# 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 June 30, 2017**

**or**

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

**For the transition period from to**

**Commission File Number: 001-36228**

# Navient Corporation

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

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

**(302) 283-8000**

*(Registrant's telephone number, including area code)*

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

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

Indicate by check mark whether the registrant 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. (Check one):

| | |
|---|---|
| Large accelerated filer ☑ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |
| (Do not check if a 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class | Outstanding at June 30, 2017 |
|---|---|
| Common Stock, $0.01 par value | 274,104,268 shares |

# NAVIENT CORPORATION

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

## NAVIENT CORPORATION

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| FFELP Loans (net of allowance for losses of $61 and $67, respectively) | $ 86,140 | $ 87,730 |
| Private Education Loans (net of allowance for losses of $1,286 and $1,351 respectively) | 24,223 | 23,340 |
| Investments | | |
| Available-for-sale | 3 | 3 |
| Other | 312 | 347 |
| Total investments | 315 | 350 |
| Cash and cash equivalents | 1,153 | 1,253 |
| Restricted cash and investments | 3,589 | 3,600 |
| Goodwill and acquired intangible assets, net | 658 | 670 |
| Other assets | 4,276 | 4,193 |
| Total assets | $120,354 | $ 121,136 |
| **Liabilities** | | |
| Short-term borrowings | $ 3,918 | $ 2,334 |
| Long-term borrowings | 110,778 | 112,368 |
| Other liabilities | 2,094 | 2,711 |
| Total liabilities | 116,790 | 117,413 |
| **Commitments and contingencies** | | |
| **Equity** | | |
| Common stock, par value $0.01 per share, 1.125 billion shares authorized: 439 million and 436 million shares issued, respectively | 4 | 4 |
| Additional paid-in capital | 3,056 | 3,022 |
| Accumulated other comprehensive income (net of tax expense of $3 and $3, respectively) | 7 | 6 |
| Retained earnings | 2,997 | 2,890 |
| Total Navient Corporation stockholders' equity before treasury stock | 6,064 | 5,922 |
| Less: Common stock held in treasury at cost: 165 million and 145 million shares, respectively | (2,524) | (2,223) |
| Total Navient Corporation stockholders' equity | 3,540 | 3,699 |
| Noncontrolling interest | 24 | 24 |
| Total equity | 3,564 | 3,723 |
| Total liabilities and equity | $120,354 | $ 121,136 |

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| FFELP Loans | $81,651 | $ 83,429 |
| Private Education Loans | 21,530 | 20,500 |
| Other loans | 135 | 79 |
| Restricted cash | 3,433 | 3,434 |
| Other assets, net | 611 | (11) |
| Short-term borrowings | 1,410 | 1,078 |
| Long-term borrowings | 94,995 | 95,492 |
| Net assets of consolidated variable interest entities | $10,955 | $ 10,861 |

See accompanying notes to consolidated financial statements.

## NAVIENT CORPORATION

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

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Interest income:** | | | | |
| FFELP Loans | $ 668 | $ 618 | $ 1,298 | $ 1,252 |
| Private Education Loans | 386 | 402 | 760 | 813 |
| Other loans | 6 | 2 | 10 | 3 |
| Cash and investments | 10 | 6 | 17 | 12 |
| Total interest income | 1,070 | 1,028 | 2,085 | 2,080 |
| Total interest expense | 719 | 599 | 1,394 | 1,165 |
| Net interest income | 351 | 429 | 691 | 915 |
| Less: provisions for loan losses | 105 | 110 | 212 | 221 |
| Net interest income after provisions for loan losses | 246 | 319 | 479 | 694 |
| **Other income (loss):** | | | | |
| Servicing revenue | 70 | 71 | 146 | 154 |
| Asset recovery and business processing revenue | 111 | 101 | 210 | 191 |
| Other income (loss) | 6 | (21) | (1) | (35) |
| Gains (losses) on derivative and hedging activities, net | (25) | (28) | (41) | (27) |
| Total other income | 162 | 123 | 314 | 283 |
| **Expenses:** | | | | |
| Salaries and benefits | 124 | 124 | 253 | 256 |
| Other operating expenses | 106 | 106 | 216 | 222 |
| Total operating expenses | 230 | 230 | 469 | 478 |
| Goodwill and acquired intangible asset impairment and amortization expense | 6 | 6 | 11 | 10 |
| Total expenses | 236 | 236 | 480 | 488 |
| Income before income tax expense | 172 | 206 | 313 | 489 |
| Income tax expense | 60 | 81 | 113 | 184 |
| **Net income** | 112 | 125 | 200 | 305 |
| Less: net income (loss) attributable to noncontrolling interest | — | — | — | — |
| Net income attributable to Navient Corporation | $ 112 | $ 125 | $ 200 | $ 305 |
| **Basic earnings per common share attributable to Navient Corporation** | $ .40 | $ .39 | $ .70 | $ .92 |
| Average common shares outstanding | 280 | 322 | 284 | 331 |
| **Diluted earnings per common share attributable to Navient Corporation** | $ .39 | $ .38 | $ .69 | $ .91 |
| Average common and common equivalent shares outstanding | 285 | 328 | 291 | 335 |
| Dividends per common share attributable to Navient Corporation | $ .16 | $ .16 | $ .32 | $ .32 |

See accompanying notes to consolidated financial statements.

## NAVIENT CORPORATION

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

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Net income | $ 112 | $ 125 | $ 200 | $ 305 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on derivatives: | | | | |
| Unrealized hedging gains (losses) on derivatives | (24) | (62) | 1 | (191) |
| Reclassification adjustments for derivative (gains) losses included in net income (interest expense) | — | — | — | — |
| Total unrealized gains (losses) on derivatives | (24) | (62) | 1 | (191) |
| Income tax benefit | 9 | 23 | — | 71 |
| Other comprehensive income (loss), net of tax expense (benefit) | (15) | (39) | 1 | (120) |
| Total comprehensive income attributable to Navient Corporation | $ 97 | $ 86 | $ 201 | $ 185 |

See accompanying notes to consolidated financial statements.

# NAVIENT CORPORATION

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

| | Common Stock Shares | | | | | Accumulated | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued | Treasury | Outstanding | Common Stock | Additional Paid-In Capital | Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
| **Balance at March 31, 2016** | 433,061,241 | (102,547,422) | 330,513,819 | $ 4 | $ 2,975 | $ (132) | $ 2,538 | $ (1,636) | $ 3,749 | $ 24 | $ 3,773 |
| Comprehensive income: | | | | | | | | | | | |
| Net income (loss) | — | — | — | — | — | — | 125 | — | 125 | — | 125 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | (39) | — | — | (39) | — | (39) |
| Total comprehensive income | — | — | — | — | — | — | — | — | 86 | — | 86 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.16 per share) | — | — | — | — | — | — | (51) | — | (51) | — | (51) |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | (1) | — | (1) | — | (1) |
| Issuance of common shares | 467,007 | — | 467,007 | — | 4 | — | — | — | 4 | — | 4 |
| Tax impact of employee stock-based compensation plans | — | — | — | — | 1 | — | — | — | 1 | — | 1 |
| Stock-based compensation expense | — | — | — | — | 5 | — | — | — | 5 | — | 5 |
| Common stock repurchased | — | (13,579,381) | (13,579,381) | — | — | — | — | (175) | (175) | — | (175) |
| Shares repurchased related to employee stock-based compensation plans | — | (368,439) | (368,439) | — | — | — | — | (5) | (5) | — | (5) |
| **Balance at June 30, 2016** | 433,528,248 | (116,495,242) | 317,033,006 | $ 4 | $ 2,985 | $ (171) | $ 2,611 | $ (1,816) | $ 3,613 | $ 24 | $ 3,637 |
| **Balance at March 31, 2017** | 438,832,176 | (153,891,120) | 284,941,056 | $ 4 | $ 3,047 | $ 22 | $ 2,930 | $ (2,355) | $ 3,648 | $ 24 | $ 3,672 |
| Comprehensive income: | | | | | | | | | | | |
| Net income (loss) | — | — | — | — | — | — | 112 | — | 112 | — | 112 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | (15) | — | — | (15) | — | (15) |
| Total comprehensive income | — | — | — | — | — | — | — | — | 97 | — | 97 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.16 per share) | — | — | — | — | — | — | (45) | — | (45) | — | (45) |
| Issuance of common shares | 355,802 | — | 355,802 | — | 3 | — | — | — | 3 | — | 3 |
| Stock-based compensation expense | — | — | — | — | 6 | — | — | — | 6 | — | 6 |
| Common stock repurchased | — | (10,936,715) | (10,936,715) | — | — | — | — | (165) | (165) | — | (165) |
| Shares repurchased related to employee stock-based compensation plans | — | (255,875) | (255,875) | — | — | — | — | (4) | (4) | — | (4) |
| **Balance at June 30, 2017** | 439,187,978 | (165,083,710) | 274,104,268 | $ 4 | $ 3,056 | $ 7 | $ 2,997 | $ (2,524) | $ 3,540 | $ 24 | $ 3,564 |

See accompanying notes to consolidated financial statements.

