	<b>\$ 24</b>	<b>242%</b>

### Comparison of Third-Quarter 2021 Results with Third-Quarter 2020

- Core Earnings were \$27 million compared to \$16 million.
- Revenue increased \$32 million, or 36%, primarily due to state contract extensions to provide unemployment benefits, contact tracing and vaccine administration services, as well as revenue increases from our traditional services we perform for our government and healthcare services clients.
- EBITDA was \$38 million, up \$15 million, or 65%. The increase in EBITDA is primarily the result of the revenue increase discussed above. The EBITDA margin increased to 31% from 25%.

Key performance metrics are as follows:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue from government services	\$ 75	\$ 56	\$ 204	\$ 133
Revenue from healthcare services	47	34	173	78
<b>Total fee revenue</b>	<b>\$ 122</b>	<b>\$ 90</b>	<b>\$ 377</b>	<b>\$ 211</b>
EBITDA <sup>(1)</sup>	\$ 38	\$ 23	\$ 113	\$ 35
EBITDA margin <sup>(1)</sup>	31%	25%	30%	17%
Contingent collections receivables inventory (in billions)	\$ 11.5	\$ 14.1	\$ 11.5	\$ 14.1

(1) Item is a non-GAAP financial measure. For a description and reconciliation, see "Non-GAAP Financial Measures."

## Other Segment

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

(Dollars in millions)	Three Months Ended September 30,		% Increase (Decrease)	Nine Months Ended September 30,		% Increase (Decrease)
	2021	2020	2021 vs. 2020	2021	2020	2021 vs. 2020
Net interest loss after provision for loan losses	\$ (15)	\$ (29)	(48)%	\$ (50)	\$ (91)	(45)%
Other income (loss):						
Other income	2	1	100	5	9	(44)
Losses on debt repurchases	(20)	—	100	(32)	—	100
Other income (loss)	(18)	1	(1,900)	(27)	9	(400)
Expenses:						
Unallocated shared services expenses:						
Unallocated information technology costs	20	20	—	61	62	(2)
Unallocated corporate costs	43	42	2	133	127	5
Total unallocated shared services expenses	63	62	2	194	189	3
Restructuring/other reorganization expenses	—	3	(100)	8	9	(11)
Total expenses	63	65	(3)	202	198	2
Loss before income tax benefit	(96)	(93)	3	(279)	(280)	—
Income tax benefit	(23)	(22)	5	(65)	(66)	(2)
Core Earnings (loss)	\$ (73)	\$ (71)	3%	\$ (214)	\$ (214)	—%

### 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 primarily a result of a decrease in the size of the liquidity portfolio as well as a decrease in the cost of funds of the debt funding the corporate liquidity portfolio.

### Losses on Debt Repurchases

We repurchased \$757 million and \$0 of unsecured debt in the third quarters of 2021 and 2020, respectively. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

### Unallocated Shared Services Expenses

Unallocated shared services expenses are comprised of costs primarily related to information technology costs related to infrastructure and operations, stock-based compensation expense, accounting, finance, legal, compliance and risk management, regulatory-related expenses, human resources, certain executive management and the board of directors. Regulatory-related expenses 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. On an adjusted basis, expenses increased \$3 million from the year-ago quarter. Adjusted expenses exclude \$6 million and \$8 million, respectively, of regulatory-related expenses in the third quarters of 2021 and 2020.

Included in current period operating expenses is \$42.5 million of litigation expense in connection with reaching preliminary agreements to settle two separate cases related to certain investors in Navient stock and unsecured debt, resulting in \$0 net expense due to offsetting insurance reimbursements. See "Note 9 – Commitments and Contingencies" for further discussion.

Also see "Note 9 – Commitments and Contingencies" for a discussion of legal and regulatory matters where it is reasonably possible that a loss contingency exists. The Company is unable to anticipate the timing of a resolution or the impact that these matters 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.

### Restructuring/Other Reorganization Expenses

During the third quarters of 2021 and 2020, the Company incurred \$0 and \$3 million, respectively, of restructuring/other reorganization expenses in connection with an effort to reduce costs and improve operating efficiency. The charges were due primarily to facility lease terminations and severance-related costs.

## Financial Condition

This section provides information regarding the balances, activity and credit performance metrics of our education loan portfolio.

### Summary of Our Education Loan Portfolio

Ending Education Loan Balances, net

	September 30, 2021				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Total education loan portfolio:					
In-school <sup>(1)</sup>	\$ 23	\$ —	\$ 23	\$ 17	\$ 40
Grace, repayment and other <sup>(2)</sup>	18,706	35,890	54,596	20,981	75,577
Total	18,729	35,890	54,619	20,998	75,617
Allowance for loan losses	(184)	(85)	(269)	(980)	(1,249)
Total education loan portfolio	<u>\$ 18,545</u>	<u>\$ 35,805</u>	<u>\$ 54,350</u>	<u>\$ 20,018</u>	<u>\$ 74,368</u>
% of total FFELP	34%	66%	100%		
% of total	25%	48%	73%	27%	100%

	December 31, 2020				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Total education loan portfolio:					
In-school <sup>(1)</sup>	\$ 30	\$ —	\$ 30	\$ 14	\$ 44
Grace, repayment and other <sup>(2)</sup>	19,771	38,771	58,542	22,154	80,696
Total	19,801	38,771	58,572	22,168	80,740
Allowance for loan losses	(194)	(94)	(288)	(1,089)	(1,377)
Total education loan portfolio	<u>\$ 19,607</u>	<u>\$ 38,677</u>	<u>\$ 58,284</u>	<u>\$ 21,079</u>	<u>\$ 79,363</u>
% of total FFELP	34%	66%	100%		
% of total	25%	49%	74%	26%	100%

	September 30, 2020				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Total education loan portfolio:					
In-school <sup>(1)</sup>	\$ 33	\$ —	\$ 33	\$ 13	\$ 46
Grace, repayment and other <sup>(2)</sup>	20,130	39,693	59,823	22,367	82,190
Total	20,163	39,693	59,856	22,380	82,236
Allowance for loan losses	(199)	(98)	(297)	(1,091)	(1,388)
Total education loan portfolio	<u>\$ 19,964</u>	<u>\$ 39,595</u>	<u>\$ 59,559</u>	<u>\$ 21,289</u>	<u>\$ 80,848</u>
% 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.



## Three Months Ended September 30, 2021

	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Total Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Beginning balance	\$ 18,861	\$ 36,689	\$ 55,550	\$ 19,725	\$ 75,275
Acquisitions (originations and purchases) <sup>(1)</sup>	60	34	94	1,564	1,658
Capitalized interest and premium/discount amortization	164	197	361	46	407
Refinancings and consolidations to third parties	(190)	(318)	(508)	(119)	(627)
Loan sales	—	—	—	—	—
Repayments and other	(350)	(797)	(1,147)	(1,198)	(2,345)
Ending balance	<u>\$ 18,545</u>	<u>\$ 35,805</u>	<u>\$ 54,350</u>	<u>\$ 20,018</u>	<u>\$ 74,368</u>

## Three Months Ended September 30, 2020

	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Total Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Beginning balance	\$ 20,353	\$ 40,568	\$ 60,921	\$ 21,462	\$ 82,383
Acquisitions (originations and purchases) <sup>(1)</sup>	4	4	8	1,295	1,303
Capitalized interest and premium/discount amortization	204	197	401	54	455
Refinancings and consolidations to third parties	(222)	(316)	(538)	(142)	(680)
Repayments and other	(375)	(858)	(1,233)	(1,380)	(2,613)
Ending balance	<u>\$ 19,964</u>	<u>\$ 39,595</u>	<u>\$ 59,559</u>	<u>\$ 21,289</u>	<u>\$ 80,848</u>

## Nine Months Ended September 30, 2021

	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Total Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Beginning balance	\$ 19,607	\$ 38,677	\$ 58,284	\$ 21,079	\$ 79,363
Acquisitions (originations and purchases) <sup>(1)</sup>	64	37	101	4,607	4,708
Capitalized interest and premium/discount amortization	516	599	1,115	136	1,251
Refinancings and consolidations to third parties	(670)	(1,145)	(1,815)	(385)	(2,200)
Loan sales	—	—	—	(1,488)	(1,488)
Repayments and other	(972)	(2,363)	(3,335)	(3,931)	(7,266)
Ending balance	<u>\$ 18,545</u>	<u>\$ 35,805</u>	<u>\$ 54,350</u>	<u>\$ 20,018</u>	<u>\$ 74,368</u>

## Nine Months Ended September 30, 2020

	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Total Private Education Loans	Total Portfolio
<b>(Dollars in millions)</b>					
Beginning balance	\$ 21,723	\$ 42,852	\$ 64,575	\$ 22,245	\$ 86,820
Acquisitions (originations and purchases) <sup>(1)</sup>	14	13	27	3,446	3,473
Capitalized interest and premium/discount amortization	511	516	1,027	185	1,212
Refinancings and consolidations to third parties	(739)	(984)	(1,723)	(444)	(2,167)
Repayments and other	(1,545)	(2,802)	(4,347)	(4,143)	(8,490)
Ending balance	<u>\$ 19,964</u>	<u>\$ 39,595</u>	<u>\$ 59,559</u>	<u>\$ 21,289</u>	<u>\$ 80,848</u>

<sup>(1)</sup> Includes the origination of \$391 million and \$535 million of Private Education Refinance Loans in the third quarters of 2021 and 2020, and \$1.4 billion and \$949 million in the nine months ended of 2021 and 2020, respectively, that refinanced FFELP and Private Education Loans that were on our balance sheet.

**FFELP Loan Portfolio Performance**

(Dollars in millions)	September 30, 2021		December 31, 2020		September 30, 2020	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 2,430		\$ 2,791		\$ 3,038	
Loans in forbearance <sup>(2)</sup>	8,029		7,725		8,102	
Loans in repayment and percentage of each status:						
Loans current	40,404	91.5%	43,623	90.8%	44,175	90.7%
Loans delinquent 31-60 days <sup>(3)</sup>	1,181	2.7	1,374	2.9	1,876	3.9
Loans delinquent 61-90 days <sup>(3)</sup>	665	1.5	836	1.7	930	1.9
Loans delinquent greater than 90 days <sup>(3)</sup>	1,910	4.3	2,223	4.6	1,735	3.5
Total FFELP Loans in repayment	<u>44,160</u>	<u>100%</u>	<u>48,056</u>	<u>100%</u>	<u>48,716</u>	<u>100%</u>
Total FFELP Loans	54,619		58,572		59,856	
FFELP Loan allowance for losses	(269)		(288)		(297)	
FFELP Loans, net	<u>\$ 54,350</u>		<u>\$ 58,284</u>		<u>\$ 59,559</u>	
Percentage of FFELP Loans in repayment		<u>80.9%</u>		<u>82.0%</u>		<u>81.4%</u>
Delinquencies as a percentage of FFELP Loans in repayment		<u>8.5%</u>		<u>9.2%</u>		<u>9.3%</u>
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		<u>15.4%</u>		<u>13.8%</u>		<u>14.3%</u>

(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, 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.

**Private Education Loan Portfolio Performance**

(Dollars in millions)	September 30, 2021		December 31, 2020		September 30, 2020	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 389		\$ 483		\$ 507	
Loans in forbearance <sup>(2)</sup>	814		844		867	
Loans in repayment and percentage of each status:						
Loans current	19,196	97.0%	20,287	97.4%	20,507	97.6%
Loans delinquent 31-60 days <sup>(3)</sup>	247	1.2	211	1.0	224	1.1
Loans delinquent 61-90 days <sup>(3)</sup>	136	.7	126	.6	140	.7
Loans delinquent greater than 90 days <sup>(3)</sup>	216	1.1	217	1.0	135	.6
Total Private Education Loans in repayment	<u>19,795</u>	<u>100%</u>	<u>20,841</u>	<u>100%</u>	<u>21,006</u>	<u>100%</u>
Total Private Education Loans	20,998		22,168		22,380	
Private Education Loan allowance for losses	(980)		(1,089)		(1,091)	
Private Education Loans, net	<u>\$ 20,018</u>		<u>\$ 21,079</u>		<u>\$ 21,289</u>	
Percentage of Private Education Loans in repayment		<u>94.3%</u>		<u>94.0%</u>		<u>93.9%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>3.0%</u>		<u>2.6%</u>		<u>2.4%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>3.9%</u>		<u>3.9%</u>		<u>4.0%</u>
Percentage of Private Education Loans with a cosigner <sup>(4)</sup>		<u>36%</u>		<u>41%</u>		<u>42%</u>

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

## Allowance for Loan Losses

(Dollars in millions)	Three Months Ended September 30,					
	2021			2020		
	FFELP Loans	Private Education Loans	Total	FFELP Loans	Private Education Loans	Total
Allowance at beginning of period	\$ 277	\$ 976	\$ 1,253	\$ 302	\$ 1,098	\$ 1,400
Total provision	—	22	22	4	10	14
Charge-offs:						
Net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	—	(16)	(16)	—	(23)	(23)
Net charge-offs remaining <sup>(2)</sup>	(8)	(39)	(47)	(9)	(40)	(49)
Total charge-offs <sup>(2)</sup>	(8)	(55)	(63)	(9)	(63)	(72)
Decrease in expected future recoveries on charged-off loans <sup>(3)</sup>	—	37	37	—	46	46
Allowance at end of period	269	980	1,249	297	1,091	1,388
Plus: expected future recoveries on charged-off loans <sup>(3)</sup>	—	397	397	—	503	503
Allowance at end of period excluding expected future recoveries on charged-off loans <sup>(4)</sup>	\$ 269	\$ 1,377	\$ 1,646	\$ 297	\$ 1,594	\$ 1,891
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	.07%	.77%		.07%	.75%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment <sup>(1)</sup>	—%	.33%		—%	.44%	
Allowance coverage of charge-offs <sup>(4)</sup>	8.4	6.3		8.8	6.4	
Allowance as a percentage of the ending total loan balance <sup>(4)</sup>	.5%	6.6%		.5%	7.1%	
Allowance as a percentage of the ending loans in repayment <sup>(4)</sup>	.6%	7.0%		.6%	7.6%	
Ending total loans	\$ 54,619	\$ 20,998		\$ 59,856	\$ 22,380	
Average loans in repayment	\$ 45,201	\$ 19,894		\$ 47,597	\$ 20,884	
Ending loans in repayment	\$ 44,160	\$ 19,795		\$ 48,716	\$ 21,006	

- (1) In third-quarter 2020, the portion of the loan amount charged off at default on our Private Education Loans increased from 81% to 81.4% and in third-quarter 2021, it increased from 81.4% to 81.7%. These changes resulted in a \$16 million and \$23 million reduction to the balance of the expected future recoveries on charged-off loans in third-quarter 2021 and third-quarter 2020, respectively.
- (2) 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.
- (3) 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 September 30,	
	2021	2020
Receivable at beginning of period	\$ 434	\$ 549
Expected future recoveries of current period defaults	6	7
Recoveries	(22)	(28)
Charge-offs	(21)	(25)
Receivable at end of period	\$ 397	\$ 503
Change in balance during period	\$ (37)	\$ (46)

- (4) 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.

**Nine Months Ended September 30,**

	2021			2020		
	FFELP Loans	Private Education Loans	Total	FFELP Loans	Private Education Loans	Total
<b>(Dollars in millions)</b>						
Allowance at beginning of period	\$ 288	\$ 1,089	\$ 1,377	\$ 64	\$ 1,048	\$ 1,112
Transition adjustment made under CECL on January 1, 2020 <sup>(1)</sup>	—	—	—	260	(3)	257
Allowance at beginning of period after transition adjustment to CECL	288	1,089	1,377	324	1,045	1,369
Provision:						
Reversal of allowance related to loan sales <sup>(2)</sup>	—	(107)	(107)	—	—	—
Remaining provision	—	41	41	13	140	153
Total provision	—	(66)	(66)	13	140	153
Charge-offs:						
Net adjustment resulting from the change in the charge-off rate <sup>(3)</sup>	—	(16)	(16)	—	(23)	(23)
Net charge-offs remaining <sup>(4)</sup>	(19)	(109)	(128)	(40)	(156)	(196)
Total charge-offs <sup>(4)</sup>	(19)	(125)	(144)	(40)	(179)	(219)
Decrease in expected future recoveries on charged-off loans <sup>(5)</sup>	—	82	82	—	85	85
Allowance at end of period	269	980	1,249	297	1,091	1,388
Plus: expected future recoveries on charged-off loans <sup>(5)</sup>	—	397	397	—	503	503
Allowance at end of period excluding expected future recoveries on charged-off loans <sup>(6)</sup>	\$ 269	\$ 1,377	\$ 1,646	\$ 297	\$ 1,594	\$ 1,891
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate <sup>(3)</sup>	.06%	.72%		.11%	1.00%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment <sup>(3)</sup>	—%	.11%		—%	.15%	
Allowance coverage of charge-offs <sup>(6)</sup>	10.5	8.3		5.6	6.7	
Allowance as a percentage of the ending total loan balance <sup>(6)</sup>	.5%	6.6%		.5%	7.1%	
Allowance as a percentage of the ending loans in repayment <sup>(6)</sup>	.6%	7.0%		.6%	7.6%	
Ending total loans	\$ 54,619	\$ 20,998		\$ 59,856	\$ 22,380	
Average loans in repayment	\$ 48,191	\$ 20,145		\$ 48,065	\$ 20,739	
Ending loans in repayment	\$ 44,160	\$ 19,795		\$ 48,716	\$ 21,006	

(1) For a further discussion of our adoption of CECL, see "Note 2 – Significant Accounting Policies" in our 2020 Annual Report on Form 10-K.

(2) In connection with the sale of approximately \$1.6 billion of Private Education Loans in 2021.

(3) In third-quarter 2020, the portion of the loan amount charged off at default on our Private Education Loans increased from 81% to 81.4% and in third-quarter 2021 it increased from 81.4% to 81.7%. These changes resulted in a \$16 million and \$23 million reduction to the balance of the expected future recoveries on charged-off loans in third-quarter 2021 and third-quarter 2020, respectively.

(4) 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.

(5) 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.

	Nine Months Ended September 30,	
	2021	2020
<b>(Dollars in millions)</b>		
Receivable at beginning of period	\$ 479	\$ 588
Expected future recoveries of current period defaults	16	28
Recoveries	(69)	(84)
Charge-offs	(29)	(29)
Receivable at end of period	\$ 397	\$ 503
Change in balance during period	\$ (82)	\$ (85)

(6) 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.

## Liquidity and Capital Resources

### **Funding and Liquidity Risk Management**

The following "Liquidity and Capital Resources" discussion concentrates primarily on our Federal Education Loans and Consumer Lending segments. Our Business Processing and Other segments require minimal liquidity 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 our common stock. To achieve these objectives, we analyze and monitor our liquidity needs and maintain excess liquidity and access to 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 totaling \$7.4 billion at September 30, 2021. 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 \$0.9 billion of senior unsecured notes that mature in the short term (i.e., over the next 12 months) and the remaining \$6.5 billion of senior unsecured notes that mature in the long term (from 2023 to 2043 with 82% maturing by 2029), primarily through our current cash, investments and unencumbered FFELP Loan and Private Education Refinance Loan portfolios (see "Sources of Liquidity" below), the predictable operating cash flows provided by operating activities (\$534 million in the nine months ended September 30, 2021), 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 purchased 7.0 million shares of common stock for \$150 million in third-quarter 2021. We had \$150 million of remaining share repurchase authority as of September 30, 2021.

## Sources of Primary Liquidity

(Dollars in millions)	September 30, 2021	December 31, 2020	September 30, 2020
<b>Ending Balances:</b>			
Total unrestricted cash and liquid investments	\$ 1,050	\$ 1,183	\$ 1,775
Unencumbered FFELP Loans	106	208	332
Unencumbered Private Education Refinance Loans	520	274	415
<b>Total</b>	<b>\$ 1,676</b>	<b>\$ 1,665</b>	<b>\$ 2,522</b>

(Dollars in millions)	Three Months Ended			Nine Months Ended	
	September 30, 2021	December 31, 2020	September 30, 2020	September 30, 2021	September 30, 2020
<b>Average Balances:</b>					
Total unrestricted cash and liquid investments	\$ 1,047	\$ 1,365	\$ 1,601	\$ 1,166	\$ 1,356
Unencumbered FFELP Loans	296	387	329	297	297
Unencumbered Private Education Refinance Loans	566	572	640	668	585
<b>Total</b>	<b>\$ 1,909</b>	<b>\$ 2,324</b>	<b>\$ 2,570</b>	<b>\$ 2,131</b>	<b>\$ 2,238</b>

## Sources of Additional Liquidity

Liquidity may also be available under our secured credit facilities. Maximum borrowing capacity under the FFELP Loan and Private Education 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 loans. The following tables detail additional borrowing capacity of these facilities with maturity dates ranging from June 2022 to June 2023.

(Dollars in millions)	September 30, 2021	December 31, 2020	September 30, 2020
<b>Ending Balances</b>			
FFELP Loan ABCP facilities	\$ 184	\$ 506	\$ 122
Private Education Loan ABCP facilities	2,597	2,221	2,241
<b>Total</b>	<b>\$ 2,781</b>	<b>\$ 2,727</b>	<b>\$ 2,363</b>

(Dollars in millions)	Three Months Ended			Nine Months Ended	
	September 30, 2021	December 31, 2020	September 30, 2020	September 30, 2021	September 30, 2020
<b>Average Balances</b>					
FFELP Loan ABCP facilities	\$ 385	\$ 542	\$ 279	\$ 538	\$ 462
Private Education Loan ABCP facilities	2,143	2,138	2,177	2,328	1,401
<b>Total</b>	<b>\$ 2,528</b>	<b>\$ 2,680</b>	<b>\$ 2,456</b>	<b>\$ 2,866</b>	<b>\$ 1,863</b>

At September 30, 2021, we had a total of \$4.9 billion of unencumbered tangible assets inclusive of those listed in the table above as sources of primary liquidity. Total unencumbered education loans comprised \$2.3 billion principal of our unencumbered tangible assets of which \$2.2 billion and \$106 million related to Private Education Loans and FFELP Loans, respectively. In addition, as of September 30, 2021, we had \$5.5 billion of encumbered net assets (i.e., overcollateralization) in our various financing facilities (consolidated variable interest entities). Our secured financing facilities include Private Education Loan ABS Repurchase Facilities, which had \$0.6 billion outstanding as of September 30, 2021. 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.

The following table reconciles encumbered and unencumbered assets and their net impact on total Tangible Equity.

<b>(Dollars in billions)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Net assets of consolidated variable interest entities (encumbered assets) — FFELP Loans	\$ 3.8	3.9
Net assets of consolidated variable interest entities (encumbered assets) — Private Education Loans	1.7	2.1
Tangible unencumbered assets <sup>(1)</sup>	4.9	5.4
Senior unsecured debt	(7.4)	(8.4)
Mark-to-market on unsecured hedged debt <sup>(2)</sup>	(.5)	(.7)
Other liabilities, net	(.5)	(.6)
<b>Total Tangible Equity (1)</b>	<b>\$ 2.0</b>	<b>\$ 1.7</b>

(1) Item is a non-GAAP financial measure. For a description and reconciliation, see "Non-GAAP Financial Measures."

(2) At September 30, 2021 and December 31, 2020, there were \$406 million and \$634 million, respectively, of net gains (losses) on derivatives hedging this debt in unencumbered assets, which partially offset these gains (losses).

## Borrowings

### Ending Balances

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>			<b>December 31, 2020</b>		
	<b>Short Term</b>	<b>Long Term</b>	<b>Total</b>	<b>Short Term</b>	<b>Long Term</b>	<b>Total</b>
<b>Unsecured borrowings:</b>						
Senior unsecured debt	\$ 903	\$ 6,469	\$ 7,372	\$ 677	\$ 7,714	\$ 8,391
<b>Total unsecured borrowings</b>	<b>903</b>	<b>6,469</b>	<b>7,372</b>	<b>677</b>	<b>7,714</b>	<b>8,391</b>
<b>Secured borrowings:</b>						
FFELP Loan securitizations	—	52,299	52,299	—	54,697	54,697
Private Education Loan securitizations	573	14,094	14,667	960	13,891	14,851
FFELP Loan ABCP facilities	—	1,182	1,182	2,053	479	2,532
Private Education Loan ABCP facilities	1,002	1,208	2,210	2,582	—	2,582
Other	288	—	288	337	—	337
<b>Total secured borrowings</b>	<b>1,863</b>	<b>68,783</b>	<b>70,646</b>	<b>5,932</b>	<b>69,067</b>	<b>74,999</b>
Core Earnings basis borrowings <sup>(1)</sup>	2,766	75,252	78,018	6,609	76,781	83,390
Adjustment for GAAP accounting treatment	15	377	392	4	551	555
<b>GAAP basis borrowings</b>	<b>\$ 2,781</b>	<b>\$ 75,629</b>	<b>\$ 78,410</b>	<b>\$ 6,613</b>	<b>\$ 77,332</b>	<b>\$ 83,945</b>

### Average Balances

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>				<b>Nine Months Ended September 30,</b>			
	<b>2021</b>		<b>2020</b>		<b>2021</b>		<b>2020</b>	
	<b>Average Balance</b>	<b>Average Rate</b>	<b>Average Balance</b>	<b>Average Rate</b>	<b>Average Balance</b>	<b>Average Rate</b>	<b>Average Balance</b>	<b>Average Rate</b>
<b>Unsecured borrowings:</b>								
Senior unsecured debt	\$ 7,463	4.38%	\$ 9,489	4.62%	\$ 8,106	4.49%	\$ 9,597	5.19%
<b>Total unsecured borrowings</b>	<b>7,463</b>	<b>4.38</b>	<b>9,489</b>	<b>4.62</b>	<b>8,106</b>	<b>4.49</b>	<b>9,597</b>	<b>5.19</b>
<b>Secured borrowings:</b>								
FFELP Loan securitizations	53,281	1.24	56,259	1.34	54,108	1.26	57,525	1.89
Private Education Loan securitizations	14,007	2.34	14,500	2.69	14,167	2.46	14,034	3.00
FFELP Loan ABCP facilities	772	1.27	3,166	1.15	1,168	1.50	3,322	1.79
Private Education Loan ABCP facilities	2,704	1.64	2,745	2.39	2,451	1.89	3,369	2.68
Other	311	.38	348	.29	304	.33	348	.80
<b>Total secured borrowings</b>	<b>71,075</b>	<b>1.47</b>	<b>77,018</b>	<b>1.62</b>	<b>72,198</b>	<b>1.52</b>	<b>78,598</b>	<b>2.11</b>
Core Earnings basis borrowings <sup>(1)</sup>	78,538	1.75	86,507	1.95	80,304	1.82	88,195	2.45
Adjustment for GAAP accounting treatment	—	(.10)	—	—	—	(.16)	—	.06
<b>GAAP basis borrowings</b>	<b>\$ 78,538</b>	<b>1.65%</b>	<b>\$ 86,507</b>	<b>1.95%</b>	<b>\$ 80,304</b>	<b>1.66%</b>	<b>\$ 88,195</b>	<b>2.51%</b>

(1) Item is a non-GAAP financial measure. For a description and reconciliation, see "Non-GAAP Financial Measures." The differences in derivative accounting give rise to the difference above.



## 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 includes the allowance for loan losses, goodwill, and premium and discount amortization, can be found in our 2020 Form 10-K. There were no significant changes to these critical accounting policies during the nine months ended September 30, 2021.

## 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. We present the following non-GAAP financial measures: (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 certain Core Earnings disclosures 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.

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 September 30, 2021								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			Total GAAP
						Reclassifications	Additions/ (Subtractions)	Total Adjustments(1)	
<b>(Dollars in millions)</b>									
Interest income:									
Education loans	\$ 353	\$ 291	\$ —	\$ —	\$ 644	\$ 25	\$ (10)	\$ 15	\$ 659
Cash and investments	—	1	—	—	1	—	—	—	1
Total interest income	353	292	—	—	645	25	(10)	15	660
Total interest expense	202	129	—	15	346	(3)	(17)	(20)	326
Net interest income (loss)	151	163	—	(15)	299	28	7	35	334
Less: provisions for loan losses	—	22	—	—	22	—	—	—	22
Net interest income (loss) after provisions for loan losses	151	141	—	(15)	277	28	7	35	312
Other income (loss):									
Servicing revenue	47	—	—	—	47	—	—	—	47
Asset recovery and business processing revenue	13	—	122	—	135	—	—	—	135
Other income (loss)	1	—	—	2	3	(28)	23	(5)	(2)
Losses on debt repurchases	—	—	—	(20)	(20)	—	—	—	(20)
Total other income (loss)	61	—	122	(18)	165	(28)	23	(5)	160
Expenses:									
Direct operating expenses	53	45	87	—	185	—	—	—	185
Unallocated shared services expenses	—	—	—	63	63	—	—	—	63
Operating expenses	53	45	87	63	248	—	—	—	248
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	4	4	4
Restructuring/other reorganization expenses	—	—	—	—	—	—	—	—	—
Total expenses	53	45	87	63	248	—	4	4	252
Income (loss) before income tax expense (benefit)	159	96	35	(96)	194	—	26	26	220
Income tax expense (benefit)(2)	37	23	8	(23)	45	—	2	2	47
Net income (loss)	\$ 122	\$ 73	\$ 27	\$ (73)	\$ 149	\$ —	\$ 24	\$ 24	\$ 173

(1) Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2021		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
<b>(Dollars in millions)</b>			
Net interest income (loss) after provisions for loan losses	\$ 35	\$ —	\$ 35
Total other income (loss)	(5)	—	(5)
Goodwill and acquired intangible asset impairment and amortization	—	4	4
Total Core Earnings adjustments to GAAP	\$ 30	\$ (4)	26
Income tax expense (benefit)	—	—	2
Net income (loss)	—	—	\$ 24

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

Three Months Ended September 30, 2020

(Dollars in millions)						Adjustments				Total GAAP
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments(1)		
Interest income:										
Education loans	\$ 393	\$ 350	\$ —	\$ —	\$ 743	\$ 31	\$ (14)	\$ 17	\$ 760	
Cash and investments	—	—	—	1	1	—	—	—	1	
Total interest income	393	350	—	1	744	31	(14)	17	761	
Total interest expense	232	161	—	30	423	7	(5)	2	425	
Net interest income (loss)	161	189	—	(29)	321	24	(9)	15	336	
Less: provisions for loan losses	4	10	—	—	14	—	—	—	14	
Net interest income (loss) after provisions for loan losses	157	179	—	(29)	307	24	(9)	15	322	
Other income (loss):										
Servicing revenue	53	1	—	—	54	—	—	—	54	
Asset recovery and business processing revenue	35	—	90	—	125	—	—	—	125	
Other income (loss)	(1)	—	—	1	—	(24)	22	(2)	(2)	
Total other income (loss)	87	1	90	1	179	(24)	22	(2)	177	
Expenses:										
Direct operating expenses	64	37	69	—	170	—	—	—	170	
Unallocated shared services expenses	—	—	—	62	62	—	—	—	62	
Operating expenses	64	37	69	62	232	—	—	—	232	
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	5	5	5	
Restructuring/other reorganization expenses	—	—	—	3	3	—	—	—	3	
Total expenses	64	37	69	65	235	—	5	5	240	
Income (loss) before income tax expense (benefit)	180	143	21	(93)	251	—	8	8	259	
Income tax expense (benefit)(2)	43	33	5	(22)	59	—	(7)	(7)	52	
Net income (loss)	\$ 137	\$ 110	\$ 16	\$ (71)	\$ 192	\$ —	\$ 15	\$ 15	\$ 207	

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended September 30, 2020		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ 15	\$ —	\$ 15
Total other income (loss)	(2)	—	(2)
Goodwill and acquired intangible asset impairment and amortization	—	5	5
Total Core Earnings adjustments to GAAP	\$ 13	\$ (5)	8
Income tax expense (benefit)	—	—	(7)
Net income (loss)	—	—	\$ 15