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# NAVIENT CORPORATION

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

| | Common Stock Shares | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Issued** | **Treasury** | **Outstanding** | **Common Stock** | **Additional Paid-In Capital** | **Accumulated Other Comprehensive Income (Loss)** | **Retained Earnings** | **Treasury Stock** | **Total Stockholders' Equity** | **Noncontrolling Interest** | **Total Equity** |
| **Balance at December 31, 2015** | 430,561,656 | (82,350,868) | 348,210,788 | $ 4 | $ 2,967 | $ (51) | $ 2,414 | $ (1,425) | $ 3,909 | $ 24 | $ 3,933 |
| Comprehensive income: | | | | | | | | | | | |
| Net income (loss) | — | — | — | — | — | — | 305 | — | 305 | — | 305 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | (120) | — | — | (120) | — | (120) |
| Total comprehensive income | — | — | — | — | — | — | — | — | 185 | — | 185 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.32 per share) | — | — | — | — | — | — | (105) | — | (105) | — | (105) |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | (3) | — | (3) | — | (3) |
| Issuance of common shares | 2,966,592 | — | 2,966,592 | — | 8 | — | — | — | 8 | — | 8 |
| Tax benefit related to employee stock-based compensation plans | — | — | — | — | (8) | — | — | — | (8) | — | (8) |
| Stock-based compensation expense | — | — | — | — | 18 | — | — | — | 18 | — | 18 |
| Common stock repurchased | — | (32,789,662) | (32,789,662) | — | — | — | — | (375) | (375) | — | (375) |
| Shares repurchased related to employee stock-based compensation plans | — | (1,354,712) | (1,354,712) | — | — | — | — | (16) | (16) | — | (16) |
| **Balance at June 30, 2016** | 433,528,248 | (116,495,242) | 317,033,006 | $ 4 | $ 2,985 | $ (171) | $ 2,611 | $ (1,816) | $ 3,613 | $ 24 | $ 3,637 |
| **Balance at December 31, 2016** | 436,037,666 | (145,173,548) | 290,864,118 | $ 4 | $ 3,022 | $ 6 | $ 2,890 | $ (2,223) | $ 3,699 | $ 24 | $ 3,723 |
| Comprehensive income: | | | | | | | | | | | |
| Net income (loss) | — | — | — | — | — | — | 200 | — | 200 | — | 200 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | 1 | — | — | 1 | — | 1 |
| Total comprehensive income | — | — | — | — | — | — | — | — | 201 | — | 201 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.32 per share) | — | — | — | — | — | — | (91) | — | (91) | — | (91) |
| Dividend equivalent units related to employee stock-based compensation plans | — | — | — | — | — | — | (2) | — | (2) | — | (2) |
| Issuance of common shares | 3,150,312 | — | 3,150,312 | — | 15 | — | — | — | 15 | — | 15 |
| Stock-based compensation expense | — | — | — | — | 19 | — | — | — | 19 | — | 19 |
| Common stock repurchased | — | (18,300,007) | (18,300,007) | — | — | — | — | (275) | (275) | — | (275) |
| Shares repurchased related to employee stock-based compensation plans | — | (1,610,155) | (1,610,155) | — | — | — | — | (26) | (26) | — | (26) |
| **Balance at June 30, 2017** | 439,187,978 | (165,083,710) | 274,104,268 | $ 4 | $ 3,056 | $ 7 | $ 2,997 | $ (2,524) | $ 3,540 | $ 24 | $ 3,564 |

See accompanying notes to consolidated financial statements.

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## NAVIENT CORPORATION

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

| | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 200 | $ 305 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Goodwill and acquired intangible asset impairment and amortization expense | 11 | 10 |
| Stock-based compensation expense | 19 | 18 |
| Unrealized losses (gains) on derivative and hedging activities | 21 | (150) |
| Provisions for loan losses | 212 | 221 |
| (Increase) decrease in restricted cash — other | (5) | 1 |
| Decrease in accrued interest receivable | 28 | 50 |
| Increase (decrease) in accrued interest payable | 17 | (125) |
| Decrease in other assets | 99 | 417 |
| Increase in other liabilities | 23 | 24 |
| Total net cash provided by operating activities | 625 | 771 |
| **Investing activities** | | |
| Education loans acquired | (5,796) | (2,183) |
| Reduction of education loans: | | |
| Installment payments, claims and other | 7,751 | 7,458 |
| Other investing activities, net | (180) | (51) |
| Proceeds from maturities of available-for-sale securities | — | 1 |
| Purchases of other securities | — | (43) |
| Proceeds from maturities of other securities | 15 | 41 |
| Decrease in restricted cash — variable interest entities | 88 | 164 |
| Total net cash provided by investing activities | 1,878 | 5,387 |
| **Financing activities** | | |
| Borrowings collateralized by loans in trust — issued | 4,090 | 3,791 |
| Borrowings collateralized by loans in trust — repaid | (7,190) | (6,603) |
| Asset-backed commercial paper conduits, net | 367 | (2,002) |
| Other short-term borrowings repaid | (25) | — |
| Other long-term borrowings issued | 1,353 | — |
| Other long-term borrowings repaid | (793) | (1,228) |
| Other financing activities, net | (39) | 147 |
| Common stock repurchased | (275) | (375) |
| Common stock dividends paid | (91) | (105) |
| Net cash used in financing activities | (2,603) | (6,375) |
| Net decrease in cash and cash equivalents | (100) | (217) |
| Cash and cash equivalents at beginning of period | 1,253 | 1,594 |
| Cash and cash equivalents at end of period | $ 1,153 | $ 1,377 |
| Cash disbursements made (refunds received) for: | | |
| Interest | $ 1,379 | $ 1,088 |
| Income taxes paid | $ 103 | $ 87 |
| Income taxes received | $ — | $ (2) |
| Noncash activity: | | |
| Investing activity — Education loans and restricted cash acquired | $ 1,552 | $ — |
| Operating activity — Other assets acquired and other liabilities assumed, net | $ 14 | $ — |
| Financing activity — Borrowings assumed in acquisition of education loans and restricted cash | $ 1,566 | $ — |

See accompanying notes to consolidated financial statements.

## NAVIENT CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Information at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 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 six months ended June 30, 2017 are not necessarily indicative of the results for the year ending December 31, 2017 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, 2016 (the "2016 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 2016 Form 10-K.

***Reclassifications***

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2016 to be consistent with classifications adopted for 2017, and had no effect on net income, total assets, or total liabilities.

***Education Loan Interest Income and Allowance for Loan Losses***

In June 2017, Navient purchased education loans with an unpaid principal amount of $6.5 billion comprised of $3.5 billion in FFELP Loans and $3.0 billion in Private Education Loans.

*Purchased Credit Impaired ("PCI") Loans*

Loans acquired with evidence of deterioration of credit quality since origination for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable are PCI loans accounted for under Accounting Standard Codification ("ASC") 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." When considering whether evidence of credit quality deterioration exists as of the purchase date, the Company considers loan guarantees and the following credit attributes: delinquency status, use of forbearance, recent borrower FICO scores, use of loan modification programs, and borrowers who have filed for bankruptcy.

The Company aggregates loans with common risk characteristics into pools and accounts for each pool as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The pools when formed are initially recorded at fair value. The Company recognizes interest income based on each pool's effective interest rate which is based on our estimate of all cash flows expected to be received and includes an assumption about prepayment rates. The pools are tested quarterly for impairment by re-estimating the future cash flows to be received from the pools. If the new estimated cash flows result in a pool's effective interest rate increasing, then this new yield is used prospectively over the remaining life of the pool. If the new estimated cash flows result in a pool's effective interest rate decreasing, the pool is impaired and written down through a valuation allowance to maintain the effective interest rate.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

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

Based on the credit attributes discussed above, we concluded that $261 million principal amount of Private Education Loans acquired in June 2017 are required to be accounted for as PCI loans with a fair value of $101 million as of the acquisition date. As of acquisition, this portfolio's contractually required payments receivable (the total undiscounted amount of all uncollected contractual principal and interest payments both past due and scheduled for the future, adjusted for prepayments) was $411 million with an estimated accretable yield (income expected to be recognized in future periods) of $108 million. There is no valuation allowance recorded as of June 30, 2017.