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

Nine Months Ended September 30, 2021

(Dollars in millions)	Adjustments								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassi- fications	Additions/ (Subtractions)	Total Adjustments(1)	Total GAAP
Interest income:									
Education loans	\$ 1,062	\$ 905	\$ —	\$ —	\$ 1,967	\$ 73	\$ (29)	\$ 44	\$ 2,011
Cash and investments	—	1	—	1	2	—	—	—	2
Total interest income	1,062	906	—	1	1,969	73	(29)	44	2,013
Total interest expense	627	416	—	51	1,094	(6)	(93)	(99)	995
Net interest income (loss)	435	490	—	(50)	875	79	64	143	1,018
Less: provisions for loan losses	—	(66)	—	—	(66)	—	—	—	(66)
Net interest income (loss) after provisions for loan losses	435	556	—	(50)	941	79	64	143	1,084
Other income (loss):									
Servicing revenue	146	3	—	—	149	—	—	—	149
Asset recovery and business processing revenue	39	—	377	—	416	—	—	—	416
Other income (loss)	3	1	—	5	9	(66)	87	21	30
Gains on sales of loans	—	91	—	—	91	(13)	—	(13)	78
Losses on debt repurchases	—	—	—	(32)	(32)	—	—	—	(32)
Total other income (loss)	188	95	377	(27)	633	(79)	87	8	641
Expenses:									
Direct operating expenses	170	124	270	—	564	—	—	—	564
Unallocated shared services expenses	—	—	—	194	194	—	—	—	194
Operating expenses	170	124	270	194	758	—	—	—	758
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	14	14	14
Restructuring/other reorganization expenses	—	—	—	8	8	—	—	—	8
Total expenses	170	124	270	202	766	—	14	14	780
Income (loss) before income tax expense (benefit)	453	527	107	(279)	808	—	137	137	945
Income tax expense (benefit)(2)	107	123	25	(65)	190	—	27	27	217
Net income (loss)	\$ 346	\$ 404	\$ 82	\$ (214)	\$ 618	\$ —	\$ 110	\$ 110	\$ 728

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Nine Months Ended September 30, 2021		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ 143	\$ —	\$ 143
Total other income (loss)	8	—	8
Goodwill and acquired intangible asset impairment and amortization	—	14	14
Total Core Earnings adjustments to GAAP	\$ 151	\$ (14)	137
Income tax expense (benefit)	—	—	27
Net income (loss)	—	—	\$ 110

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

Nine Months Ended September 30, 2020

(Dollars in millions)						Adjustments			
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments(1)	Total GAAP
Interest income:									
Education loans	\$ 1,430	\$ 1,117	\$ —	\$ —	\$ 2,547	\$ 47	\$ (42)	\$ 5	\$ 2,552
Cash and investments	7	3	—	5	15	—	—	—	15
Total interest income	1,437	1,120	—	5	2,562	47	(42)	5	2,567
Total interest expense	974	545	—	96	1,615	39	4	43	1,658
Net interest income (loss)	463	575	—	(91)	947	8	(46)	(38)	909
Less: provisions for loan losses	13	140	—	—	153	—	—	—	153
Net interest income (loss) after provisions for loan losses	450	435	—	(91)	794	8	(46)	(38)	756
Other income (loss):									
Servicing revenue	158	5	—	—	163	—	—	—	163
Asset recovery and business processing revenue	126	—	211	—	337	—	—	—	337
Other income (loss)	8	—	—	9	17	(8)	(247)	(255)	(238)
Total other income (loss)	292	5	211	9	517	(8)	(247)	(255)	262
Expenses:									
Direct operating expenses	217	109	180	—	506	—	—	—	506
Unallocated shared services expenses	—	—	—	189	189	—	—	—	189
Operating expenses	217	109	180	189	695	—	—	—	695
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	16	16	16
Restructuring/other reorganization expenses	—	—	—	9	9	—	—	—	9
Total expenses	217	109	180	198	704	—	16	16	720
Income (loss) before income tax expense (benefit)	525	331	31	(280)	607	—	(309)	(309)	298
Income tax expense (benefit)(2)	124	78	7	(66)	143	—	(72)	(72)	71
Net income (loss)	\$ 401	\$ 253	\$ 24	\$ (214)	\$ 464	\$ —	\$ (237)	\$ (237)	\$ 227

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Nine Months Ended September 30, 2020		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ (38)	\$ —	\$ (38)
Total other income (loss)	(255)	—	(255)
Goodwill and acquired intangible asset impairment and amortization	—	16	16
Total Core Earnings adjustments to GAAP	\$ (293)	\$ (16)	(309)
Income tax expense (benefit)	—	—	(72)
Net income (loss)	—	—	\$ (237)

(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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Core Earnings net income</b>	\$ 149	\$ 192	\$ 618	\$ 464
Core Earnings adjustments to GAAP:				
Net impact of derivative accounting	30	13	151	(293)
Net impact of goodwill and acquired intangible assets	(4)	(5)	(14)	(16)
Net income tax effect	(2)	7	(27)	72
Total Core Earnings adjustments to GAAP	24	15	110	(237)
<b>GAAP net income</b>	<u>\$ 173</u>	<u>\$ 207</u>	<u>\$ 728</u>	<u>\$ 227</u>

(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. 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 originally 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, basis swaps and at times, certain other LIBOR swaps do not qualify for hedge accounting treatment and the stand-alone derivative is 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.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Core Earnings derivative adjustments:</b>				
Gains (losses) on derivative and hedging activities, net, included in other income	\$ (5)	\$ (2)	\$ 21	\$ (255)
Plus: Gains (losses) on fair value hedging activity included in interest expense	10	(3)	71	(18)
Total gains(losses)	5	(5)	92	(273)
Plus: Reclassification of settlement expense (income) on derivative and hedging activities, net(1)	28	24	66	8
Mark-to-market gains (losses) on derivative and hedging activities, net(2)	33	19	158	(265)
Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings	(10)	(14)	(30)	(42)
Other derivative accounting adjustments(3)	7	8	23	14
Total net impact of derivative accounting	\$ 30	\$ 13	\$ 151	\$ (293)

(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.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Reclassification of settlements on derivative and hedging activities:</b>				
Net settlement expense on Floor Income Contracts reclassified to net interest income	\$ (25)	\$ (31)	\$ (73)	\$ (47)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	(3)	7	(6)	39
Net realized gains (losses) on terminated derivative contracts reclassified to other income	—	—	13	—
Total reclassifications of settlements on derivative and hedging activities	\$ (28)	\$ (24)	\$ (66)	\$ (8)

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

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Floor Income Contracts	\$ 23	\$ 32	\$ 81	\$ (157)
Basis swaps	1	(10)	5	2
Foreign currency hedges	3	(8)	48	7
Other	6	5	24	(117)
Total mark-to-market gains (losses) on derivative and hedging activities, net	\$ 33	\$ 19	\$ 158	\$ (265)

(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 September 30, 2021, derivative accounting has decreased GAAP equity by approximately \$417 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.

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Beginning impact of derivative accounting on GAAP equity	\$ (459)	\$ (692)	\$ (616)	\$ (235)
Net impact of net mark-to-market gains (losses) under derivative accounting <sup>(1)</sup>	42	35	199	(422)
Ending impact of derivative accounting on GAAP equity	<u>\$ (417)</u>	<u>\$ (657)</u>	<u>\$ (417)</u>	<u>\$ (657)</u>

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

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Total pre-tax net impact of derivative accounting recognized in net income <sup>(2)</sup>	\$ 30	\$ 13	\$ 151	\$ (293)
Tax and other impacts of derivative accounting adjustments	(8)	(1)	(37)	74
Change in mark-to-market gains (losses) on derivatives, net of tax recognized in other comprehensive income	20	23	85	(203)
Net impact of net mark-to-market gains (losses) under derivative accounting	<u>\$ 42</u>	<u>\$ 35</u>	<u>\$ 199</u>	<u>\$ (422)</u>

<sup>(2)</sup> 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 period-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods. As of September 30, 2021, the remaining term of the Floor Income Contracts was approximately 2 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, 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 September 30, 2021, the remaining term of these pay-fixed interest rate swaps was 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

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Unamortized net Floor premiums, net of tax	\$ 18	\$ 47
Unrecognized hedged Floor Income related to pay-fixed interest rate swaps, net of tax	273	366
<b>Total hedged Floor Income, net of tax<sup>(1)(2)</sup></b>	<b>\$ 291</b>	<b>\$ 413</b>

(1) \$380 million and \$540 million on a pre-tax basis as of September 30, 2021 and September 30, 2020, respectively.

(2) Of the \$291 million as of September 30, 2021, approximately \$41 million, \$118 million and \$89 million will be recognized as part of Core Earnings net income in the remainder of 2021, 2022 and 2023, respectively.

**(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.

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Core Earnings goodwill and acquired intangible asset adjustments	\$ (4)	\$ (5)	\$ (14)	\$ (16)

### Adjusted Core Earnings

Adjusted Core Earnings net income and adjusted Core Earnings operating expenses exclude restructuring and regulatory-related expenses. Management excludes these expenses as it is one of the measures we review internally when making management decisions regarding our performance and how we allocate resources, as this presentation is a useful basis for management and investors to further analyze Core Earnings. We also refer to this information in our presentations with credit rating agencies, lenders and investors.

The following table summarizes these expenses which are excluded:

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Restructuring/other reorganization expenses	\$ —	\$ 3	\$ 8	\$ 9
Regulatory-related expenses <sup>(1)</sup>	6	8	22	13
<b>Total</b>	<b>\$ 6</b>	<b>\$ 11</b>	<b>\$ 30</b>	<b>\$ 22</b>

(1) Net of \$10 million of insurance reimbursements for costs related to such matters for the nine months ended September 30, 2020.

## 2. Adjusted Tangible Equity Ratio

Adjusted Tangible Equity Ratio 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:

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Navient Corporation's stockholders' equity	\$ 2,723	\$ 2,254
Less: Goodwill and acquired intangible assets	721	741
Tangible Equity	2,002	1,513
Less: Equity held for FFELP Loans	272	298
Adjusted Tangible Equity	<u>\$ 1,730</u>	<u>\$ 1,215</u>
Divided by:		
Total assets	\$ 81,939	\$ 89,664
Less:		
Goodwill and acquired intangible assets	721	741
FFELP Loans	54,350	59,559
Adjusted tangible assets	<u>\$ 26,868</u>	<u>\$ 29,364</u>
Adjusted Tangible Equity Ratio <sup>(1)</sup>	<u>6.4%</u>	<u>4.1%</u>

<sup>(1)</sup> The following provides a pro forma of what the Adjusted Tangible Equity Ratio would be if the cumulative net mark-to-market losses related to derivative accounting under GAAP were excluded. These cumulative losses reverse to \$0 upon the maturity of the individual derivative instruments. As these losses are temporary, we believe this pro forma presentation is a useful basis for management and investors to further analyze the Adjusted Tangible Equity Ratio.

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Adjusted Tangible Equity (from above table)	\$ 1,730	\$ 1,215
Plus: ending impact of derivative accounting on GAAP equity	417	657
Pro forma Adjusted Tangible Equity	<u>\$ 2,147</u>	<u>\$ 1,872</u>
Divided by: adjusted tangible assets (from above table)	\$ 26,868	\$ 29,364
Pro forma Adjusted Tangible Equity Ratio	<u>8.0%</u>	<u>6.4%</u>

## 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:

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Core Earnings pre-tax income	\$ 35	\$ 21	\$ 107	\$ 31
Plus:				
Depreciation and amortization expense <sup>(1)</sup>	3	2	6	4
EBITDA	<u>\$ 38</u>	<u>\$ 23</u>	<u>\$ 113</u>	<u>\$ 35</u>
Divided by:				
Total revenue	\$ 122	\$ 90	\$ 377	\$ 211
EBITDA margin	<u>30%</u>	<u>25%</u>	<u>30%</u>	<u>17%</u>

<sup>(1)</sup> There is no interest expense in this segment.

## Legal Proceedings

For a discussion of legal matters as of September 30, 2021, please refer to “Note 9 – Commitments and Contingencies” to our consolidated financial statements included in this report, which is incorporated into this item by reference.

## Risk Factors

The risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and amendments we made to these risk factors for the quarter ended March 31, 2021 which were included in our Form 10-Q for such period (the “Risk Factors”) should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2021. 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 primarily to reflect the impact of recent changes in ED policy pertaining to the Public Service Loan Forgiveness (PSLF) Program. Except for such additional information, we believe there have been no material changes from the Risk Factors previously disclosed.

***Higher or lower than expected prepayments of loans could change the expected net interest income we receive as the holder of the Residual Interests of securitization trusts holding education loans or cause the bonds issued by a securitization trust to be paid at a different speed than originally anticipated. These factors could materially alter our net interest margin or the value of our Residual Interests.***

The rate at which borrowers prepay their loans can have a material impact on our net interest margin and the value of our Residual Interests. Prepayment rates and levels are subject to a variety of economic, competitive and other factors, including changes in interest rates, availability of alternative financings, legislative and regulatory changes affecting the education loan market and the general economy. FFELP Loans and Private Education Loans may be voluntarily prepaid without penalty by the borrower, refinanced or consolidated with the borrower’s other loans through refinancing.

FFELP Loans may also be repaid after default by the Guarantors of FFELP Loans. Conversely, borrowers might not choose to prepay their education loans, or the terms of the education loans may be extended as a result of grace periods, deferment periods, income-driven repayment plans or other repayment terms or monthly payment amount modifications agreed to by the servicer, for example. FFELP Loan borrowers may be eligible for various existing income-based repayment programs under which borrowers can qualify for reduced or zero monthly payment or even debt forgiveness after a certain number of years of repayment.

Future initiatives by ED, or by Congress or future laws, executive orders or other policy statements to encourage or force consolidation, abolish existing or create additional income-based repayment or debt forgiveness programs or establish other policies and programs could affect prepayments on education loans. For example, recently, the Department of Education announced a set of policy changes as well as releasing proposed negotiated rulemaking proposals relating to the Public Service Loan Forgiveness program under its Direct Loan program, which may result in an increase in consolidations of FFELP loans into Direct Loans held by ED (which results in the loan no longer being on our balance sheet). While implementation of the policy changes and final new regulations are unknown at this time, individually or collectively, they may cause higher than anticipated prepayment rates on our portfolio of loans. Prepayment rates can also be impacted by student loan refinancing. Refinance products offered by us and our competitors may increase the repayment rate on our FFELP Loans and Private Education Loans.

While we anticipate some variability in prepayment levels, extraordinary or extended increases or decreases in prepayment rates could materially affect our liquidity, interest income, net interest margin and the value of our Residual Interests. Additionally, a prolonged introduction of significant amounts of subsidized funding into the Private Education Loan market at below market interest rates — whether from federal or private sources — could increase the prepayment rates of our existing Private Education Loans and have a material adverse effect on our business, results of operations and cash flows. When, as a result of unanticipated prepayment levels, education loans within a securitization trust amortize faster than originally contracted, the trust’s pool balance may decline at a rate faster than the prepayment rate assumed when the trust’s bonds were originally issued. If the trust’s pool balance declines faster than originally anticipated, in most of our securitization structures, the bonds issued by that trust will also be repaid faster than originally anticipated. In such cases, our net interest income may decrease and the value of any retained Residual Interest in the trust may similarly decline.

Conversely, when education loans within a securitization trust amortize more slowly than originally contracted, the trust’s pool balance may decline more slowly than the prepayment rate assumed when the trust’s bonds were originally issued, and the bonds may be repaid more slowly than originally anticipated. In these cases, our net interest income increases and the value of any retained Residual Interest in the trust may increase. In addition, if the prepayment rate is especially slow and certain rights of the sellers or the servicer are not exercised or are insufficient or other action is not taken to counter the slower prepayment rate, the trust’s bonds may not be repaid by their legal final maturity date(s), which could result in an event of default under the underlying securitization agreements.

Finally, rating agencies may place bonds on watch or change their ratings on (or their ratings methodology for) the bonds issued by a securitization trust, possibly raising or lowering their ratings, based upon these prepayment rates and their perception of the risk posed by those rates to the timing of the trust cash flows. Placing bonds on watch, changing ratings negatively, proposing or making changes to ratings methodology could: (i) affect our liquidity; (ii) impede our access to the securitization markets; (iii) require changes to our securitization structures; or (iv) impact our net interest.

## 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 September 30, 2021 and 2020, 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. There is the possibility that the Federal Reserve may use negative interest rates if economic conditions warrant which could potentially affect the success of our asset and liability management activities and negatively affect our financial condition and results of operations.