*Purchased Non-Credit Impaired Loans*

Loans acquired that do not have evidence of credit deterioration since origination are recorded at fair value with no allowance for loan losses established at the acquisition date. Loan premiums and discounts are amortized as a part of interest income using the interest method under ASC 310-20, "Nonrefundable Fees and Other Costs." An allowance for loan losses is established when incurred losses in the loans exceed the remaining unamortized discount recorded at the time of acquisition (i.e., the next two years of expected charge-offs as well as any additional TDR allowance required is greater than the remaining discount). As a result of this policy, to the extent that actual charge-offs exceed any related allowance for loan losses recognized post-acquisition, provision for loan losses is recorded when the loans are charged off. Charge-offs are recorded through the allowance for loan losses. In June 2017, we acquired Private Education Loans with unpaid principal balance of $2.8 billion at a discount of $424 million and FFELP Loans with unpaid principal balance of $3.5 billion at a discount of $47 million, that are accounted for under this policy. No allowance for loan losses has been established for these loans as of June 30, 2017.

***Recently Issued Accounting Pronouncements***

*Revenue Recognition*

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance supersedes current U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgements than the current revenue standards. The new guidance does not apply to revenue associated with financial instruments, including loans, that are accounted for under other U.S. GAAP. Accordingly, we do not expect the new revenue recognition guidance to have a material impact on our consolidated results of operations associated with our loan portfolios including net interest income.

We plan to adopt the new standard as of January 1, 2018, the effective date. The new standard permits the use of either the retrospective or cumulative effect transition method. Our implementation efforts to date include the identification of revenue and review of related contracts within the scope of the new standard. We have not yet identified nor do we anticipate material changes in the timing of revenue recognition. However, our review is ongoing as we continue to evaluate both contract revenue and certain contract costs.

*Classification and Measurement*

On January 5, 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which reconsiders the classification and measurement of financial instruments.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 1. Significant Accounting Policies (Continued)

The new standard requires certain equity instruments be measured at fair value, with fair value changes recognized in earnings. In addition, the standard requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. It will be effective for the Company as of January 1, 2018. We have concluded that adopting this new accounting standard will be immaterial to our consolidated financial statements and footnote disclosures.

*Leases*

On February 25, 2016, the FASB issued ASU No. 2016-02, “Leases,” which requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve-month term, these arrangements must be recognized as assets and liabilities on the balance sheet of the lessee. A right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption must be calculated using the applicable incremental borrowing rate at the date of adoption. The standard requires the use of the modified retrospective transition method, which will require adjustment to all comparative periods presented. It will be effective for the Company as of January 1, 2019. Early adoption is permitted. We are currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements and footnote disclosures, but expect it to be immaterial.

*Stock Compensation*

On March 30, 2016, the FASB issued ASU No. 2016-09, “Compensation — Stock Compensation,” which identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The new standard also requires that all excess tax benefits and tax deficiencies that pertain to employee stock-based incentive payments be recognized within income tax expense in the consolidated statements of income, rather than as previously reported within additional paid-in capital. The new standard was adopted on January 1, 2017 and is expected to have an immaterial impact on our consolidated financial statements and footnote disclosures. In the six months ended June 30, 2017, this new standard resulted in a $5 million reduction to income tax expense.

*Allowance for Loan Losses*

On June 16, 2016, the FASB issued ASU No. 2016-13, “Financial Instruments — Credit Losses,” which requires measurement and recognition of an allowance for loan loss that estimates remaining expected credit losses for financial assets held at the reporting date. Our current allowance for loan loss is an incurred loss model. As a result, we expect the new guidance will result in an increase to our allowance for loan losses. The standard is to be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for the Company as of January 1, 2020, and will primarily impact the allowance for loan losses related to our Private Education Loans and FFELP Loans. Early adoption is permitted on January 1, 2019. This standard represents a significant departure from existing GAAP, and may result in material changes to the Company’s accounting for the allowance for loan losses. We are currently evaluating the impact of adopting this accounting standard on our consolidated financial statements and footnote disclosures.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
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**1. Significant Accounting Policies (Continued)**

*Intra-Entity Transfer of Assets*

On October 24, 2016, the FASB issued ASU No. 2016-16, "Income Taxes — Intra-Entity Transfer of Assets Other and Inventory," which requires recognition of the income tax consequences of an intra-entity transfer of non-inventory assets when the transfer occurs. The new standard is effective for the Company as of January 1, 2018. We have concluded that adopting this new accounting standard will be immaterial to our consolidated financial statements and footnote disclosures.

*Goodwill Impairment*

On January 26, 2017, the FASB issued ASU No. 2017-04, "Intangibles — Goodwill and Other," which eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. The annual assessment of goodwill impairment will be determined by using the difference between the carrying amount and the fair value of the reporting unit. The new standard will be effective for the Company as of January 1, 2020. Early adoption is permitted. We are currently assessing the impact that adopting this new standard will have on our consolidated financial statements and footnote disclosures.

**2. Allowance for Loan Losses**

Our provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. See "Note 1 – Significant Accounting Policies – Education Loan Interest Income and Allowance for Loan Losses" for a description of our policy for the $6.5 billion of loans ($3.5 billion of FFELP and $3.0 billion of Private Education) purchased in June 2017 accounted for as either Purchased Credit Impaired Loans or Purchased Non-Credit Impaired Loans.

We segregate our Private Education Loan portfolio into two classes of loans — traditional and non-traditional. Non-traditional loans are loans to (i) customers attending for-profit schools with an original Fair Isaac and Company ("FICO") score of less than 670 and (ii) customers attending not-for-profit schools with an original FICO score of less than 640. The FICO score used in determining whether a loan is non-traditional is the greater of the customer or cosigner FICO score at or near origination. Traditional loans are defined as all other Private Education Loans that are not classified as non-traditional.

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(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

*Allowance for Loan Losses Metrics*

| | Three Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| **Allowance for Loan Losses** | | | | |
| Beginning balance | $ 64 | $ 1,311 | $ 16 | $ 1,391 |
| Total provision | 10 | 95 | — | 105 |
| Charge-offs(1) | (13) | (122) | (1) | (136) |
| Reclassification of interest reserve(2) | — | 2 | — | 2 |
| Ending balance | $ 61 | $ 1,286 | $ 15 | $ 1,362 |
| *Allowance Ending Balance:* | | | | |
| Individually evaluated for impairment | $ — | $ 1,153 | $ 10 | $ 1,163 |
| Collectively evaluated for impairment: | | | | |
| Excluding Purchased Non-Credit Impaired Loans and Purchased Credit Impaired Loans | 61 | 133 | 5 | 199 |
| Purchased Non-Credit Impaired Loans(3) | — | — | — | — |
| Purchased Credit Impaired Loans(3) | — | — | — | — |
| Ending total allowance | $ 61 | $ 1,286 | $ 15 | $ 1,362 |
| *Loans Ending Balance:* | | | | |
| Individually evaluated for impairment | $ — | $ 11,020 | $ 31 | $ 11,051 |
| Collectively evaluated for impairment: | | | | |
| Excluding Purchased Non-Credit Impaired Loans and Purchased Credit Impaired Loans | 81,984 | 12,467 | 174 | 94,625 |
| Purchased Non-Credit Impaired Loans(3) | 3,463 | 2,755 | — | 6,218 |
| Purchased Credit Impaired Loans(3) | — | 261 | — | 261 |
| Ending total loans(4) | $ 85,447 | $ 26,503 | $ 205 | $112,155 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .08% | 2.25% | 2.37% | |
| Allowance coverage of charge-offs (annualized) | 1.1 | 2.6 | 3.3 | |
| Allowance as a percentage of the ending total loan balance(3) | .07% | 4.85% | 7.49% | |
| Allowance as a percentage of the ending loans in repayment(3) | .09% | 5.45% | 7.49% | |
| Ending total loans(4) | $ 85,447 | $ 26,503 | $ 205 | |
| Average loans in repayment | $ 68,915 | $ 21,621 | $ 197 | |
| Ending loans in repayment | $ 70,095 | $ 23,613 | $ 205 | |

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

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

(3) See "Note 1 – Significant Accounting Policies – Education Loan Interest Income and Allowance for Loan Losses" for a description of our policy for the $6.5 billion of loans ($3.5 billion of FFELP and $3.0 billion of Private Education) purchased in June 2017 accounted for as either Purchased Credit Impaired Loans or Purchased Non-Credit Impaired Loans. The Purchased Credit Impaired Loans' losses are not provided for by the allowance for loan losses in the above table as these loans are separately reserved for, if needed. No allowance for loan losses has been established for these loans as of June 30, 2017. The Purchased Non-Credit Impaired Loans' losses are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of $47 million and $419 million, respectively, as of June 30, 2017 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of June 30, 2017. As a result, excluding the $6.5 billion of loans acquired in June 2017, the allowance as a percentage of the ending total loan balance and the allowance as a percentage of the ending loans in repayment would be 0.07 percent and 0.09 percent for FFELP Loans and 5.48 percent and 6.20 percent for Private Education Loans, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

| (Dollars in millions) | Three Months Ended June 30, 2016 FFELP Loans | Private Education Loans | Other Loans | Total |
|---|---|---|---|---|
| **Allowance for Loan Losses** | | | | |
| Beginning balance | $ 69 | $ 1,434 | $ 15 | $ 1,518 |
| Total provision | 10 | 100 | — | 110 |
| Charge-offs[1] | (13) | (127) | — | (140) |
| Reclassification of interest reserve[2] | — | 3 | — | 3 |
| Ending balance | $ 66 | $ 1,410 | $ 15 | $ 1,491 |
| *Allowance:* | | | | |
| Ending balance: individually evaluated for impairment | $ — | $ 1,163 | $ 11 | $ 1,174 |
| Ending balance: collectively evaluated for impairment | 66 | 247 | 4 | 317 |
| Ending total allowance | $ 66 | $ 1,410 | $ 15 | $ 1,491 |
| *Loans:* | | | | |
| Ending balance: individually evaluated for impairment[3] | $ — | $ 11,162 | $ 33 | $ 11,195 |
| Ending balance: collectively evaluated for impairment[3] | 91,625 | 15,478 | 47 | 107,150 |
| Ending total loans[3] | $ 91,625 | $ 26,640 | $ 80 | $ 118,345 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .07% | 2.17% | 1.32% | |
| Allowance coverage of charge-offs (annualized) | 1.2 | 2.8 | 13.5 | |
| Allowance as a percentage of the ending total loan balance | .07% | 5.29% | 18.18% | |
| Allowance as a percentage of the ending loans in repayment | .09% | 6.06% | 18.18% | |
| Ending total loans[3] | $ 91,625 | $ 26,640 | $ 80 | |
| Average loans in repayment | $ 72,980 | $ 23,561 | $ 82 | |
| Ending loans in repayment | $ 71,991 | $ 23,265 | $ 80 | |

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

| | Six Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| **Allowance for Loan Losses** | | | | |
| Beginning balance | $ 67 | $ 1,351 | $ 15 | $ 1,433 |
| Total provision | 20 | 190 | 2 | 212 |
| Charge-offs[1] | (26) | (259) | (2) | (287) |
| Reclassification of interest reserve[2] | — | 4 | — | 4 |
| Ending balance | $ 61 | $ 1,286 | $ 15 | $ 1,362 |
| *Allowance Ending Balance:* | | | | |
| Individually evaluated for impairment | $ — | $ 1,153 | $ 10 | $ 1,163 |
| Collectively evaluated for impairment: | | | | |
| Excluding Purchased Non-Credit Impaired Loans and Purchased Credit Impaired Loans | 61 | 133 | 5 | 199 |
| Purchased Non-Credit Impaired Loans[3] | — | — | — | — |
| Purchased Credit Impaired Loans[3] | — | — | — | — |
| Ending total allowance | $ 61 | $ 1,286 | $ 15 | $ 1,362 |
| *Loans Ending Balance:* | | | | |
| Individually evaluated for impairment | $ — | $ 11,020 | $ 31 | $ 11,051 |
| Collectively evaluated for impairment: | | | | |
| Excluding Purchased Non-Credit Impaired Loans and Purchased Credit Impaired Loans | 81,984 | 12,467 | 174 | 94,625 |
| Purchased Non-Credit Impaired Loans[3] | 3,463 | 2,755 | — | 6,218 |
| Purchased Credit Impaired Loans[3] | — | 261 | — | 261 |
| Ending total loans[4] | $ 85,447 | $ 26,503 | $ 205 | $112,155 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .08% | 2.40% | 2.22% | |
| Allowance coverage of charge-offs (annualized) | 1.2 | 2.5 | 3.7 | |
| Allowance as a percentage of the ending total loan balance[3] | .07% | 4.85% | 7.49% | |
| Allowance as a percentage of the ending loans in repayment[3] | .09% | 5.45% | 7.49% | |
| Ending total loans[4] | $ 85,447 | $ 26,503 | $ 205 | |
| Average loans in repayment | $ 69,108 | $ 21,706 | $ 185 | |
| Ending loans in repayment | $ 70,095 | $ 23,613 | $ 205 | |

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

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

(3) See "Note 1 – Significant Accounting Policies – Education Loan Interest Income and Allowance for Loan Losses" for a description of our policy for the $6.5 billion of loans ($3.5 billion of FFELP and $3.0 billion of Private Education) purchased in June 2017 accounted for as either Purchased Credit Impaired Loans or Purchased Non-Credit Impaired Loans. The Purchased Credit Impaired Loans' losses are not provided for by the allowance for loan losses in the above table as these loans are separately reserved for, if needed. No allowance for loan losses has been established for these loans as of June 30, 2017. The Purchased Non-Credit Impaired Loans' losses are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of $47 million and $419 million, respectively, as of June 30, 2017 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of June 30, 2017. As a result, excluding the $6.5 billion of loans acquired in June 2017, the allowance as a percentage of the ending total loan balance and the allowance as a percentage of the ending loans in repayment would be 0.07 percent and 0.09 percent for FFELP Loans and 5.48 percent and 6.20 percent for Private Education Loans, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

| | Six Months Ended June 30, 2016 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| **Allowance for Loan Losses** | | | | |
| Beginning balance | $ 78 | $ 1,471 | $ 15 | $ 1,564 |
| Total provision | 17 | 204 | — | 221 |
| Charge-offs[1] | (29) | (271) | — | (300) |
| Reclassification of interest reserve[2] | — | 6 | — | 6 |
| Ending balance | $ 66 | $ 1,410 | $ 15 | $ 1,491 |
| *Allowance:* | | | | |
| Ending balance: individually evaluated for impairment | $ — | $ 1,163 | $ 11 | $ 1,174 |
| Ending balance: collectively evaluated for impairment | 66 | 247 | 4 | 317 |
| Ending total allowance | $ 66 | $ 1,410 | $ 15 | $ 1,491 |
| *Loans:* | | | | |
| Ending balance: individually evaluated for impairment[3] | $ — | $ 11,162 | $ 33 | $ 11,195 |
| Ending balance: collectively evaluated for impairment[3] | 91,625 | 15,478 | 47 | 107,150 |
| Ending total loans[3] | $ 91,625 | $ 26,640 | $ 80 | $118,345 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .08% | 2.28% | 1.69% | |
| Allowance coverage of charge-offs (annualized) | 1.1 | 2.6 | 10.4 | |
| Allowance as a percentage of the ending total loan balance | .07% | 5.29% | 18.18% | |
| Allowance as a percentage of the ending loans in repayment | .09% | 6.06% | 18.18% | |
| Ending total loans[3] | $ 91,625 | $ 26,640 | $ 80 | |
| Average loans in repayment | $ 73,339 | $ 23,871 | $ 83 | |
| Ending loans in repayment | $ 71,991 | $ 23,265 | $ 80 | |

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

*Key Credit Quality Indicators*

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

For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the traditional/non-traditional loan designation. The other Private Education Loan key quality indicators can change and are incorporated quarterly into the allowance for loan losses calculation. The following table highlights the principal balance (excluding the receivable for partially charged-off loans) of our Private Education Loan portfolio stratified by the key credit quality indicators.

| | Private Education Loans Credit Quality Indicators | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| (Dollars in millions) | Balance[3] | % of Balance | Balance[3] | % of Balance |
| **Credit Quality Indicators** | | | | |
| School Type/FICO Scores: | | | | |
| Traditional | $23,583 | 92% | $22,367 | 92% |
| Non-Traditional[1] | 2,136 | 8 | 1,966 | 8 |
| Total | $25,719 | 100% | $24,333 | 100% |
| Cosigners: | | | | |
| With cosigner | $16,714 | 65% | $15,610 | 64% |
| Without cosigner | 9,005 | 35 | 8,723 | 36 |
| Total | $25,719 | 100% | $24,333 | 100% |
| Seasoning[2]: | | | | |
| 1-12 payments | $ 1,402 | 5% | $ 1,340 | 5% |
| 13-24 payments | 1,152 | 5 | 1,271 | 5 |
| 25-36 payments | 1,723 | 7 | 1,908 | 8 |
| 37-48 payments | 2,673 | 10 | 2,723 | 11 |
| More than 48 payments | 17,533 | 68 | 15,698 | 65 |
| Not yet in repayment | 1,236 | 5 | 1,393 | 6 |
| Total | $25,719 | 100% | $24,333 | 100% |

(1) Defined as loans to customers attending for-profit schools (with a FICO score of less than 670 at origination) and customers attending not-for-profit schools (with a FICO score of less than 640 at origination).