	As of September 30, 2021		As of September 30, 2020	
	Impact on Annual Earnings If:		Impact on Annual Earnings If:	
	Interest Rates		Interest Rates	
	Increase 100 Basis Points	Decrease 100 Basis Points	Increase 100 Basis Points	Decrease 100 Basis Points
<b>(Dollars in millions, except per share amounts)</b>				
<b>Effect on Earnings:</b>				
Change in pre-tax net income before mark-to-market gains (losses) on derivative and hedging activities <sup>(1)</sup>	\$ (31)	\$ 10	\$ (56)	\$ 14
Mark-to-market gains (losses) on derivative and hedging activities	92	(120)	127	(180)
Increase (decrease) in income before taxes	\$ 61	\$ (110)	\$ 71	\$ (166)
Increase (decrease) in net income after taxes	\$ 47	\$ (85)	\$ 55	\$ (128)
Increase (decrease) in diluted earnings per common share	\$ .29	\$ (.52)	\$ .29	\$ (.67)

<sup>(1)</sup> 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).

At September 30, 2021					
(Dollars in millions)	Fair Value	Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Decrease of 100 Basis Points	
		\$	%	\$	%
<b>Effect on Fair Values:</b>					
<b>Assets</b>					
Education Loans	\$ 76,983	\$ (355)	—	\$ 548	1%
Other earning assets	3,606	—	—	—	—
Other assets	3,965	(169)	(4)	245	6
Total assets gain/(loss)	<u>\$ 84,554</u>	<u>\$ (524)</u>	<u>(1)%</u>	<u>\$ 793</u>	<u>1%</u>
<b>Liabilities</b>					
Interest-bearing liabilities	\$ 78,855	\$ (337)	—%	\$ 365	—%
Other liabilities	795	(138)	(17)	231	29
Total liabilities (gain)/loss	<u>\$ 79,650</u>	<u>\$ (475)</u>	<u>(1)%</u>	<u>\$ 596</u>	<u>1%</u>

At December 31, 2020					
(Dollars in millions)	Fair Value	Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Decrease of 100 Basis Points	
		\$	%	\$	%
<b>Effect on Fair Values:</b>					
<b>Assets</b>					
Education Loans	\$ 81,579	\$ (419)	(1)%	\$ 669	1%
Other earning assets	3,822	—	—	—	—
Other assets	4,227	(248)	(6)	300	7
Total assets gain/(loss)	<u>\$ 89,628</u>	<u>\$ (667)</u>	<u>(1)%</u>	<u>\$ 969</u>	<u>1%</u>
<b>Liabilities</b>					
Interest-bearing liabilities	\$ 83,345	\$ (373)	—%	\$ 406	—%
Other liabilities	1,020	(274)	(27)	358	35
Total liabilities (gain)/loss	<u>\$ 84,365</u>	<u>\$ (647)</u>	<u>(1)%</u>	<u>\$ 764</u>	<u>1%</u>

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 although we can have a mismatch at times. In addition, 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 2021 and 2020, 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 FFELP 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 variable rate assets being funded with fixed rate liabilities. Item (i) will generally cause income to decrease when interest rates increase and income to increase when interest rates decrease. Item (ii) has the opposite effect. The increase and decrease in income in both periods when interest rates increase and decrease 100 basis points is due primarily to item (i) above. The relative changes in the impacts between 2021 and 2020 related to an increase in interest rates is primarily a result of item (ii) having a larger partially offsetting impact in 2021 compared to 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 2021 and 2020 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 2021 and 2020 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) where interest rates increase and decrease

100 basis points are lower in 2021 than 2020 primarily as a result of a decline in the notional amount of derivatives outstanding in connection with the decrease in the education loan portfolio over that time 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 certain economic environments, 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 September 30, 2021. 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	\$ 2.7	\$ —	\$ 2.7
3-month Treasury bill	annual	.2	—	.2
Prime	annual	.2	—	.2
Prime	quarterly	1.6	—	1.6
Prime	monthly	5.6	—	5.6
3-month LIBOR	quarterly	.3	24.3	(24.0)
3-month LIBOR(2)	monthly	—	.6	(.6)
3-month LIBOR(2)	daily	—	.1	(.1)
1-month LIBOR	monthly	3.7	31.3	(27.6)
1-month LIBOR	daily	51.4	—	51.4
Non-Discrete reset(2)(3)	monthly	—	3.8	(3.8)
Non-Discrete reset(4)	daily/weekly	3.6	.2	3.4
Fixed Rate(5)		12.6	21.6	(9.0)
Total		<u>\$ 81.9</u>	<u>\$ 81.9</u>	<u>\$ —</u>

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

(2) Funding includes loan repurchase facilities.

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

(4) 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.

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

Core Earnings Basis:

Index (Dollars in billions)	Frequency of Variable Resets	Funding		
		Assets	Funding <sup>(1)</sup>	Funding Gap
3-month Treasury bill	weekly	\$ 2.7	\$ —	\$ 2.7
3-month Treasury bill	annual	.2	—	.2
Prime	annual	.2	—	.2
Prime	quarterly	1.6	—	1.6
Prime	monthly	5.6	—	5.6
3-month LIBOR	quarterly	.3	5.6	(5.3)
3-month LIBOR <sup>(2)</sup>	monthly	—	.6	(.6)
3-month LIBOR <sup>(2)</sup>	daily	—	.1	(.1)
1-month LIBOR	monthly	3.7	49.4	(45.7)
1-month LIBOR	daily	51.4	—	51.4
Non-Discrete reset <sup>(2)(3)</sup>	monthly	—	3.8	(3.8)
Non-Discrete reset <sup>(4)</sup>	daily/weekly	3.6	.2	3.4
Fixed Rate <sup>(5)</sup>		12.4	22.0	(9.6)
Total		\$ 81.7	\$ 81.7	\$ —

(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 includes loan repurchase facilities.

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

(4) 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.

(5) 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. Interest earned on our FFELP Loans is primarily indexed to daily one-month LIBOR and our cost of funds is primarily indexed to rates other than daily one-month LIBOR. A source of variability in FFELP net interest income could also be Floor Income we earn on certain FFELP Loans. Pursuant to the terms of the FFELP, certain FFELP Loans can earn interest at the stated fixed rate of interest as underlying debt interest rate expense remains variable. We refer to this additional spread income as "Floor Income." Floor Income can be volatile since it is dependent on interest rate levels. We frequently hedge this volatility with derivatives which lock in the value of the Floor Income over the term of the contract. Interest earned on our Private Education Refinance Loans is generally fixed rate with the related cost of funds generally fixed rate as well. Interest earned on the remaining Private Education Loans is generally indexed to either one-month Prime or LIBOR rates and our cost of funds is primarily indexed to one-month or three-month LIBOR. 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.



## Unregistered Sales of Equity Securities and Use of Proceeds

### Share Repurchases

The following table provides information relating to our purchases of shares of our common stock in the three months ended September 30, 2021.

<i>(In millions, except per share data)</i>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs<sup>(2)</sup></b>
<b>Period:</b>				
July 1 — July 31, 2021	2.5	\$ 19.92	2.5	\$ 251
August 1 — August 31, 2021	2.5	21.81	2.3	\$ 200
September 1 — September 30, 2021	2.2	22.66	2.2	\$ 150
Total third-quarter 2021	<u>7.2</u>	<u>\$ 21.42</u>	<u>7.0</u>	

(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) Our board of directors approved a \$1 billion multi-year share repurchase program in October 2019.

## 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 September 30, 2021. Based on this evaluation, our Principal Executive and Principal Financial Officers concluded that, as of September 30, 2021, 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 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 September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Exhibits

31.1*	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
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).

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† Management Contract or Compensatory Plan or Arrangement

\* Filed herewith

\*\* Furnished herewith

**NAVIENT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except per share amounts)  
(Unaudited)

	September 30, 2021	December 31, 2020
<b>Assets</b>		
FFELP Loans (net of allowance for losses of \$269 and \$288, respectively)	\$ 54,350	\$ 58,284
Private Education Loans (net of allowance for losses of \$980 and \$1,089, respectively)	20,018	21,079
Investments		
Held-to-maturity	80	15
Other	215	270
Total investments	295	285
Cash and cash equivalents	1,050	1,183
Restricted cash and cash equivalents	2,261	2,354
Goodwill and acquired intangible assets, net	721	735
Other assets	3,244	3,492
Total assets	<u>\$ 81,939</u>	<u>\$ 87,412</u>
<b>Liabilities</b>		
Short-term borrowings	\$ 2,781	\$ 6,613
Long-term borrowings	75,629	77,332
Other liabilities	795	1,020
Total liabilities	<u>79,205</u>	<u>84,965</u>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Common stock, par value \$0.01 per share, 1.125 billion shares authorized: 459 million and 454 million shares issued, respectively	4	4
Additional paid-in capital	3,277	3,226
Accumulated other comprehensive loss (net of tax benefit of \$63 and \$90, respectively)	(189)	(274)
Retained earnings	3,975	3,331
Total Navient Corporation stockholders' equity before treasury stock	7,067	6,287
Less: Common stock held in treasury at cost: 297 million and 267 million shares, respectively	(4,344)	(3,854)
Total Navient Corporation stockholders' equity	2,723	2,433
Noncontrolling interest	11	14
Total equity	2,734	2,447
Total liabilities and equity	<u>\$ 81,939</u>	<u>\$ 87,412</u>

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

	September 30, 2021	December 31, 2020
FFELP Loans	\$ 54,232	\$ 58,068
Private Education Loans	17,767	18,658
Restricted cash	2,223	2,322
Other assets, net	1,549	1,420
Short-term borrowings	1,575	5,595
Long-term borrowings	68,707	68,900
Net assets of consolidated variable interest entities	<u>\$ 5,489</u>	<u>\$ 5,973</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Interest income:</b>				
FFELP Loans	\$ 368	\$ 410	\$ 1,106	\$ 1,435
Private Education Loans	291	350	905	1,117
Cash and investments	1	1	2	15
Total interest income	660	761	2,013	2,567
Total interest expense	326	425	995	1,658
Net interest income	334	336	1,018	909
Less: provisions for loan losses	22	14	(66)	153
Net interest income after provisions for loan losses	312	322	1,084	756
<b>Other income (loss):</b>				
Servicing revenue	47	54	149	163
Asset recovery and business processing revenue	135	125	416	337
Other income (loss)	3	—	9	17
Gains on sales of loans	—	—	78	—
Losses on debt repurchases	(20)	—	(32)	—
Gains (losses) on derivative and hedging activities, net	(5)	(2)	21	(255)
Total other income (loss)	160	177	641	262
<b>Expenses:</b>				
Salaries and benefits	141	121	433	362
Other operating expenses	107	111	325	333
Total operating expenses	248	232	758	695
Goodwill and acquired intangible asset impairment and amortization expense	4	5	14	16
Restructuring/other reorganization expenses	—	3	8	9
Total expenses	252	240	780	720
Income before income tax expense	220	259	945	298
Income tax expense	47	52	217	71
<b>Net income</b>	<u>\$ 173</u>	<u>\$ 207</u>	<u>\$ 728</u>	<u>\$ 227</u>
<b>Basic earnings per common share</b>	<u>\$ 1.05</u>	<u>\$ 1.08</u>	<u>\$ 4.20</u>	<u>\$ 1.16</u>
Average common shares outstanding	<u>165</u>	<u>193</u>	<u>174</u>	<u>195</u>
<b>Diluted earnings per common share</b>	<u>\$ 1.04</u>	<u>\$ 1.07</u>	<u>\$ 4.15</u>	<u>\$ 1.15</u>
Average common and common equivalent shares outstanding	<u>167</u>	<u>194</u>	<u>176</u>	<u>197</u>
Dividends per common share	<u>\$ .16</u>	<u>\$ .16</u>	<u>\$ .48</u>	<u>\$ .48</u>

See accompanying notes to consolidated financial statements.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income	\$ 173	\$ 207	\$ 728	\$ 227
Net changes in cash flow hedges, net of taxes <sup>(1)</sup>	20	23	85	(203)
<b>Total comprehensive income (loss)</b>	<b>\$ 193</b>	<b>\$ 230</b>	<b>\$ 813</b>	<b>\$ 24</b>

<sup>(1)</sup> See "Note 4 – Derivative Financial Instruments."

See accompanying notes to consolidated financial statements.

**NAVIENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(In millions, except share and per share amounts)  
(Unaudited)

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
<b>Balance at June 30, 2020</b>	453,457,122	(259,538,478)	193,918,644	\$ 4	\$ 3,215	\$ (317)	\$ 2,999	\$ (3,786)	\$ 2,115	\$ 11	\$ 2,126
Comprehensive income (loss):											
Net income	—	—	—	—	—	—	207	—	207	—	207
Other comprehensive income (loss), net of tax	—	—	—	—	—	23	—	—	23	—	23
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	230	—	230
Cash dividends:											
Common stock (\$.16 per share)	—	—	—	—	—	—	(31)	—	(31)	—	(31)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	—	—	—	—	—
Issuance of common shares	30,968	—	30,968	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	5	—	—	—	5	—	5
Common stock repurchased	—	(7,652,700)	(7,652,700)	—	—	—	—	(65)	(65)	—	(65)
Shares repurchased related to employee stock-based compensation plans	—	(16,833)	(16,833)	—	—	—	—	—	—	—	—
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—
<b>Balance at September 30, 2020</b>	<u>453,488,090</u>	<u>(267,208,011)</u>	<u>186,280,079</u>	<u>\$ 4</u>	<u>\$ 3,220</u>	<u>\$ (294)</u>	<u>\$ 3,175</u>	<u>\$ (3,851)</u>	<u>\$ 2,254</u>	<u>\$ 11</u>	<u>\$ 2,265</u>
<b>Balance at June 30, 2021</b>	458,044,687	(290,204,499)	167,840,188	\$ 4	\$ 3,268	\$ (209)	\$ 3,828	\$ (4,190)	\$ 2,701	\$ 11	\$ 2,712
Comprehensive income (loss):											
Net income	—	—	—	—	—	—	173	—	173	—	173
Other comprehensive income (loss), net of tax	—	—	—	—	—	20	—	—	20	—	20
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	193	—	193
Cash dividends:											
Common stock (\$.16 per share)	—	—	—	—	—	—	(26)	—	(26)	—	(26)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	—	—	—	—	—
Issuance of common shares	552,194	—	552,194	—	5	—	—	—	5	—	5
Stock-based compensation expense	—	—	—	—	4	—	—	—	4	—	4
Common stock repurchased	—	(7,002,852)	(7,002,852)	—	—	—	—	(150)	(150)	—	(150)
Shares repurchased related to employee stock-based compensation plans	—	(217,158)	(217,158)	—	—	—	—	(4)	(4)	—	(4)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—
<b>Balance at September 30, 2021</b>	<u>458,596,881</u>	<u>(297,424,509)</u>	<u>161,172,372</u>	<u>\$ 4</u>	<u>\$ 3,277</u>	<u>\$ (189)</u>	<u>\$ 3,975</u>	<u>\$ (4,344)</u>	<u>\$ 2,723</u>	<u>\$ 11</u>	<u>\$ 2,734</u>

See accompanying notes to consolidated financial statements.

**NAVIENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(In millions, except share and per share amounts)  
(Unaudited)

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
<b>Balance at December 31, 2019</b>	451,094,879	(235,658,196)	215,436,683	\$ 4	\$ 3,198	\$ (91)	\$ 3,664	\$ (3,439)	\$ 3,336	\$ 13	\$ 3,349
Cumulative adjustment for the adoption of ASU No. 2016-13	—	—	—	—	—	—	(620)	—	(620)	—	(620)
Comprehensive income (loss):											
Net income	—	—	—	—	—	—	227	—	227	—	227
Other comprehensive income (loss), net of tax	—	—	—	—	—	(203)	—	—	(203)	—	(203)
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	24	—	24
Cash dividends:											
Common stock (\$.48 per share)	—	—	—	—	—	—	(93)	—	(93)	—	(93)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(3)	—	(3)	—	(3)
Issuance of common shares	2,393,211	—	2,393,211	—	7	—	—	—	7	—	7
Stock-based compensation expense	—	—	—	—	15	—	—	—	15	—	15
Common stock repurchased	—	(30,628,580)	(30,628,580)	—	—	—	—	(400)	(400)	—	(400)
Shares repurchased related to employee stock-based compensation plans	—	(921,235)	(921,235)	—	—	—	—	(12)	(12)	—	(12)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	(2)	(2)
<b>Balance at September 30, 2020</b>	<u>453,488,090</u>	<u>(267,208,011)</u>	<u>186,280,079</u>	<u>\$ 4</u>	<u>\$ 3,220</u>	<u>\$ (294)</u>	<u>\$ 3,175</u>	<u>\$ (3,851)</u>	<u>\$ 2,254</u>	<u>\$ 11</u>	<u>\$ 2,265</u>
<b>Balance at December 31, 2020</b>	453,778,975	(267,476,521)	186,302,454	\$ 4	\$ 3,226	\$ (274)	\$ 3,331	\$ (3,854)	\$ 2,433	\$ 14	\$ 2,447
Comprehensive income (loss):											
Net income	—	—	—	—	—	—	728	—	728	—	728
Other comprehensive income (loss), net of tax	—	—	—	—	—	85	—	—	85	—	85
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	813	—	813
Cash dividends:											
Common stock (\$.48 per share)	—	—	—	—	—	—	(82)	—	(82)	—	(82)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	4,817,906	—	4,817,906	—	34	—	—	—	34	—	34
Stock-based compensation expense	—	—	—	—	17	—	—	—	17	—	17
Common stock repurchased	—	(26,935,592)	(26,935,592)	—	—	—	—	(450)	(450)	—	(450)
Shares repurchased related to employee stock-based compensation plans	—	(3,012,396)	(3,012,396)	—	—	—	—	(40)	(40)	—	(40)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	(3)	(3)
<b>Balance at September 30, 2021</b>	<u>458,596,881</u>	<u>(297,424,509)</u>	<u>161,172,372</u>	<u>\$ 4</u>	<u>\$ 3,277</u>	<u>\$ (189)</u>	<u>\$ 3,975</u>	<u>\$ (4,344)</u>	<u>\$ 2,723</u>	<u>\$ 11</u>	<u>\$ 2,734</u>

See accompanying notes to consolidated financial statements.

**NAVIENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Net income	\$ 728	\$ 227
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gains) on sales of education loans	(78)	—
Losses on debt repurchases	32	—
Goodwill and acquired intangible asset impairment and amortization expense	14	16
Stock-based compensation expense	18	15
Mark-to-market (gains) losses on derivative and hedging activities, net	(295)	412
Provisions for loan losses	(66)	153
Decrease in accrued interest receivable	88	16
(Decrease) in accrued interest payable	(78)	(135)
Decrease in other assets	92	152
Increase (decrease) in other liabilities	79	(40)
Total adjustments	(194)	589
Total net cash provided by operating activities	<u>534</u>	<u>816</u>
<b>Investing activities</b>		
Education loans acquired and originated	(4,708)	(3,473)
Proceeds from payments on education loans	8,190	8,519
Proceeds from sales of education loans	1,588	—
Other investing activities, net	43	(128)
Total net cash provided by investing activities	<u>5,113</u>	<u>4,918</u>
<b>Financing activities</b>		
Borrowings collateralized by loans in trust - issued	5,992	5,606
Borrowings collateralized by loans in trust - repaid	(8,644)	(8,885)
Asset-backed commercial paper conduits, net	(1,723)	(1,248)
Long-term unsecured notes issued	495	682
Long-term unsecured notes repaid	(1,558)	(722)
Other financing activities, net	97	(241)
Common stock repurchased	(450)	(400)
Common dividends paid	(82)	(93)
Total net cash used in financing activities	<u>(5,873)</u>	<u>(5,301)</u>
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(226)	433
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	3,537	3,781
<b>Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period</b>	<u>\$ 3,311</u>	<u>\$ 4,214</u>
Cash disbursements made (refunds received) for:		
Interest	\$ 1,050	\$ 1,664
Income taxes paid	\$ 144	\$ 25
Income taxes received	\$ (9)	\$ —
<b>Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:</b>		
Cash and cash equivalents	\$ 1,050	\$ 1,775
Restricted cash and restricted cash equivalents	2,261	2,439
Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	<u>\$ 3,311</u>	<u>\$ 4,214</u>
<b>Supplemental cash flow information:</b>		
Noncash activity:		
Investing activity - Held-to-maturity asset backed securities retained related to sales of education loans	\$ 83	\$ —
Operating activity - Servicing assets recognized upon sales of education loans	\$ 21	\$ —

See accompanying notes to consolidated financial statements.



**NAVIENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Information at September 30, 2021 and for the three and nine months ended**  
**September 30, 2021 and 2020 is unaudited)**

**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 and nine months ended September 30, 2021 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, 2020 (the 2020 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 2020 Form 10-K.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

2. Allowance for Loan Losses

Allowance for Loan Losses Metrics

(Dollars in millions)	Three Months Ended September 30, 2021		
	FFELP Loans	Private Education Loans	Total
Beginning balance	\$ 277	\$ 976	\$ 1,253
Total provision	—	22	22
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	—	(16)	(16)
Net charge-offs remaining <sup>(2)</sup>	(8)	(39)	(47)
Total charge-offs <sup>(2)</sup>	(8)	(55)	(63)
Decrease in expected future recoveries on charged-off loans <sup>(3)</sup>	—	37	37
Allowance at end of period	269	980	1,249
Plus: expected future recoveries on charged-off loans <sup>(3)</sup>	—	397	397
Allowance at end of period excluding expected future recoveries on charged-off loans <sup>(4)</sup>	\$ 269	\$ 1,377	\$ 1,646
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	.07%	.77%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment <sup>(1)</sup>	—%	.33%	
Allowance coverage of charge-offs <sup>(4)</sup>	8.4	6.3	
Allowance as a percentage of the ending total loan balance <sup>(4)</sup>	.5%	6.6%	
Allowance as a percentage of the ending loans in repayment <sup>(4)</sup>	.6%	7.0%	
Ending total loans	\$ 54,619	\$ 20,998	
Average loans in repayment	\$ 45,201	\$ 19,894	
Ending loans in repayment	\$ 44,160	\$ 19,795	

- (1) In third-quarter 2021, the portion of the loan amount charged off at default on Private Education Loans increased from 81.4% to 81.7%. This change resulted in a \$16 million reduction to the balance of the expected future recoveries on charged-off loans.
- (2) 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.
- (3) 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:

(Dollars in millions)	Three Months Ended September 30, 2021
Beginning of period expected recoveries	\$ 434
Expected future recoveries of current period defaults	6
Recoveries	(22)
Charge-offs	(21)
End of period expected recoveries	\$ 397
Change in balance during period	\$ (37)

- (4) 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.

**NAVIENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

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

(Dollars in millions)	Three Months Ended September 30, 2020		
	FFELP Loans	Private Education Loans	Other Loans
Beginning balance	\$ 302	\$ 1,098	\$ 1,400
Total provision	4	10	14
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	—	(23)	(23)
Net charge-offs remaining <sup>(2)</sup>	(9)	(40)	(49)
Total charge-offs <sup>(2)</sup>	(9)	(63)	(72)
Decrease in expected future recoveries on charged-off loans <sup>(3)</sup>	—	46	46
Allowance at end of period	297	1,091	1,388
Plus: expected future recoveries on charged-off loans <sup>(3)</sup>	—	503	503
Allowance at end of period excluding expected future recoveries on charged-off loans <sup>(4)</sup>	\$ 297	\$ 1,594	\$ 1,891
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	.07%	.75%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment <sup>(1)</sup>	—%	.44%	
Allowance coverage of charge-offs <sup>(4)</sup>	8.8	6.4	
Allowance as a percentage of the ending total loan balance <sup>(4)</sup>	.5%	7.1%	
Allowance as a percentage of the ending loans in repayment <sup>(4)</sup>	.6%	7.6%	
Ending total loans	\$ 59,856	\$ 22,380	
Average loans in repayment	\$ 47,597	\$ 20,884	
Ending loans in repayment	\$ 48,716	\$ 21,006	

- (1) In third-quarter 2020, the portion of the loan amount charged off at default on Private Education Loans increased from 81% to 81.4%. This change resulted in a \$23 million reduction to the balance of the expected future recoveries on charged-off loans.
- (2) 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.
- (3) 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:

(Dollars in millions)	Three Months Ended September 30, 2020
Beginning of period expected recoveries	\$ 549
Expected future recoveries of current period defaults	7
Recoveries	(28)
Charge-offs	(25)
End of period expected recoveries	\$ 503
Change in balance during period	\$ (46)

- (4) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

2. Allowance for Loan Losses (Continued)

(Dollars in millions)	Nine Months Ended September 30, 2021		
	FFELP Loans	Private Education Loans	Total
Beginning balance	\$ 288	\$ 1,089	\$ 1,377
Provision:			
Reversal of allowance related to loan sales <sup>(1)</sup>	—	(107)	(107)
Remaining provision	—	41	41
Total provision	—	(66)	(66)
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate <sup>(2)</sup>	—	(16)	(16)
Net charge-offs remaining <sup>(3)</sup>	(19)	(109)	(128)
Total charge-offs <sup>(3)</sup>	(19)	(125)	(144)
Decrease in expected future recoveries on charged-off loans <sup>(4)</sup>	—	82	82
Allowance at end of period	269	980	1,249
Plus: expected future recoveries on charged-off loans <sup>(4)</sup>	—	397	397
Allowance at end of period excluding expected future recoveries on charged-off loans <sup>(5)</sup>	\$ 269	\$ 1,377	\$ 1,646
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate <sup>(2)</sup>	.06%	.72%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment <sup>(2)</sup>	—%	.11%	
Allowance coverage of charge-offs <sup>(5)</sup>	10.5	8.3	
Allowance as a percentage of the ending total loan balance <sup>(5)</sup>	.5%	6.6%	
Allowance as a percentage of the ending loans in repayment <sup>(5)</sup>	.6%	7.0%	
Ending total loans	\$ 54,619	\$ 20,998	
Average loans in repayment	\$ 46,191	\$ 20,145	
Ending loans in repayment	\$ 44,160	\$ 19,795	

(1) In connection with the sale of approximately \$1.6 billion of Private Education Loans.

(2) In third-quarter 2021, the portion of the loan amount charged off at default on Private Education Loans increased from 81.4% to 81.7%. This change resulted in a \$16 million reduction to the balance of the expected future recoveries on charged-off loans.

(3) 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.

(4) 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:

(Dollars in millions)	Nine Months Ended September 30, 2021	
Beginning of period expected recoveries	\$	479
Expected future recoveries of current period defaults		16
Recoveries		(69)
Charge-offs		(29)
End of period expected recoveries	\$	397
Change in balance during period	\$	(82)

(5) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

2. Allowance for Loan Losses (Continued)

(Dollars in millions)	Nine Months Ended September 30, 2020		
	FFELP Loans	Private Education Loans	Other Loans
Beginning balance (after transition adjustment to CECL)	\$ 324	\$ 1,045	\$ 1,369
Total provision	13	140	153
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	—	(23)	(23)
Net charge-offs remaining <sup>(2)</sup>	(40)	(156)	(196)
Total charge-offs <sup>(2)</sup>	(40)	(179)	(219)
Decrease in expected future recoveries on charged-off loans <sup>(3)</sup>	—	85	85
Ending balance	297	1,091	1,388
Plus: expected future recoveries on charged-off loans <sup>(3)</sup>	—	503	503
Allowance at end of period excluding expected future recoveries on charged-off loans <sup>(4)</sup>	\$ 297	\$ 1,594	\$ 1,891
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate <sup>(1)</sup>	.11%	1.00%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment <sup>(1)</sup>	—%	.15%	
Allowance coverage of charge-offs <sup>(4)</sup>	5.6	6.7	
Allowance as a percentage of the ending total loan balance <sup>(4)</sup>	.5%	7.1%	
Allowance as a percentage of the ending loans in repayment <sup>(4)</sup>	.6%	7.6%	
Ending total loans	\$ 59,856	\$ 22,380	
Average loans in repayment	\$ 48,065	\$ 20,739	
Ending loans in repayment	\$ 48,716	\$ 21,006	

- (1) In third-quarter 2020, the portion of the loan amount charged off at default on Private Education Loans increased from 81% to 81.4%. This change resulted in a \$23 million reduction to the balance of the expected future recoveries on charged-off loans.
- (2) 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.
- (3) 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:

(Dollars in millions)	Nine Months Ended September 30, 2020
Beginning of period expected recoveries	\$ 588
Expected future recoveries of current period defaults	28
Recoveries	(84)
Charge-offs	(29)
End of period expected recoveries	\$ 503
Change in balance during period	\$ (85)

- (4) 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.

**NAVIENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

**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 74% and 72% of the loans granted forbearance have qualified as a TDR loan at September 30, 2021 and December 31, 2020, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction program as of September 30, 2021 and December 31, 2020 was \$785 million and \$948 million, 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.

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Modified loans	\$ 40	\$ 51	\$ 109	\$ 216
Charge-offs	\$ 37	\$ 43	\$ 90	\$ 136
Payment default	\$ 6	\$ 7	\$ 15	\$ 39

**NAVIENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

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

**Key Credit Quality Indicators**

We assess and determine the collectability of our education loan portfolios by evaluating certain risk characteristics we refer to as key credit quality indicators. Key credit quality indicators are incorporated into the allowance for loan losses calculation.

**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 are loan status and loan type.

(Dollars in millions)	<b>FFELP Loan Delinquencies</b>					
	<b>September 30, 2021</b>		<b>December 31, 2020</b>		<b>September 30, 2020</b>	
	<b>Balance</b>	<b>%</b>	<b>Balance</b>	<b>%</b>	<b>Balance</b>	<b>%</b>
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 2,430		\$ 2,791		\$ 3,038	
Loans in forbearance <sup>(2)</sup>	8,029		7,725		8,102	
Loans in repayment and percentage of each status:						
Loans current	40,404	91.5%	43,623	90.8%	44,175	90.7%
Loans delinquent 31-60 days <sup>(3)</sup>	1,181	2.7	1,374	2.9	1,876	3.9
Loans delinquent 61-90 days <sup>(3)</sup>	665	1.5	836	1.7	930	1.9
Loans delinquent greater than 90 days <sup>(3)</sup>	1,910	4.3	2,223	4.6	1,735	3.5
Total FFELP Loans in repayment	44,160	100%	48,056	100%	48,716	100%
Total FFELP Loans	54,619		58,572		59,856	
FFELP Loan allowance for losses	(269)		(288)		(297)	
FFELP Loans, net	<u>\$ 54,350</u>		<u>\$ 58,284</u>		<u>\$ 59,559</u>	
Percentage of FFELP Loans in repayment		<u>80.9%</u>		<u>82.0%</u>		<u>81.4%</u>
Delinquencies as a percentage of FFELP Loans in repayment		<u>8.5%</u>		<u>9.2%</u>		<u>9.3%</u>
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		<u>15.4%</u>		<u>13.8%</u>		<u>14.3%</u>

- (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, 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.

**Loan type:**

(Dollars in millions)	<b>September 30, 2021</b>	<b>September 30, 2020</b>	<b>Change</b>
Stafford Loans	\$ 16,719	\$ 18,011	\$ (1,292)
Consolidation Loans	33,143	36,876	(3,733)
Rehab Loans	4,757	4,969	(212)
Total	<u>\$ 54,619</u>	<u>\$ 59,856</u>	<u>\$ (5,237)</u>

**NAVIENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

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

*Private Education Loans*

The key credit quality indicators are credit scores (FICO scores), loan status, loan seasoning, whether a loan is a TDR, the existence of a cosigner and school type. 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.

(Dollars in millions)	Private Education Loan Credit Quality Indicators by Origination Year							Total	% of Total
	September 30, 2021	2020	2019	2018	2017	Prior	September 30, 2021		
<b>Credit Quality Indicators</b>									
<b>FICO Scores:</b>									
640 and above	\$ 4,049	\$ 2,228	\$ 2,064	\$ 762	\$ 233	\$ 10,021	\$ 19,357	92%	
Below 640	28	10	33	20	8	1,542	1,641	8	
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 2,238</b>	<b>\$ 2,097</b>	<b>\$ 782</b>	<b>\$ 241</b>	<b>\$ 11,563</b>	<b>\$ 20,998</b>	<b>100%</b>	
<b>Loan Status:</b>									
In-school/grace/deferment/forbearance	\$ 32	\$ 34	\$ 45	\$ 19	\$ 8	\$ 1,065	\$ 1,203	6%	
Current/90 days or less delinquent	4,044	2,203	2,049	762	232	10,289	19,579	93	
Greater than 90 days delinquent	1	1	3	1	1	209	216	1	
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 2,238</b>	<b>\$ 2,097</b>	<b>\$ 782</b>	<b>\$ 241</b>	<b>\$ 11,563</b>	<b>\$ 20,998</b>	<b>100%</b>	
<b>Seasoning(1):</b>									
1-12 payments	\$ 4,058	\$ 1,017	\$ 37	\$ 5	\$ 1	\$ 142	\$ 5,260	25%	
13-24 payments	—	1,201	1,330	20	4	167	2,722	13	
25-36 payments	—	—	709	385	12	273	1,379	7	
37-48 payments	—	—	—	364	133	417	914	4	
More than 48 payments	—	—	—	—	89	10,245	10,334	49	
Loans in-school/grace/deferment	19	20	21	8	2	319	389	2	
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 2,238</b>	<b>\$ 2,097</b>	<b>\$ 782</b>	<b>\$ 241</b>	<b>\$ 11,563</b>	<b>\$ 20,998</b>	<b>100%</b>	
<b>TDR Status:</b>									
TDR	\$ 1	\$ 5	\$ 26	\$ 27	\$ 30	\$ 7,323	\$ 7,412	35%	
Non-TDR	4,076	2,233	2,071	755	211	4,240	13,586	65	
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 2,238</b>	<b>\$ 2,097</b>	<b>\$ 782</b>	<b>\$ 241</b>	<b>\$ 11,563</b>	<b>\$ 20,998</b>	<b>100%</b>	
<b>Cosigners:</b>									
With cosigner(2)	\$ 12	\$ 34	\$ 13	\$ —	\$ 37	\$ 7,560	\$ 7,656	36%	
Without cosigner	4,065	2,204	2,084	782	204	4,003	13,342	64	
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 2,238</b>	<b>\$ 2,097</b>	<b>\$ 782</b>	<b>\$ 241</b>	<b>\$ 11,563</b>	<b>\$ 20,998</b>	<b>100%</b>	
<b>School Type:</b>									
Not-for-profit	\$ 3,850	\$ 2,137	\$ 1,957	\$ 721	\$ 231	\$ 9,607	\$ 18,503	88%	
For-profit	227	101	140	61	10	1,956	2,495	12	
<b>Total</b>	<b>\$ 4,077</b>	<b>\$ 2,238</b>	<b>\$ 2,097</b>	<b>\$ 782</b>	<b>\$ 241</b>	<b>\$ 11,563</b>	<b>\$ 20,998</b>	<b>100%</b>	
Allowance for loan losses							(980)		
<b>Total loans, net</b>							<b>\$ 20,018</b>		

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

(2) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 65% for total loans at September 30, 2021.



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2. Allowance for Loan Losses (Continued)

(Dollars in millions)	Private Education Loan Credit Quality Indicators by Origination Year							Total	% of Total
	September 30, 2020								
	September 30, 2020	2019	2018	2017	2016	Prior			
<b>Credit Quality Indicators</b>									
FICO Scores:									
640 and above	\$ 3,135	\$ 3,341	\$ 1,212	\$ 388	\$ 82	\$ 11,950	\$ 20,108	90%	
Below 640	14	39	25	10	3	2,181	2,272	10	
Total	<u>\$ 3,149</u>	<u>\$ 3,380</u>	<u>\$ 1,237</u>	<u>\$ 398</u>	<u>\$ 85</u>	<u>\$ 14,131</u>	<u>\$ 22,380</u>	<u>100%</u>	
Loan Status:									
In-school/grace/deferment/forbearance	\$ 19	\$ 53	\$ 26	\$ 12	\$ 3	\$ 1,261	\$ 1,374	6%	
Current/90 days or less delinquent	3,130	3,325	1,210	386	82	12,738	20,871	93	
Greater than 90 days delinquent	—	2	1	—	—	132	135	1	
Total	<u>\$ 3,149</u>	<u>\$ 3,380</u>	<u>\$ 1,237</u>	<u>\$ 398</u>	<u>\$ 85</u>	<u>\$ 14,131</u>	<u>\$ 22,380</u>	<u>100%</u>	
Seasoning(1):									
1-12 payments	\$ 3,141	\$ 2,191	\$ 10	\$ 2	\$ —	\$ 193	\$ 5,537	25%	
13-24 payments	1	1,169	602	10	1	252	2,035	9	
25-36 payments	—	—	613	225	5	417	1,260	6	
37-48 payments	—	—	—	158	64	642	864	4	
More than 48 payments	—	—	—	—	14	12,163	12,177	54	
Loans in-school/grace/deferment	7	20	12	3	1	464	507	2	
Total	<u>\$ 3,149</u>	<u>\$ 3,380</u>	<u>\$ 1,237</u>	<u>\$ 398</u>	<u>\$ 85</u>	<u>\$ 14,131</u>	<u>\$ 22,380</u>	<u>100%</u>	
TDR Status:									
TDR	\$ 1	\$ 8	\$ 22	\$ 30	\$ 11	\$ 8,508	\$ 8,580	38%	
Non-TDR	3,148	3,372	1,215	368	74	5,623	13,800	62	
Total	<u>\$ 3,149</u>	<u>\$ 3,380</u>	<u>\$ 1,237</u>	<u>\$ 398</u>	<u>\$ 85</u>	<u>\$ 14,131</u>	<u>\$ 22,380</u>	<u>100%</u>	
Cosigners:									
With cosigner(2)	\$ 2	\$ 14	\$ 1	\$ 53	\$ 23	\$ 9,259	\$ 9,352	42%	
Without cosigner	3,147	3,366	1,236	345	62	4,872	13,028	58	
Total	<u>\$ 3,149</u>	<u>\$ 3,380</u>	<u>\$ 1,237</u>	<u>\$ 398</u>	<u>\$ 85</u>	<u>\$ 14,131</u>	<u>\$ 22,380</u>	<u>100%</u>	
School Type:									
Not-for-profit	\$ 2,995	\$ 3,160	\$ 1,144	\$ 380	\$ 85	\$ 11,675	\$ 19,439	87%	
For-profit	154	220	93	18	—	2,456	2,941	13	
Total	<u>\$ 3,149</u>	<u>\$ 3,380</u>	<u>\$ 1,237</u>	<u>\$ 398</u>	<u>\$ 85</u>	<u>\$ 14,131</u>	<u>\$ 22,380</u>	<u>100%</u>	
Allowance for loan losses							(1,091)		
Total loans, net							<u>\$ 21,289</u>		

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

(2) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 65% for total loans at September 30, 2020.

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

(Dollars in millions)	Private Education Loan Delinquencies					
	TDRs					
	September 30, 2021		December 31, 2020		September 30, 2020	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 210		\$ 280		\$ 294	
Loans in forbearance <sup>(2)</sup>	667		703		691	
Loans in repayment and percentage of each status:						
Loans current	5,988	91.6%	6,952	93.4%	7,152	94.1%
Loans delinquent 31-60 days <sup>(3)</sup>	224	3.5	185	2.5	196	2.6
Loans delinquent 61-90 days <sup>(3)</sup>	124	1.9	114	1.5	127	1.7
Loans delinquent greater than 90 days <sup>(3)</sup>	198	3.0	197	2.6	120	1.6
Total TDR loans in repayment	6,534	100%	7,448	100%	7,595	100%
Total TDR loans	7,411		8,431		8,580	
TDR loans allowance for losses	(814)		(929)		(930)	
TDR loans, net	\$ 6,597		\$ 7,502		\$ 7,650	
Percentage of TDR loans in repayment		88.2%		88.3%		88.5%
Delinquencies as a percentage of TDR loans in repayment		8.4%		6.6%		5.9%
Loans in forbearance as a percentage of TDR loans in repayment and forbearance		9.3%		8.6%		8.3%

- (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.

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2. Allowance for Loan Losses (Continued)

(Dollars in millions)	Private Education Loan Delinquencies					
	Non-TDRs					
	September 30, 2021		December 31, 2020		September 30, 2020	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 179		\$ 203		\$ 213	
Loans in forbearance <sup>(2)</sup>	147		141		176	
Loans in repayment and percentage of each status:						
Loans current	13,208	99.6%	13,335	99.6%	13,355	99.6%
Loans delinquent 31-60 days <sup>(3)</sup>	23	.2	26	.2	28	.2
Loans delinquent 61-90 days <sup>(3)</sup>	12	.1	12	.1	13	.1
Loans delinquent greater than 90 days <sup>(3)</sup>	18	.1	20	.1	15	.1
Total non-TDR loans in repayment	<u>13,261</u>	<u>100%</u>	<u>13,393</u>	<u>100%</u>	<u>13,411</u>	<u>100%</u>
Total non-TDR loans	13,587		13,737		13,800	
Non-TDR loans allowance for losses	(166)		(160)		(161)	
Non-TDR loans, net	<u>\$ 13,421</u>		<u>\$ 13,577</u>		<u>\$ 13,639</u>	
Percentage of non-TDR loans in repayment		<u>97.6%</u>		<u>97.5%</u>		<u>97.2%</u>
Delinquencies as a percentage of non-TDR loans in repayment		<u>.4%</u>		<u>.4%</u>		<u>.4%</u>
Loans in forbearance as a percentage of non-TDR loans in repayment and forbearance		<u>1.1%</u>		<u>1.0%</u>		<u>1.3%</u>

- (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.

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**3. Borrowings**

The following table summarizes our borrowings.

(Dollars in millions)	September 30, 2021			December 31, 2020		
	Short Term	Long Term	Total	Short Term	Long Term	Total
<b>Unsecured borrowings:</b>						
Senior unsecured debt <sup>(1)</sup>	\$ 903	\$ 6,469	\$ 7,372	\$ 677	\$ 7,714	\$ 8,391
<b>Total unsecured borrowings</b>	<b>903</b>	<b>6,469</b>	<b>7,372</b>	<b>677</b>	<b>7,714</b>	<b>8,391</b>
<b>Secured borrowings:</b>						
FFELP Loan securitizations <sup>(2)</sup>	—	52,299	52,299	—	54,697	54,697
Private Education Loan securitizations <sup>(3)</sup>	573	14,094	14,667	960	13,891	14,851
FFELP Loan ABCP facilities	—	1,182	1,182	2,053	479	2,532
Private Education Loan ABCP facilities	1,002	1,208	2,210	2,582	—	2,582
Other <sup>(4)</sup>	288	—	288	337	—	337
<b>Total secured borrowings</b>	<b>1,863</b>	<b>68,783</b>	<b>70,646</b>	<b>5,932</b>	<b>69,067</b>	<b>74,999</b>
<b>Total before hedge accounting adjustments</b>	<b>2,766</b>	<b>75,252</b>	<b>78,018</b>	<b>6,609</b>	<b>76,781</b>	<b>83,390</b>
Hedge accounting adjustments	15	377	392	4	551	555
<b>Total</b>	<b>\$ 2,781</b>	<b>\$ 75,629</b>	<b>\$ 78,410</b>	<b>\$ 6,613</b>	<b>\$ 77,332</b>	<b>\$ 83,945</b>

- (1) Includes principal amount of \$906 million and \$678 million of short-term debt as of September 30, 2021 and December 31, 2020, respectively. Includes principal amount of \$6.5 billion and \$7.8 billion of long-term debt as of September 30, 2021 and December 31, 2020, respectively.
- (2) Includes \$51 million and \$157 million of long-term debt related to the FFELP Loan asset-backed securitization repurchase facilities ("FFELP Loan Repurchase Facilities") as of September 30, 2021 and December 31, 2020, respectively.
- (3) Includes \$573 million and \$960 million of short-term debt related to the Private Education Loan asset-backed securitization repurchase facilities ("Private Education Loan Repurchase Facilities") as of September 30, 2021 and December 31, 2020, respectively. Includes \$0 and \$260 million of long-term debt related to the Private Education Loan Repurchase Facilities as of September 30, 2021 and December 31, 2020, respectively.
- (4) "Other" primarily includes the obligation to return cash collateral held related to derivative exposures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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3. Borrowings (Continued)

Variable Interest Entities

We consolidated the following financing VIEs as of September 30, 2021 and December 31, 2020, as we are the primary beneficiary. As a result, these VIEs are accounted for as secured borrowings.

(Dollars in millions)	September 30, 2021						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
<b>Secured Borrowings — VIEs:</b>							
FFELP Loan securitizations	\$ —	\$ 52,299	\$ 52,299	\$ 53,049	\$ 1,589	\$ 1,469	\$ 56,107
Private Education Loan securitizations	573	14,094	14,667	15,481	528	163	16,172
FFELP Loan ABCP facilities	—	1,182	1,182	1,183	20	47	1,250
Private Education Loan ABCP facilities	1,002	1,208	2,210	2,286	86	33	2,405
Total before hedge accounting adjustments	1,575	68,783	70,358	71,999	2,223	1,712	75,934
Hedge accounting adjustments	—	(76)	(76)	—	—	(163)	(163)
Total	\$ 1,575	\$ 68,707	\$ 70,282	\$ 71,999	\$ 2,223	\$ 1,549	\$ 75,771

(Dollars in millions)	December 31, 2020						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
<b>Secured Borrowings — VIEs:</b>							
FFELP Loan securitizations	\$ —	\$ 54,697	\$ 54,697	\$ 55,535	\$ 1,606	\$ 1,438	\$ 58,579
Private Education Loan securitizations	960	13,891	14,851	15,823	606	187	16,616
FFELP Loan ABCP facilities	2,053	479	2,532	2,533	36	76	2,645
Private Education Loan ABCP facilities	2,582	—	2,582	2,835	74	27	2,936
Total before hedge accounting adjustments	5,595	69,067	74,662	76,726	2,322	1,728	80,776
Hedge accounting adjustments	—	(167)	(167)	—	—	(308)	(308)
Total	\$ 5,595	\$ 68,900	\$ 74,495	\$ 76,726	\$ 2,322	\$ 1,420	\$ 80,468

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**4. Derivative Financial Instruments**

**Summary of Derivative Financial Statement Impact**

The following tables summarize the fair values and notional amounts of all derivative instruments and their impact on net income and other comprehensive income

*Impact of Derivatives on Balance Sheet*

(Dollars in millions)	Hedged Risk Exposure	Cash Flow		Fair Value(4)		Trading		Total	
		Sep 30, 2021	Dec 31, 2020	Sep 30, 2021	Dec 31, 2020	Sep 30, 2021	Dec 31, 2020	Sep 30, 2021	Dec 31, 2020
<b>Fair Values(1)</b>									
<i>Derivative Assets:</i>									
Interest rate swaps	Interest rate	\$ —	\$ —	\$ 235	\$ 323	\$ 2	\$ 6	\$ 237	\$ 329
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	5	28	—	—	5	28
Total derivative assets(2)		—	—	240	351	2	6	242	357
<i>Derivative Liabilities:</i>									
Interest rate swaps	Interest rate	—	—	—	—	(7)	(14)	(7)	(14)
Floor Income Contracts	Interest rate	—	—	—	—	(117)	(197)	(117)	(197)
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	(161)	(322)	—	—	(161)	(322)
Other(3)	Interest rate	—	—	—	—	—	—	—	—
Total derivative liabilities(2)		—	—	(161)	(322)	(124)	(211)	(285)	(533)
Net total derivatives		\$ —	\$ —	\$ 79	\$ 29	\$ (122)	\$ (205)	\$ (43)	\$ (176)

(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		Other Liabilities	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Gross position	\$ 242	\$ 357	\$ (285)	\$ (533)
Impact of master netting agreements	(19)	(50)	19	50
Derivative values with impact of master netting agreements (as carried on balance sheet)	223	307	(266)	(483)
Cash collateral (held) pledged	(226)	(336)	173	234
Net position	\$ (3)	\$ (29)	\$ (93)	\$ (249)

(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 September 30, 2021		As of December 31, 2020	
	Carrying Value	Hedge Basis Adjustments	Carrying Value	Hedge Basis Adjustments
Short-term borrowings	\$ 918	\$ 15	\$ 631	\$ 4
Long-term borrowings	\$ 8,124	\$ 370	\$ 11,017	\$ 541

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**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 September 30, 2021 and December 31, 2020 by \$4 million and \$8 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 September 30, 2021 and December 31, 2020 by \$3 million and \$5 million, respectively.