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

(3) Balance represents gross Private Education Loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
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## 2. Allowance for Loan Losses (Continued)

The following tables provide information regarding the loan status and aging of past due loans.

| | FFELP Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 5,538 | | $ 5,871 | |
| Loans in forbearance[2] | 9,814 | | 10,490 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 61,108 | 87.2% | 61,977 | 87.8% |
| Loans delinquent 31-60 days[3] | 3,187 | 4.5 | 2,820 | 4.0 |
| Loans delinquent 61-90 days[3] | 1,596 | 2.3 | 1,325 | 1.9 |
| Loans delinquent greater than 90 days[3] | 4,204 | 6.0 | 4,435 | 6.3 |
| Total FFELP Loans in repayment | 70,095 | 100% | 70,557 | 100% |
| Total FFELP Loans, gross | 85,447 | | 86,918 | |
| FFELP Loan unamortized premium | 754 | | 879 | |
| Total FFELP Loans | 86,201 | | 87,797 | |
| FFELP Loan allowance for losses | (61) | | (67) | |
| FFELP Loans, net | $86,140 | | $87,730 | |
| Percentage of FFELP Loans in repayment | | 82.0% | | 81.2% |
| Delinquencies as a percentage of FFELP Loans in repayment | | 12.8% | | 12.2% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance | | 12.3% | | 12.9% |

(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.

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

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

| | Traditional Private Education Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 1,122 | | $ 1,271 | |
| Loans in forbearance[2] | 771 | | 700 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 20,496 | 94.5% | 19,020 | 93.3% |
| Loans delinquent 31-60 days[3] | 413 | 1.9 | 444 | 2.2 |
| Loans delinquent 61-90 days[3] | 240 | 1.1 | 269 | 1.3 |
| Loans delinquent greater than 90 days[3] | 541 | 2.5 | 663 | 3.2 |
| Total traditional loans in repayment | 21,690 | 100% | 20,396 | 100% |
| Total traditional loans, gross | 23,583 | | 22,367 | |
| Traditional loans unamortized discount | (884) | | (402) | |
| Total traditional loans | 22,699 | | 21,965 | |
| Traditional loans receivable for partially charged-off loans | 509 | | 526 | |
| Traditional loans allowance for losses | (1,083) | | (1,138) | |
| Traditional loans, net | $22,125 | | $21,353 | |
| Percentage of traditional loans in repayment | | 92.0% | | 91.2% |
| Delinquencies as a percentage of traditional loans in repayment | | 5.5% | | 6.7% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 3.4% | | 3.3% |

(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, 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.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

| | Non-Traditional Private Education Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[(1)] | $ 114 | | $ 122 | |
| Loans in forbearance[(2)] | 99 | | 90 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 1,691 | 87.9% | 1,486 | 84.8% |
| Loans delinquent 31-60 days[(3)] | 68 | 3.6 | 78 | 4.5 |
| Loans delinquent 61-90 days[(3)] | 47 | 2.4 | 52 | 2.9 |
| Loans delinquent greater than 90 days[(3)] | 117 | 6.1 | 138 | 7.8 |
| Total non-traditional loans in repayment | 1,923 | 100% | 1,754 | 100% |
| Total non-traditional loans, gross | 2,136 | | 1,966 | |
| Non-traditional loans unamortized discount | (110) | | (55) | |
| Total non-traditional loans | 2,026 | | 1,911 | |
| Non-traditional loans receivable for partially charged-off loans | 275 | | 289 | |
| Non-traditional loans allowance for losses | (203) | | (213) | |
| Non-traditional loans, net | $ 2,098 | | $ 1,987 | |
| Percentage of non-traditional loans in repayment | | 90.0% | | 89.2% |
| Delinquencies as a percentage of non-traditional loans in repayment | | 12.1% | | 15.2% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 4.9% | | 4.9% |

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

(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, 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.

*Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for 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 remaining loan balance as the “receivable for partially 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 receivable for partially charged-off Private Education 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.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

The following table summarizes the activity in the receivable for partially charged-off Private Education Loans.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Receivable at beginning of period | $ 800 | $ 867 | $ 815 | $ 881 |
| Expected future recoveries of current period defaults[1] | 29 | 32 | 63 | 68 |
| Recoveries[2] | (40) | (49) | (84) | (95) |
| Charge-offs[3] | (5) | (3) | (10) | (7) |
| Receivable at end of period | $ 784 | $ 847 | $ 784 | $ 847 |

(1) Represents our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall — the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the "Allowance for Private Education Loan Losses" table.

*Troubled Debt Restructurings ("TDRs")*

We sometimes modify the terms of loans for certain customers when we believe such modifications may increase the ability and willingness of a customer to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. 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 59 percent and 61 percent of the loans granted forbearance have qualified as a TDR loan at June 30, 2017 and December 31, 2016, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction plan as of June 30, 2017 and December 31, 2016 was $2.6 billion and $2.6 billion, respectively.

At June 30, 2017 and December 31, 2016, all of our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

| | TDR Loans | | |
|---|---|---|---|
| (Dollars in millions) | Recorded Investment[1] | Unpaid Principal Balance | Related Allowance |
| **June 30, 2017** | | | |
| Private Education Loans — Traditional | $ 9,277 | $ 9,322 | $ 973 |
| Private Education Loans — Non-Traditional | 1,317 | 1,323 | 180 |
| Total | $ 10,594 | $10,645 | $ 1,153 |
| **December 31, 2016** | | | |
| Private Education Loans — Traditional | $ 9,386 | $ 9,429 | $ 1,003 |
| Private Education Loans — Non-Traditional | 1,373 | 1,376 | 187 |
| Total | $ 10,759 | $10,805 | $ 1,190 |

(1) The recorded investment is equal to the unpaid principal balance and accrued interest receivable net of unamortized deferred fees and costs.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

The following tables provide the average recorded investment and interest income recognized for our TDR loans.

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| (Dollars in millions) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Private Education Loans — Traditional | $ 9,307 | $ 149 | $ 9,320 | $ 138 |
| Private Education Loans — Non-Traditional | 1,333 | 27 | 1,418 | 27 |
| Total | $ 10,640 | $ 176 | $ 10,738 | $ 165 |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| (Dollars in millions) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Private Education Loans — Traditional | $ 9,337 | $ 295 | $ 9,271 | $ 276 |
| Private Education Loans — Non-Traditional | 1,346 | 53 | 1,425 | 54 |
| Total | $ 10,683 | $ 348 | $ 10,696 | $ 330 |

The following table provides information regarding the loan status and aging of TDR loans that are past due.

| | TDR Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2017 | | December 31, 2016 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in deferment[(1)] | $ 509 | | $ 579 | |
| Loans in forbearance[(2)] | 624 | | 588 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 8,367 | 88.0% | 8,273 | 85.8% |
| Loans delinquent 31-60 days[(3)] | 355 | 3.7 | 412 | 4.3 |
| Loans delinquent 61-90 days[(3)] | 223 | 2.3 | 267 | 2.8 |
| Loans delinquent greater than 90 days[(3)] | 567 | 6.0 | 686 | 7.1 |
| Total TDR loans in repayment | 9,512 | 100% | 9,638 | 100% |
| Total TDR loans, gross | $10,645 | | $10,805 | |

(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, 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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(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 2. Allowance for Loan Losses (Continued)

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| (Dollars in millions) | Modified Loans[1] | Charge-Offs[2] | Payment Default | Modified Loans[1] | Charge-Offs[2] | Payment Default |
| Private Education Loans — Traditional | $ 189 | $ 74 | $ 41 | $ 286 | $ 74 | $ 56 |
| Private Education Loans — Non-Traditional | 14 | 20 | 6 | 25 | 20 | 10 |
| Total | $ 203 | $ 94 | $ 47 | $ 311 | $ 94 | $ 66 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| (Dollars in millions) | Modified Loans[1] | Charge-Offs[2] | Payment Default | Modified Loans[1] | Charge-Offs[2] | Payment Default |
| Private Education Loans — Traditional | $ 388 | $ 160 | $ 88 | $ 628 | $ 154 | $ 118 |
| Private Education Loans — Non-Traditional | 30 | 40 | 13 | 52 | 42 | 21 |
| Total | $ 418 | $ 200 | $ 101 | $ 680 | $ 196 | $ 139 |

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

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

*Accrued Interest Receivable*

The following table provides information regarding accrued interest receivable on our Private Education Loans.

| (Dollars in millions) | Accrued Interest Receivable | Greater Than 90 Days Past Due | Allowance for Uncollectible Interest |
|---|---|---|---|
| **June 30, 2017** | | | |
| Private Education Loans — Traditional | $ 341 | $ 20 | $ 20 |
| Private Education Loans — Non-Traditional | 49 | 6 | 6 |
| Total | $ 390 | $ 26 | $ 26 |
| **December 31, 2016** | | | |
| Private Education Loans — Traditional | $ 344 | $ 26 | $ 23 |
| Private Education Loans — Non-Traditional | 47 | 7 | 7 |
| Total | $ 391 | $ 33 | $ 30 |

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 3. Borrowings

The following table summarizes our borrowings.

| (Dollars in millions) | June 30, 2017 Short Term | June 30, 2017 Long Term | June 30, 2017 Total | December 31, 2016 Short Term | December 31, 2016 Long Term | December 31, 2016 Total |
|---|---|---|---|---|---|---|
| *Unsecured borrowings:* | | | | | | |
| Senior unsecured debt | $1,937 | $ 12,358 | $ 14,295 | $ 717 | $ 13,029 | $ 13,746 |
| Total unsecured borrowings | 1,937 | 12,358 | 14,295 | 717 | 13,029 | 13,746 |
| *Secured borrowings:* | | | | | | |
| FFELP Loan securitizations | — | 73,025 | 73,025 | — | 73,522 | 73,522 |
| Private Education Loan securitizations[1] | 685 | 13,000 | 13,685 | 548 | 14,125 | 14,673 |
| FFELP Loan — other facilities | — | 10,729 | 10,729 | — | 12,443 | 12,443 |
| Private Education Loan — other facilities | 613 | 1,879 | 2,492 | 464 | — | 464 |
| Other[2] | 632 | — | 632 | 606 | — | 606 |
| Total secured borrowings | 1,930 | 98,633 | 100,563 | 1,618 | 100,090 | 101,708 |
| Total before hedge accounting adjustments | 3,867 | 110,991 | 114,858 | 2,335 | 113,119 | 115,454 |
| Hedge accounting adjustments | 51 | (213) | (162) | (1) | (751) | (752) |
| Total | $3,918 | $110,778 | $114,696 | $2,334 | $112,368 | $114,702 |

(1) Includes $685 million and $548 million of short-term debt related to the Private Education Loan asset-backed securitization repurchase facilities (“Repurchase Facilities”) as of June 30, 2017 and December 31, 2016, respectively. Includes $957 million and $475 million of long-term debt related to the Repurchase Facilities as of June 30, 2017 and December 31, 2016, respectively.

(2) “Other” primarily includes the obligation to return cash collateral held related to derivative exposures, which includes $139 million and $193 million of securities re-pledged subject to an overnight repurchase transaction as of June 30, 2017 and December 31, 2016, respectively.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 3. Borrowings (Continued)

*Variable Interest Entities*

We consolidated the following financing VIEs as of June 30, 2017 and December 31, 2016, as we are the primary beneficiary. As a result, these VIEs are accounted for as secured borrowings.

| | June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| (Dollars in millions) | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings — VIEs:** | | | | | | | |
| FFELP Loan securitizations | $ — | $73,025 | $73,025 | $ 73,795 | $2,659 | $ 868 | $ 77,322 |
| Private Education Loan securitizations[1] | 685 | 13,000 | 13,685 | 18,275 | 500 | 232 | 19,007 |
| FFELP Loan — other facilities | — | 7,689 | 7,689 | 7,856 | 210 | 163 | 8,229 |
| Private Education Loan — other facilities | 613 | 1,879 | 2,492 | 3,255 | 58 | 45 | 3,358 |
| Other | 112 | — | 112 | 135 | 6 | — | 141 |
| Total before hedge accounting adjustments | 1,410 | 95,593 | 97,003 | 103,316 | 3,433 | 1,308 | 108,057 |
| Hedge accounting adjustments | — | (598) | (598) | — | — | (697) | (697) |
| Total | $1,410 | $94,995 | $96,405 | $103,316 | $3,433 | $ 611 | $107,360 |

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| (Dollars in millions) | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings — VIEs:** | | | | | | | |
| FFELP Loan securitizations | $ — | $73,522 | $73,522 | $ 74,197 | $2,676 | $ 778 | $ 77,651 |
| Private Education Loan securitizations[1] | 548 | 14,125 | 14,673 | 19,815 | 455 | 260 | 20,530 |
| FFELP Loan — other facilities | — | 9,046 | 9,046 | 9,232 | 289 | 172 | 9,693 |
| Private Education Loan — other facilities | 464 | — | 464 | 685 | 10 | 14 | 709 |
| Other | 66 | — | 66 | 79 | 4 | — | 83 |
| Total before hedge accounting adjustments | 1,078 | 96,693 | 97,771 | 104,008 | 3,434 | 1,224 | 108,666 |
| Hedge accounting adjustments | — | (1,201) | (1,201) | — | — | (1,235) | (1,235) |
| Total | $1,078 | $95,492 | $96,570 | $104,008 | $3,434 | $ (11) | $107,431 |

[1] Includes $687 million of short-term debt, $964 million of long-term debt and $52 million of restricted cash related to the Repurchase Facilities as of June 30, 2017. Includes $548 million of short-term debt, $475 million of long-term debt and $49 million of restricted cash related to the Repurchase Facilities as of December 31, 2016.

## 4. Derivative Financial Instruments

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2016 Form 10-K. Please refer to “Note 7 — Derivative Financial Instruments” in our 2016 Form 10-K for a full discussion.

NAVIENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 4. Derivative Financial Instruments (Continued)

### *Summary of Derivative Financial Statement Impact*

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2017 and December 31, 2016, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2017 and 2016.

*Impact of Derivatives on Consolidated Balance Sheet*

| (Dollars in millions) | Hedged Risk Exposure | Cash Flow Jun. 30, 2017 | Cash Flow Dec. 31, 2016 | Fair Value Jun. 30, 2017 | Fair Value Dec. 31, 2016 | Trading Jun. 30, 2017 | Trading Dec. 31, 2016 | Total Jun. 30, 2017 | Total Dec. 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Fair Values**[1] | | | | | | | | | |
| *Derivative Assets:* | | | | | | | | | |
| Interest rate swaps | Interest rate | $ 47 | $ 78 | $ 396 | $ 465 | $ 10 | $ 22 | $ 453 | $ 565 |
| Cross-currency interest rate swaps | Foreign currency and interest rate | — | — | 20 | — | — | — | 20 | — |
| Other[2] | Interest rate | — | — | — | — | — | — | — | — |
| Total derivative assets[3] | | 47 | 78 | 416 | 465 | 10 | 22 | 473 | 565 |
| *Derivative Liabilities:* | | | | | | | | | |
| Interest rate swaps | Interest rate | (57) | (76) | (60) | (62) | (74) | (70) | (191) | (208) |
| Floor Income Contracts | Interest rate | — | — | — | — | (158) | (184) | (158) | (184) |
| Cross-currency interest rate swaps | Foreign currency and interest rate | — | — | (686) | (1,243) | (44) | (53) | (730) | (1,296) |
| Other[2] | Interest rate | — | — | — | — | (22) | (13) | (22) | (13) |
| Total derivative liabilities[3] | | (57) | (76) | (746) | (1,305) | (298) | (320) | (1,101) | (1,701) |
| Net total derivatives | | $ (10) | $ 2 | $ (330) | $ (840) | $ (288) | $ (298) | $ (628) | $(1,136) |

(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) "Other" includes embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility.

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

| (Dollar in millions) | Other Assets June 30, 2017 | Other Assets December 31, 2016 | Other Liabilities June 30, 2017 | Other Liabilities December 31, 2016 |
|---|---|---|---|---|
| Gross position | $ 473 | $ 565 | $ (1,101) | $ (1,701) |
| Impact of master netting agreements | (41) | (31) | 41 | 31 |
| Derivative values with impact of master netting agreements (as carried on balance sheet) | 432 | 534 | (1,060) | (1,670) |
| Cash collateral (held) pledged | (379) | (345) | 283 | 319 |
| Net position | $ 53 | $ 189 | $ (777) | $ (1,351) |

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

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(Information at June 30, 2017 and for the three and six months ended
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**4. Derivative Financial Instruments (Continued)**

collateral postings. The net adjustments decreased the asset position at June 30, 2017 and December 31, 2016 by $4 million and $0, 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 June 30, 2017 and December 31, 2016 by $36 million and $31 million, respectively.

| | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in billions) | Jun. 30, 2017 | Dec. 31, 2016 | Jun. 30, 2017 | Dec. 31, 2016 | Jun. 30, 2017 | Dec. 31, 2016 | Jun. 30, 2017 | Dec. 31, 2016 |
| **Notional Values:** | | | | | | | | |
| Interest rate swaps | $ 20.0 | $ 15.2 | $ 12.8 | $ 11.8 | $ 47.3 | $ 23.8 | $ 80.1 | $ 50.8 |
| Floor Income Contracts | — | — | — | — | 21.9 | 18.5 | 21.9 | 18.5 |
| Cross-currency interest rate swaps | — | — | 7.4 | 8.5 | .3 | .3 | 7.7 | 8.8 |
| Other(1) | — | — | — | — | 2.3 | 2.6 | 2.3 | 2.6 |
| Total derivatives | $ 20.0 | $ 15.2 | $ 20.2 | $ 20.3 | $ 71.8 | $ 45.2 | $112.0 | $ 80.7 |

(1) "Other" includes embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility.