	Cash Flow		Fair Value		Trading		Total	
	Sep 30, 2021	Dec 31, 2020	Sep 30, 2021	Dec 31, 2020	Sep 30, 2021	Dec 31, 2020	Sep 30, 2021	Dec 31, 2020
<b>(Dollars in billions)</b>								
<b>Notional Values:</b>								
Interest rate swaps	\$ 15.8	\$ 16.7	\$ 6.6	\$ 7.5	\$ 31.5	\$ 26.8	\$ 53.9	\$ 51.0
Floor Income Contracts	—	—	—	—	12.5	17.0	12.5	17.0
Cross-currency interest rate swaps	—	—	2.1	3.7	—	—	2.1	3.7
<b>Total derivatives</b>	<b>\$ 15.8</b>	<b>\$ 16.7</b>	<b>\$ 8.7</b>	<b>\$ 11.2</b>	<b>\$ 44.0</b>	<b>\$ 43.8</b>	<b>\$ 68.5</b>	<b>\$ 71.7</b>

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

	Total Gains (Losses)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>(Dollars in millions)</b>				
<b>Fair Value Hedges:</b>				
<b>Interest Rate Swaps</b>				
Gains (losses) recognized in net income on derivatives	\$ (53)	\$ (49)	\$ (228)	\$ 375
Gains (losses) recognized in net income on hedged items	60	54	251	(401)
Net fair value hedge ineffectiveness gains (losses)	7	5	23	(26)
<b>Cross currency interest rate swaps</b>				
Gains (losses) recognized in net income on derivatives	(48)	146	138	115
Gains (losses) recognized in net income on hedged items	51	(154)	(90)	(107)
Net fair value hedge ineffectiveness gains (losses)	3	(8)	48	8
<b>Total fair value hedges<sup>(1)(2)</sup></b>	<b>10</b>	<b>(3)</b>	<b>71</b>	<b>(18)</b>
<b>Cash Flow Hedges:</b>				
Total cash flow hedges <sup>(2)</sup>	—	—	—	—
<b>Trading:</b>				
Interest rate swaps	(2)	(3)	13	(50)
Floor income contracts	(3)	1	8	(205)
Cross currency interest rate swaps	—	—	—	—
Other	—	—	—	—
<b>Total trading derivatives<sup>(3)</sup></b>	<b>(5)</b>	<b>(2)</b>	<b>21</b>	<b>(255)</b>
<b>Mark-to-market gains (losses) recognized</b>	<b>\$ 5</b>	<b>\$ (5)</b>	<b>\$ 92</b>	<b>\$ (273)</b>

(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 derivative and hedging activities, net" in the consolidated statements of income.

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**4. Derivative Financial Instruments (Continued)**

*Impact of Derivatives on Other Comprehensive Income (Equity)*

<b>(Dollars in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Total gains (losses) on cash flow hedges	\$ (1)	\$ 4	\$ 21	\$ (233)
Reclassification adjustments for derivative (gains) losses included in net income (interest expense) <sup>(1)</sup>	21	19	64	30
<b>Net changes in cash flow hedges, net of tax</b>	<b>\$ 20</b>	<b>\$ 23</b>	<b>\$ 85</b>	<b>\$ (203)</b>

<sup>(1)</sup> Includes net settlement income/expense.

**Collateral**

The following table details collateral held and pledged related to derivative exposure between us and our derivative counterparties:

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>Collateral held:</b>		
Cash (obligation to return cash collateral is recorded in short-term borrowings)	\$ 226	\$ 336
Securities at fair value — corporate derivatives (not recorded in financial statements) <sup>(1)</sup>	—	—
Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements) <sup>(2)</sup>	17	78
<b>Total collateral held</b>	<b>\$ 243</b>	<b>\$ 414</b>
Derivative asset at fair value including accrued interest	\$ 225	\$ 351
<b>Collateral pledged to others:</b>		
Cash (right to receive return of cash collateral is recorded in investments)	\$ 173	\$ 234
<b>Total collateral pledged</b>	<b>\$ 173</b>	<b>\$ 234</b>
Derivative liability at fair value including accrued interest and premium receivable	\$ 282	\$ 504

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

<sup>(2)</sup> 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 \$111 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. At September 30, 2021 and December 31, 2020, we had a net positive exposure (derivative gain positions to us less collateral which has been posted by counterparties to us) related to Navient Corporation derivatives of \$10 million and \$13 million, respectively. The trusts are not required to post collateral to the counterparties. At September 30, 2021 and December 31, 2020, the net positive exposure on swaps in securitization trusts was \$5 million and \$28 million, respectively.

The table below highlights credit exposure related to our derivative counterparties at September 30, 2021.

<b>(Dollars in millions)</b>	<b>Corporate Contracts</b>	<b>Securitization Trust Contracts</b>
Exposure, net of collateral	\$ 10	\$ 5
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	—%	—%



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**5. Other Assets**

The following table provides the detail of our other assets.

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
Accrued interest receivable	\$	1,839	\$	1,933
Benefit and insurance-related investments		460		469
Income tax asset, net		346		454
Derivatives at fair value		223		307
Accounts receivable		190		118
Fixed assets, net		114		116
Other		72		95
<b>Total</b>	<b>\$</b>	<b>3,244</b>	<b>\$</b>	<b>3,492</b>

**6. Stockholders' Equity**

The following table summarizes common share repurchases, issuances and dividends paid.

<b>(Dollars and shares in millions, except per share amounts)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Common stock repurchased <sup>(1)</sup>	7.0	7.7	26.9	30.6
Common stock repurchased (in dollars) <sup>(1)</sup>	\$ 150	\$ 65	\$ 450	\$ 400
Average purchase price per share <sup>(1)</sup>	\$ 21.42	\$ 8.42	\$ 16.71	\$ 13.06
Remaining common stock repurchase authority <sup>(1)</sup>	\$ 150	\$ 600	\$ 150	\$ 600
Shares repurchased related to employee stock-based compensation plans <sup>(2)</sup>	.2	—	3.0	.9
Average purchase price per share <sup>(2)</sup>	\$ 21.36	\$ 7.76	\$ 13.59	\$ 13.55
Common shares issued <sup>(3)</sup>	.6	—	4.8	2.4
Dividends paid	\$ 26	\$ 31	\$ 82	\$ 93
Dividends per share	\$ .16	\$ .16	\$ .48	\$ .48

(1) Common shares purchased under our share repurchase program. Our board of directors authorized a \$1 billion multi-year share repurchase program in October 2019.

(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 September 30, 2021 was \$19.73.

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**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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Numerator:</b>				
Net income	\$ 173	\$ 207	\$ 728	\$ 227
<b>Denominator:</b>				
Weighted average shares used to compute basic EPS	165	193	174	195
Effect of dilutive securities:				
Dilutive effect of stock options, restricted stock, restricted stock units, performance stock units, and Employee Stock Purchase Plan (ESPP)(1)	2	1	2	2
Dilutive potential common shares(2)	2	1	2	2
Weighted average shares used to compute diluted EPS	167	194	176	197
<b>Basic earnings per common share</b>	<b>\$ 1.05</b>	<b>\$ 1.08</b>	<b>\$ 4.20</b>	<b>\$ 1.16</b>
<b>Diluted earnings per common share</b>	<b>\$ 1.04</b>	<b>\$ 1.07</b>	<b>\$ 4.15</b>	<b>\$ 1.15</b>

(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 September 30, 2021 and 2020, securities covering approximately 0 million and 4 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the nine months ended September 30, 2021 and 2020, securities covering approximately 0 million and 4 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. See "Note 11 – Fair Value Measurements" in our 2020 Form 10-K for a full discussion.

During the three and nine months ended September 30, 2021, there were no significant transfers of financial instruments between levels, or changes in our methodology used to value our financial instruments.

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**8. Fair Value Measurements (Continued)**

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis. During the third quarters of 2021 and 2020, there were no significant transfers of financial instruments between levels.

(Dollars in millions)	Fair Value Measurements on a Recurring Basis							
	September 30, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Derivative instruments:(1)								
Interest rate swaps	\$ —	\$ 235	\$ 2	\$ 237	\$ —	\$ 323	\$ 6	\$ 329
Cross-currency interest rate swaps	—	—	5	5	—	—	28	28
Total derivative assets(2)	—	235	7	242	—	323	34	357
<b>Total</b>	<b>\$ —</b>	<b>\$ 235</b>	<b>\$ 7</b>	<b>\$ 242</b>	<b>\$ —</b>	<b>\$ 323</b>	<b>\$ 34</b>	<b>\$ 357</b>
<b>Liabilities(3)</b>								
Derivative instruments(1)								
Interest rate swaps	\$ —	\$ —	\$ (7)	\$ (7)	\$ —	\$ —	\$ (14)	\$ (14)
Floor Income Contracts	—	(117)	—	(117)	—	(197)	—	(197)
Cross-currency interest rate swaps	—	—	(161)	(161)	—	—	(322)	(322)
Other	—	—	—	—	—	—	—	—
Total derivative liabilities(2)	—	(117)	(168)	(285)	—	(197)	(336)	(533)
<b>Total</b>	<b>\$ —</b>	<b>\$ (117)</b>	<b>\$ (168)</b>	<b>\$ (285)</b>	<b>\$ —</b>	<b>\$ (197)</b>	<b>\$ (336)</b>	<b>\$ (533)</b>

(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.

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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.

(Dollars in millions)	Three Months Ended September 30,							
	2021				2020			
	Derivative instruments				Derivative instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
<b>Balance, beginning of period</b>	\$ (6)	\$ (108)	\$ —	\$ (114)	\$ (11)	\$ (606)	\$ —	\$ (617)
Total gains/(losses):								
Included in earnings <sup>(1)</sup>	1	(53)	—	(52)	1	137	—	138
Included in other comprehensive income	—	—	—	—	—	—	—	—
Settlements	—	5	—	5	1	8	—	9
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
<b>Balance, end of period</b>	<u>\$ (5)</u>	<u>\$ (156)</u>	<u>\$ —</u>	<u>\$ (161)</u>	<u>\$ (9)</u>	<u>\$ (461)</u>	<u>\$ —</u>	<u>\$ (470)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date <sup>(2)</sup>	<u>\$ 1</u>	<u>\$ (48)</u>	<u>\$ —</u>	<u>\$ (47)</u>	<u>\$ 1</u>	<u>\$ 144</u>	<u>\$ —</u>	<u>\$ 145</u>

(Dollars in millions)	Nine Months Ended September 30,							
	2021				2020			
	Derivative instruments				Derivative instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
<b>Balance, beginning of period</b>	\$ (8)	\$ (294)	\$ —	\$ (302)	\$ (17)	\$ (575)	\$ (1)	\$ (593)
Total gains/(losses):								
Included in earnings <sup>(1)</sup>	2	120	—	122	7	72	—	79
Included in other comprehensive income	—	—	—	—	—	—	—	—
Settlements	1	18	—	19	1	42	1	44
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
<b>Balance, end of period</b>	<u>\$ (5)</u>	<u>\$ (156)</u>	<u>\$ —</u>	<u>\$ (161)</u>	<u>\$ (9)</u>	<u>\$ (461)</u>	<u>\$ —</u>	<u>\$ (470)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date <sup>(2)</sup>	<u>\$ 2</u>	<u>\$ (122)</u>	<u>\$ —</u>	<u>\$ (120)</u>	<u>\$ 5</u>	<u>\$ 107</u>	<u>\$ —</u>	<u>\$ 112</u>

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

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Gains (losses) on derivative and hedging activities, net	\$ 1	\$ 1	\$ 2	\$ 7
Interest expense		(53)	120	72
<b>Total</b>	<u>\$ (52)</u>	<u>\$ 138</u>	<u>\$ 122</u>	<u>\$ 79</u>

(2) Recorded in "gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

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**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 September 30, 2021	Valuation Technique	Input	Range and Weighted Average
<b>Derivatives</b>				
Prime/LIBOR basis swaps	\$ (5)	Discounted cash flow	Constant Prepayment Rate	9%
			Bid/ask adjustment to discount rate	.08%
Cross-currency interest rate swaps	(156)	Discounted cash flow	Constant Prepayment Rate	5%
Other	—			
<b>Total</b>	<u>\$ (161)</u>			

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

(Dollars in millions)	September 30, 2021			December 31, 2020		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
<b>Earning assets</b>						
FFELP Loans	\$ 55,869	\$ 54,350	\$ 1,519	\$ 59,117	\$ 58,284	\$ 833
Private Education Loans	21,114	20,018	1,096	22,462	21,079	1,383
Cash and investments	3,606	3,606	—	3,822	3,822	—
<b>Total earning assets</b>	<u>80,589</u>	<u>77,974</u>	<u>2,615</u>	<u>85,401</u>	<u>83,185</u>	<u>2,216</u>
<b>Interest-bearing liabilities</b>						
Short-term borrowings	2,797	2,781	(16)	6,626	6,613	(13)
Long-term borrowings	76,058	75,629	(429)	76,719	77,332	613
<b>Total interest-bearing liabilities</b>	<u>78,855</u>	<u>78,410</u>	<u>(445)</u>	<u>83,345</u>	<u>83,945</u>	<u>600</u>
<b>Derivative financial instruments</b>						
Floor Income Contracts	(117)	(117)	—	(197)	(197)	—
Interest rate swaps	230	230	—	315	315	—
Cross-currency interest rate swaps	(156)	(156)	—	(294)	(294)	—
Other	—	—	—	—	—	—
<b>Excess of net asset fair value over carrying value</b>			<u>\$ 2,170</u>			<u>\$ 2,816</u>

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**9. Commitments and Contingencies**

**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 various entities including State Attorneys General, U.S. Attorneys, legislative committees, individual members of Congress and administrative agencies. These requests may be informational, regulatory or enforcement 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.* 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. The cases were consolidated by the Court in February 2018 under the caption *In Re Navient Corporation Securities Litigation* and the plaintiffs filed a consolidated amended complaint in April 2018. In September 2021, the Company reached tentative agreements to settle both cases for a total of \$42.5 million. As a result of these contingent losses now being probable, Navient accrued the \$42.5 million loss in the third quarter of 2021. However, the net impact to operating expense for the quarter is \$0 due to the accrual of the offsetting insurance reimbursements. The settlements, in which the Company and other defendants expressly deny any admission or concession of wrongdoing or fault, are subject to approval by the Court after notice and hearing. The Company can give no assurance whether or when the tentative settlements will receive the required approvals.

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. 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.

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

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 CFPB, 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 CFPB and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The Attorneys General for the States of California, Mississippi and, in October 2020, New Jersey have also initiated actions against the Company and certain subsidiaries alleging violations of various state and federal consumer protection laws based upon similar alleged acts or failures to act. We refer to the Illinois, Pennsylvania, Washington, California, Mississippi and New Jersey 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, previously unannounced servicing standards applied retroactively against only one servicer, and that the allegations are false. We therefore have denied these allegations and are vigorously defending against the allegations in each of these cases. At this point in time, it is reasonably possible that a loss contingency exists; however, 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 various federal regulatory, state licensing or other regulatory agencies as part of its ordinary course of business including the SEC, CFPB, FFIEC and ED. 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. The Company subsequently received separate CIDs or subpoenas from the Attorneys General for the District of Columbia, Kansas, Oregon, Colorado, New Jersey, New York and Indiana that are similar to the CIDs or subpoenas that preceded the lawsuits referenced above. 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.

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 September 30, 2021.

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

***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 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. In January 2021, the Acting Secretary of Education upheld the decision of the administrative law judge. In March 2021, we filed a complaint for declaratory judgment in federal court seeking to set aside the Acting Secretary's decision. We continue to believe that our *SAP* billing practices were proper, considering then-existing ED guidance and lack of applicable regulations. We filed a lawsuit in federal court challenging the Acting Secretary's decision. That case is pending. The Company first established a reserve for this matter in 2014 and increased the reserve in 2020 in response to the decision by the Acting Secretary. We do not believe, at this time, that an adverse ruling will 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.

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 litigation and regulatory matters, we may not be able to 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.



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**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 according to service type and client type by reportable operating segment.