*Impact of Derivatives on Consolidated Statements of Income*

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized Gain (Loss) on Derivatives(1)(2) | | Realized Gain (Loss) on Derivatives(3) | | Unrealized Gain (Loss) on Hedged Item(1) | | Total Gain (Loss) | |
| (Dollars in millions) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Fair Value Hedges:** | | | | | | | | |
| Interest rate swaps | $ 18 | $ 71 | $ 46 | $ 68 | $ (38) | $ (68) | $ 26 | $ 71 |
| Cross-currency interest rate swaps | 459 | (275) | (29) | (20) | (442) | 252 | (12) | (43) |
| Total fair value derivatives | 477 | (204) | 17 | 48 | (480) | 184 | 14 | 28 |
| **Cash Flow Hedges:** | | | | | | | | |
| Interest rate swaps | — | — | (14) | (11) | — | — | (14) | (11) |
| Total cash flow derivatives | — | — | (14) | (11) | — | — | (14) | (11) |
| **Trading:** | | | | | | | | |
| Interest rate swaps | (8) | 11 | 5 | 11 | — | — | (3) | 22 |
| Floor Income Contracts | 13 | 7 | (18) | (56) | — | — | (5) | (49) |
| Cross-currency interest rate swaps | (4) | 25 | (2) | (1) | — | — | (6) | 24 |
| Other | (6) | (4) | (2) | (1) | — | — | (8) | (5) |
| Total trading derivatives | (5) | 39 | (17) | (47) | — | — | (22) | (8) |
| Total | 472 | (165) | (14) | (10) | (480) | 184 | (22) | 9 |
| Less: realized gains (losses) recorded in interest expense | — | — | 3 | 37 | — | — | 3 | 37 |
| Gains (losses) on derivative and hedging activities, net | $ 472 | $ (165) | $ (17) | $ (47) | $ (480) | $ 184 | $ (25) | $ (28) |

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

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in "Gains (losses) on derivative and hedging activities, net."

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(Information at June 30, 2017 and for the three and six months ended
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**4. Derivative Financial Instruments (Continued)**

| | Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized Gain (Loss) on Derivatives[1][2] | | Realized Gain (Loss) on Derivatives[3] | | Unrealized Gain (Loss) on Hedged Item[1] | | Total Gain (Loss) | |
| (Dollars in millions) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Fair Value Hedges:** | | | | | | | | |
| Interest rate swaps | $ (66) | $ 315 | $ 100 | $ 139 | $ 23 | $ (347) | $ 57 | $ 107 |
| Cross-currency interest rate swaps | 577 | 99 | (58) | (36) | (604) | (54) | (85) | 9 |
| Total fair value derivatives | 511 | 414 | 42 | 103 | (581) | (401) | (28) | 116 |
| **Cash Flow Hedges:** | | | | | | | | |
| Interest rate swaps | — | — | (30) | (11) | — | — | (30) | (11) |
| Total cash flow derivatives | — | — | (30) | (11) | — | — | (30) | (11) |
| **Trading:** | | | | | | | | |
| Interest rate swaps | (15) | 63 | 25 | 20 | — | — | 10 | 83 |
| Floor Income Contracts | 66 | 34 | (38) | (194) | — | — | 28 | (160) |
| Cross-currency interest rate swaps | 8 | 45 | (3) | (2) | — | — | 5 | 43 |
| Other | (10) | (5) | (4) | (1) | — | — | (14) | (6) |
| Total trading derivatives | 49 | 137 | (20) | (177) | — | — | 29 | (40) |
| Total | 560 | 551 | (8) | (85) | (581) | (401) | (29) | 65 |
| Less: realized gains (losses) recorded in interest expense | — | — | 12 | 92 | — | — | 12 | 92 |
| Gains (losses) on derivative and hedging activities, net | $ 560 | $ 551 | $ (20) | $ (177) | $ (581) | $ (401) | $ (41) | $ (27) |

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

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in "Gains (losses) on derivative and hedging activities, net."

***Collateral***

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

| (Dollars in millions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Collateral held:** | | |
| Cash (obligation to return cash collateral is recorded in short-term borrowings) | $ 379 | $ 345 |
| Securities at fair value — corporate derivatives (not recorded in financial statements)[1] | 136 | 193 |
| Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements)[2] | 243 | 230 |
| Total collateral held | $ 758 | $ 768 |
| Derivative asset at fair value including accrued interest | $ 610 | $ 689 |
| **Collateral pledged to others:** | | |
| Cash (right to receive return of cash collateral is recorded in investments) | $ 283 | $ 319 |
| Total collateral pledged | $ 283 | $ 319 |
| Derivative liability at fair value including accrued interest and premium receivable | $1,039 | $ 1,670 |

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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## 4. Derivative Financial Instruments (Continued)

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 $305 million with our counterparties. Downgrades in our unsecured credit rating would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

## 5. Other Assets

The following table provides the detail of our other assets.

| (Dollars in millions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Accrued interest receivable, net | $1,821 | $ 1,663 |
| Income tax asset, net current and deferred | 715 | 725 |
| Benefit and insurance-related investments | 495 | 488 |
| Derivatives at fair value | 432 | 534 |
| Other loans, net | 189 | 148 |
| Fixed assets, net | 152 | 160 |
| Accounts receivable | 109 | 95 |
| Other | 363 | 380 |
| Total | $4,276 | $ 4,193 |

## 6. Stockholders' Equity

The following table summarizes common share repurchases and issuances.

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Common shares repurchased[1] | 10,936,715 | 13,579,381 | 18,300,007 | 32,789,662 |
| Average purchase price per share | $ 15.10 | $ 12.90 | $ 15.04 | $ 11.45 |
| Shares repurchased related to employee stock-based compensation plans[2] | 255,875 | 368,439 | 1,610,155 | 1,354,712 |
| Average purchase price per share | $ 15.70 | $ 13.05 | $ 15.58 | $ 10.80 |
| Common shares issued[3] | 355,802 | 467,007 | 3,150,312 | 2,966,592 |

(1) Common shares purchased under our share repurchase programs.

(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 June 30, 2017 was $16.65.

### *Dividend and Share Repurchase Program*

In June 2017 and March 2017, we paid a common stock dividend of $0.16 per share.

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## 6. Stockholders' Equity (Continued)

We repurchased 10.9 million shares of common stock for $165 million in the six months ended June 30, 2017. The shares were repurchased under our previously disclosed share repurchase program. As of June 30, 2017, the remaining repurchase authority was $325 million. In the six months ended June 30, 2016, we repurchased 32.8 million shares for $375 million.

## 7. Earnings per Common Share

Basic earnings 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 follows.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In millions, except per share data)** | **2017** | **2016** | **2017** | **2016** |
| **Numerator:** | | | | |
| Net income attributable to Navient Corporation | $ 112 | $ 125 | $ 200 | $ 305 |
| **Denominator:** | | | | |
| Weighted average shares used to compute basic EPS | 280 | 322 | 284 | 331 |
| Effect of dilutive securities: | | | | |
| Dilutive effect of stock options, non-vested restricted stock, restricted stock units and Employee Stock Purchase Plans ("ESPPs")[(1)] | 5 | 6 | 7 | 4 |
| Dilutive potential common shares[(2)] | 5 | 6 | 7 | 4 |
| Weighted average shares used to compute diluted EPS | 285 | 328 | 291 | 335 |
| **Basic earnings (loss) per common share attributable to Navient Corporation** | $ .40 | $ .39 | $ .70 | $ .92 |
| **Diluted earnings (loss) per common share attributable to Navient Corporation** | $ .39 | $ .38 | $ .69 | $ .91 |

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

(2) For the three months ended June 30, 2017 and 2016, stock options covering approximately 5 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2017 and 2016, stock options covering approximately 5 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

## 8. Fair Value Measurements

We use estimates of fair value in applying various accounting standards in our financial statements. We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Please refer to "Note 12—Fair Value Measurements" in our 2016 Form 10-K for a full discussion.