**Revenue by Service Type**

(Dollars in millions)	Three Months Ended September 30,					
	2021			2020		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal Education Loan asset recovery services	\$ 5	\$ —	\$ 5	\$ 18	\$ —	\$ 18
Government services	—	75	75	—	56	56
Healthcare services	—	47	47	—	34	34
<b>Total</b>	<b>\$ 5</b>	<b>\$ 122</b>	<b>\$ 127</b>	<b>\$ 18</b>	<b>\$ 90</b>	<b>\$ 108</b>

(Dollars in millions)	Nine Months Ended September 30,					
	2021			2020		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal Education Loan asset recovery services	\$ 14	\$ —	\$ 14	\$ 70	\$ —	\$ 70
Government services	—	204	204	—	133	133
Healthcare services	—	173	173	—	78	78
<b>Total</b>	<b>\$ 14</b>	<b>\$ 377</b>	<b>\$ 391</b>	<b>\$ 70</b>	<b>\$ 211</b>	<b>\$ 281</b>

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**10. Revenue from Contracts with Customers Accounted for in Accordance with ASC 606 (Continued)**

**Revenue by Client Type**

	Three Months Ended September 30,					
	2021			2020		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
<b>(Dollars in millions)</b>						
Federal government	\$ —	\$ 4	\$ 4	\$ 9	\$ 4	\$ 13
Guarantor agencies	5	—	5	9	—	9
Other institutions	—	—	—	—	—	—
State and local government	—	56	56	—	39	39
Tolling authorities	—	15	15	—	13	13
Hospitals and other healthcare providers	—	47	47	—	34	34
<b>Total</b>	<b>\$ 5</b>	<b>\$ 122</b>	<b>\$ 127</b>	<b>\$ 18</b>	<b>\$ 90</b>	<b>\$ 108</b>

	Nine Months Ended September 30,					
	2021			2020		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
<b>(Dollars in millions)</b>						
Federal government	\$ 1	\$ —	\$ 1	\$ 39	\$ 12	\$ 51
Guarantor agencies	13	18	31	30	—	30
Other institutions	—	—	—	1	—	1
State and local government	—	144	144	—	84	84
Tolling authorities	—	42	42	—	37	37
Hospitals and other healthcare providers	—	173	173	—	78	78
<b>Total</b>	<b>\$ 14</b>	<b>\$ 377</b>	<b>\$ 391</b>	<b>\$ 70</b>	<b>\$ 211</b>	<b>\$ 281</b>

As of September 30, 2021 and September 30, 2020, there was \$124 million and \$90 million, respectively, of net accounts receivable related to these contracts. Navient had no material contract assets or contract liabilities.

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**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.

These segments meet the quantitative thresholds for reportable operating segments. Accordingly, the results of operations of these reportable operating segments are presented separately. The underlying operating segments are used by the Company's chief operating decision maker to manage the business, review operating performance and allocate resources, and qualify to be aggregated as part of the primary reportable operating segments. As discussed further below, we measure the profitability of our operating segments based on Core Earnings net income. Accordingly, information regarding our reportable operating segments net income is provided on a Core Earnings basis.

**Federal Education Loans Segment**

In this segment, Navient owns FFELP Loans and performs servicing and asset recovery services on this portfolio. We also service and perform asset recovery services on federal education loans owned by other institutions. Our servicing quality, data-driven strategies, and multichannel education about federal repayment options translates into positive results for the millions of borrowers we serve.

We generate revenue primarily through net interest income on the FFELP Loan portfolio as well as servicing and asset recovery services revenue. This segment is expected to generate significant earnings and cash flow over the remaining life of the portfolio.

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

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
FFELP Loans, net	\$ 54,350	\$ 58,284
Cash and investments <sup>(1)</sup>	1,654	1,685
Other	2,134	2,241
Total assets	<u>\$ 58,138</u>	<u>\$ 62,210</u>

(1) Includes restricted cash and investments.

**Consumer Lending Segment**

In this segment, Navient owns, originates, acquires and services high-quality Refinance and In-School private education loans. We believe our more than 45 years of experience, product design, digital marketing strategies, and origination and servicing platform provide a unique competitive advantage. We see meaningful opportunities in originating Private Education Loans to financially responsible consumers, generating attractive long-term risk adjusted returns. We generate revenue primarily through net interest income on our Private Education Loan portfolio.

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

<b>(Dollars in millions)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Private Education Loans, net	\$ 20,018	\$ 21,079
Cash and investments <sup>(1)</sup>	848	828
Other	844	964
Total assets	<u>\$ 21,710</u>	<u>\$ 22,871</u>

(1) Includes restricted cash and investments.

NAVIENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

**11. Segment Reporting (Continued)**

***Business Processing Segment***

In this segment, Navient performs business processing services for over 500 government and healthcare clients.

- **Government services:** We provide state governments, agencies, court systems, municipalities, and parking and tolling authorities with expert service, leveraging our scale, integrated technology solutions and data-driven approach. Our support enables our clients to better serve their constituents, meet rapidly changing needs, reduce their operating expenses, manage risk and maximize revenue opportunities.
- **Healthcare services:** We perform revenue cycle outsourcing, accounts receivable management, extended business office support, consulting engagements and public health programs. We offer customizable solutions for our clients that include hospitals, hospital systems, medical centers, large physician groups, other healthcare providers and departments of public health.

At September 30, 2021 and December 31, 2020, the Business Processing segment had total assets of \$439 million and \$425 million, respectively.

***Other Segment***

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

Unallocated shared services expenses are comprised of costs primarily related to information technology costs related to infrastructure and operations, stock-based compensation expense, accounting, finance, legal, compliance and risk management, regulatory-related expenses, human resources, certain executive management and the board of directors. Regulatory-related expenses 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.

At September 30, 2021 and December 31, 2020, the Other segment had total assets of \$1.7 billion and \$1.9 billion, respectively.

**NAVIENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Information at September 30, 2021 and for the three and nine months ended**  
**September 30, 2021 and 2020 is unaudited)**

**11. Segment Reporting (Continued)**

***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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

11. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

(Dollars in millions)	Three Months Ended September 30, 2021								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			Total GAAP
						Reclassifications	Additions/ (Subtractions)	Total Adjustments(1)	
Interest income:									
Education loans	\$ 353	\$ 291	\$ —	\$ —	\$ 644	\$ 25	\$ (10)	\$ 15	\$ 659
Cash and investments	—	1	—	—	1	—	—	—	1
Total interest income	353	292	—	—	645	25	(10)	15	660
Total interest expense	202	129	—	15	346	(3)	(17)	(20)	326
Net interest income (loss)	151	163	—	(15)	299	28	7	35	334
Less: provisions for loan losses	—	22	—	—	22	—	—	—	22
Net interest income (loss) after provisions for loan losses	151	141	—	(15)	277	28	7	35	312
Other income (loss):									
Servicing revenue	47	—	—	—	47	—	—	—	47
Asset recovery and business processing revenue	13	—	122	—	135	—	—	—	135
Other income (loss)	1	—	—	2	3	(28)	23	(5)	(2)
Losses on debt repurchases	—	—	—	(20)	(20)	—	—	—	(20)
Total other income (loss)	61	—	122	(18)	165	(28)	23	(5)	160
Expenses:									
Direct operating expenses	53	45	87	—	185	—	—	—	185
Unallocated shared services expenses	—	—	—	63	63	—	—	—	63
Operating expenses	53	45	87	63	248	—	—	—	248
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	4	4	4
Restructuring/other reorganization expenses	—	—	—	—	—	—	—	—	—
Total expenses	53	45	87	63	248	—	4	4	252
Income (loss) before income tax expense (benefit)	159	96	35	(96)	194	—	26	26	220
Income tax expense (benefit)(2)	37	23	8	(23)	45	—	2	2	47
Net income (loss)	\$ 122	\$ 73	\$ 27	\$ (73)	\$ 149	\$ —	\$ 24	\$ 24	\$ 173

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended September 30, 2021		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ 35	\$ —	\$ 35
Total other income (loss)	(5)	—	(5)
Goodwill and acquired intangible asset impairment and amortization	—	4	4
Total Core Earnings adjustments to GAAP	\$ 30	\$ (4)	26
Income tax expense (benefit)	—	—	2
Net income (loss)	—	—	\$ 24

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

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

11. Segment Reporting (Continued)

(Dollars in millions)	Three Months Ended September 30, 2020								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassifications	Adjustments Additions/ (Subtractions)	Total Adjustments <sup>(1)</sup>	Total GAAP
Interest income:									
Education loans	\$ 393	\$ 350	\$ —	\$ —	\$ 743	\$ 31	\$ (14)	\$ 17	\$ 760
Cash and investments	—	—	—	1	1	—	—	—	1
Total interest income	393	350	—	1	744	31	(14)	17	761
Total interest expense	232	161	—	30	423	7	(5)	2	425
Net interest income (loss)	161	189	—	(29)	321	24	(9)	15	336
Less: provisions for loan losses	4	10	—	—	14	—	—	—	14
Net interest income (loss) after provisions for loan losses	157	179	—	(29)	307	24	(9)	15	322
Other income (loss):									
Servicing revenue	53	1	—	—	54	—	—	—	54
Asset recovery and business processing revenue	35	—	90	—	125	—	—	—	125
Other income (loss)	(1)	—	—	1	—	(24)	22	(2)	(2)
Total other income (loss)	87	1	90	1	179	(24)	22	(2)	177
Expenses:									
Direct operating expenses	64	37	69	—	170	—	—	—	170
Unallocated shared services expenses	—	—	—	62	62	—	—	—	62
Operating expenses	64	37	69	62	232	—	—	—	232
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	5	5	5
Restructuring/other reorganization expenses	—	—	—	3	3	—	—	—	3
Total expenses	64	37	69	65	235	—	5	5	240
Income (loss) before income tax expense (benefit)	180	143	21	(93)	251	—	8	8	259
Income tax expense (benefit) <sup>(2)</sup>	43	33	5	(22)	59	—	(7)	(7)	52
Net income (loss)	\$ 137	\$ 110	\$ 16	\$ (71)	\$ 192	\$ —	\$ 15	\$ 15	\$ 207

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended September 30, 2020		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ 15	\$ —	\$ 15
Total other income (loss)	(2)	—	(2)
Goodwill and acquired intangible asset impairment and amortization	—	5	5
Total Core Earnings adjustments to GAAP	\$ 13	\$ (5)	8
Income tax expense (benefit)	—	—	(7)
Net income (loss)	—	—	\$ 15

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

11. Segment Reporting (Continued)

(Dollars in millions)	Nine Months Ended September 30, 2021					Adjustments				Total GAAP
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassifications	Additions/ Subtractions	Total Adjustments(1)		
Interest income:										
Education loans	\$ 1,062	\$ 905	\$ —	\$ —	\$ 1,967	\$ 73	\$ (29)	\$ 44	\$ 2,011	
Cash and investments	—	1	—	1	2	—	—	—	2	
Total interest income	1,062	906	—	1	1,969	73	(29)	44	2,013	
Total interest expense	627	416	—	51	1,094	(6)	(93)	(99)	995	
Net interest income (loss)	435	490	—	(50)	875	79	64	143	1,018	
Less: provisions for loan losses	—	(66)	—	—	(66)	—	—	—	(66)	
Net interest income (loss) after provisions for loan losses	435	556	—	(50)	941	79	64	143	1,084	
Other income (loss):										
Servicing revenue	146	3	—	—	149	—	—	—	149	
Asset recovery and business processing revenue	39	—	377	—	416	—	—	—	416	
Other income (loss)	3	1	—	5	9	(66)	87	21	30	
Gains on sales of loans	—	91	—	—	91	(13)	—	(13)	78	
Losses on debt repurchases	—	—	—	(32)	(32)	—	—	—	(32)	
Total other income (loss)	188	95	377	(27)	633	(79)	87	8	641	
Expenses:										
Direct operating expenses	170	124	270	—	564	—	—	—	564	
Unallocated shared services expenses	—	—	—	194	194	—	—	—	194	
Operating expenses	170	124	270	194	758	—	—	—	758	
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	14	14	14	
Restructuring/other reorganization expenses	—	—	—	8	8	—	—	—	8	
Total expenses	170	124	270	202	766	—	14	14	780	
Income (loss) before income tax expense (benefit)	453	527	107	(279)	808	—	137	137	945	
Income tax expense (benefit)(2)	107	123	25	(65)	190	—	27	27	217	
Net income (loss)	\$ 346	\$ 404	\$ 82	\$ (214)	\$ 618	\$ —	\$ 110	\$ 110	\$ 728	

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Nine Months Ended September 30, 2021		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ 143	\$ —	\$ 143
Total other income (loss)	8	—	8
Goodwill and acquired intangible asset impairment and amortization	—	14	14
Total Core Earnings adjustments to GAAP	\$ 151	\$ (14)	137
Income tax expense (benefit)	—	—	27
Net income (loss)	—	—	\$ 110

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



NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2021 and for the three and nine months ended  
September 30, 2021 and 2020 is unaudited)

11. Segment Reporting (Continued)

(Dollars in millions)	Nine Months Ended September 30, 2020					Adjustments			
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments(1)	Total GAAP
Interest income:									
Education loans	\$ 1,430	\$ 1,117	\$ —	\$ —	\$ 2,547	\$ 47	\$ (42)	\$ 5	\$ 2,552
Cash and investments	7	3	—	5	15	—	—	—	15
Total interest income	1,437	1,120	—	5	2,562	47	(42)	5	2,567
Total interest expense	974	545	—	96	1,615	39	4	43	1,658
Net interest income (loss)	463	575	—	(91)	947	8	(46)	(38)	909
Less: provisions for loan losses	13	140	—	—	153	—	—	—	153
Net interest income (loss) after provisions for loan losses	450	435	—	(91)	794	8	(46)	(38)	756
Other income (loss):									
Servicing revenue	158	5	—	—	163	—	—	—	163
Asset recovery and business processing revenue	126	—	211	—	337	—	—	—	337
Other income (loss)	8	—	—	9	17	(8)	(247)	(255)	(238)
Total other income (loss)	292	5	211	9	517	(8)	(247)	(255)	262
Expenses:									
Direct operating expenses	217	109	180	—	506	—	—	—	506
Unallocated shared services expenses	—	—	—	189	189	—	—	—	189
Operating expenses	217	109	180	189	695	—	—	—	695
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	16	16	16
Restructuring/other reorganization expenses	—	—	—	9	9	—	—	—	9
Total expenses	217	109	180	198	704	—	16	16	720
Income (loss) before income tax expense (benefit)	525	331	31	(280)	607	—	(309)	(309)	298
Income tax expense (benefit)(2)	124	78	7	(66)	143	—	(72)	(72)	71
Net income (loss)	\$ 401	\$ 253	\$ 24	\$ (214)	\$ 464	\$ —	\$ (237)	\$ (237)	\$ 227

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Nine Months Ended September 30, 2020		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ (38)	\$ —	\$ (38)
Total other income (loss)	(255)	—	(255)
Goodwill and acquired intangible asset impairment and amortization	—	16	16
Total Core Earnings adjustments to GAAP	\$ (293)	\$ (16)	(309)
Income tax expense (benefit)	—	—	(72)
Net income (loss)	—	—	\$ (237)

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 (Information at September 30, 2021 and for the three and nine months ended  
 September 30, 2021 and 2020 is unaudited)

**11. Segment Reporting (Continued)****Summary of Core Earnings Adjustments to GAAP**

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Core Earnings net income</b>	\$ 149	\$ 192	\$ 618	\$ 464
Core Earnings adjustments to GAAP:				
Net impact of derivative accounting <sup>(1)</sup>	30	13	151	(293)
Net impact of goodwill and acquired intangible assets <sup>(2)</sup>	(4)	(5)	(14)	(16)
Net tax effect <sup>(3)</sup>	(2)	7	(27)	72
Total Core Earnings adjustments to GAAP	24	15	110	(237)
<b>GAAP net income</b>	\$ 173	\$ 207	\$ 728	\$ 227

- (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. 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.

**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/ JOE FISHER  
Joe Fisher  
Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

Date: October 27, 2021

APPENDIX A  
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## 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

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John F. Remondi  
Chief Executive Officer  
(Principal Executive Officer)  
October 27, 2021

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

I, Joe Fisher, 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/ JOE FISHER

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Joe Fisher  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
October 27, 2021

**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 September 30, 2021 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)  
October 27, 2021

**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 September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joe Fisher, 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/ JOE FISHER

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Joe Fisher

Chief Financial Officer

(Principal Financial and Accounting Officer)

October 27, 2021