During the three and six months ended June 30, 2017, there were no significant transfers of financial instruments between levels, or changes in our methodology or assumptions used to value our financial instruments.

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(Information at June 30, 2017 and for the three and six months ended
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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.

| | Fair Value Measurements on a Recurring Basis | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2017 | | | | December 31, 2016 | | | |
| (Dollars in millions) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | | | | |
| Available-for-sale investments: | | | | | | | | |
| Agency residential mortgage-backed securities | $ — | $ 1 | $ — | $ 1 | $ — | $ 1 | $ — | $ 1 |
| Other | — | 2 | — | 2 | — | 2 | — | 2 |
| Total available-for-sale investments | — | 3 | — | 3 | — | 3 | — | 3 |
| Derivative instruments:[1] | | | | | | | | |
| Interest rate swaps | — | 448 | 5 | 453 | — | 553 | 12 | 565 |
| Cross-currency interest rate swaps | — | — | 20 | 20 | — | — | — | — |
| Other | — | — | — | — | — | — | — | — |
| Total derivative assets[2] | — | 448 | 25 | 473 | — | 553 | 12 | 565 |
| **Total** | $ — | $ 451 | $ 25 | $ 476 | $ — | $ 556 | $ 12 | $ 568 |
| **Liabilities**[3] | | | | | | | | |
| Derivative instruments[1] | | | | | | | | |
| Interest rate swaps | $ — | $ (138) | $ (53) | $ (191) | $ — | $ (150) | $ (58) | $ (208) |
| Floor Income Contracts | — | (158) | — | (158) | — | (184) | — | (184) |
| Cross-currency interest rate swaps | — | (44) | (686) | (730) | — | (53) | (1,243) | (1,296) |
| Other | — | — | (22) | (22) | — | — | (13) | (13) |
| Total derivative liabilities[2] | — | (340) | (761) | (1,101) | — | (387) | (1,314) | (1,701) |
| **Total** | $ — | $ (340) | $ (761) | $ (1,101) | $ — | $ (387) | $ (1,314) | $ (1,701) |

(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 items 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 are not reflected in this table.

NAVIENT CORPORATION

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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.

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2016 | | | |
| | Derivative instruments | | | | Derivative instruments | | | |
| (Dollars in millions) | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments |
| **Balance, beginning of period** | $ (42) | $ (1,125) | $ (16) | $ (1,183) | $ (32) | $ (528) | $ (4) | $ (564) |
| Total gains/(losses) (realized and unrealized): | | | | | | | | |
| Included in earnings[1] | (7) | 430 | (8) | 415 | (5) | (293) | (4) | (302) |
| Included in other comprehensive income | — | — | — | — | — | — | — | — |
| Settlements | 1 | 29 | 2 | 32 | — | 20 | 1 | 21 |
| Transfers in and/or out of level 3 | — | — | — | — | — | — | — | — |
| **Balance, end of period** | $ (48) | $ (666) | $ (22) | $ (736) | $ (37) | $ (801) | $ (7) | $ (845) |
| Change in unrealized gains/(losses) relating to instruments still held at the reporting date[2] | $ (6) | $ 459 | $ (6) | $ 447 | $ (4) | $ (273) | $ (4) | $ (281) |

NAVIENT CORPORATION

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## 8. Fair Value Measurements (Continued)

| | Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2016 | | | |
| | Derivative instruments | | | | Derivative instruments | | | |
| (Dollars in millions) | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments |
| **Balance, beginning of period** | $ (46) | $ (1,243) | $ (13) | $ (1,302) | $ (44) | $ (903) | $ (2) | $ (949) |
| Total gains/(losses) (realized and unrealized): | | | | | | | | |
| Included in earnings[1] | (5) | 519 | (13) | 501 | 6 | 65 | (6) | 65 |
| Included in other comprehensive income | — | — | — | — | — | — | — | — |
| Settlements | 3 | 58 | 4 | 65 | 1 | 37 | 1 | 39 |
| Transfers in and/or out of level 3 | — | — | — | — | — | — | — | — |
| **Balance, end of period** | $ (48) | $ (666) | $ (22) | $ (736) | $ (37) | $ (801) | $ (7) | $ (845) |
| Change in unrealized gains/(losses) relating to instruments still held at the reporting date[2] | $ (2) | $ 516 | $ (9) | $ 505 | $ 8 | $ 102 | $ (6) | $ 104 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2017 | 2016 | 2017 | 2016 |
| Gains (losses) on derivative and hedging activities, net | $ 444 | $ (282) | $ 559 | $ 102 |
| Interest expense | (29) | (20) | (58) | (37) |
| Total | $ 415 | $ (302) | $ 501 | $ 65 |

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

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 June 30, 2017 | Valuation Technique | Input | Range (Weighted Average) |
|---|---|---|---|---|
| **Derivatives** | | | | |
| Prime/LIBOR basis swaps | $ (48) | Discounted cash flow | Constant prepayment rate | 4.9% |
| | | | Bid/ask adjustment to discount rate | .05% — .08% (.08%) |
| Cross-currency interest rate swaps | (666) | Discounted cash flow | Constant prepayment rate | 3.3% |
| Other | (22) | | | |
| Total | $ (736) | | | |

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

- Prime/LIBOR basis swaps — These swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation. In addition, the

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

unobservable inputs include Constant Prepayment Rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap which will increase the value for swaps in a gain position and decrease the value for swaps in a loss position, everything else equal. The opposite is true for an increase in the input.

- Cross-currency interest rate swaps — The unobservable inputs used in these valuations are Constant Prepayment Rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap. All else equal in a typical currency market, this will result in a decrease to the valuation due to the delay in the cash flows of the currency exchanges as well as diminished liquidity in the forward exchange markets as you increase the term. The opposite is true for an increase in the input.

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

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Fair Value | Carrying Value | Difference | Fair Value | Carrying Value | Difference |
| **Earning assets** | | | | | | |
| FFELP Loans | $ 85,837 | $ 86,140 | $ (303) | $ 86,626 | $ 87,730 | $ (1,104) |
| Private Education Loans | 24,569 | 24,223 | 346 | 23,191 | 23,340 | (149) |
| Cash and investments[1] | 5,057 | 5,057 | — | 5,203 | 5,203 | — |
| Total earning assets | 115,463 | 115,420 | 43 | 115,020 | 116,273 | (1,253) |
| **Interest-bearing liabilities** | | | | | | |
| Short-term borrowings | 3,950 | 3,918 | (32) | 2,346 | 2,334 | (12) |
| Long-term borrowings | 109,764 | 110,778 | 1,014 | 109,826 | 112,368 | 2,542 |
| Total interest-bearing liabilities | 113,714 | 114,696 | 982 | 112,172 | 114,702 | 2,530 |
| **Derivative financial instruments** | | | | | | |
| Floor Income Contracts | (158) | (158) | — | (184) | (184) | — |
| Interest rate swaps | 262 | 262 | — | 357 | 357 | — |
| Cross-currency interest rate swaps | (710) | (710) | — | (1,296) | (1,296) | — |
| Other | (22) | (22) | — | (13) | (13) | — |
| **Excess of net asset fair value over carrying value** | | | $ 1,025 | | | $ 1,277 |

[1] "Cash and investments" includes available-for-sale investments whose cost basis is $3 million and $3 million at June 30, 2017 and December 31, 2016, respectively, versus a fair value of $3 million and $3 million at June 30, 2017 and December 31, 2016, respectively.

**9. Commitments and Contingencies**

***Legal Proceedings***

The Company has been named as defendant in a number of putative class action cases alleging violations of various state and federal consumer protection laws. One of these putative class action suits is Randy Johnson v. Navient Solutions, Inc. ("NSI"). On May 4, 2015, Randy Johnson filed a putative class action in the United States District Court for the Southern District of Indiana alleging violations of the Telephone Consumer

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

Protection Act ("TCPA"). During the fourth quarter of 2016, the parties entered into a settlement agreement and, in December 2016, filed a Motion to Approve the Class Action Settlement with the Court. The Court approved the settlement in July, 2017. NSI denied all claims asserted, but agreed to settle the case to avoid the burden, expense, risk and uncertainty of continued litigation. A reserve was established for this matter as of December 31, 2016.

On January 18, 2017, the CFPB and Attorneys General for the State of Illinois and the State of Washington (collectively the "Attorneys General") 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 Consumer Financial Protection Act of 2010, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and various state consumer protection laws. We intend to vigorously defend against the allegations. At this point in time, the Company is unable to anticipate the timing of a resolution or the ultimate 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. For additional information on these civil actions, please refer to section entitled "Regulatory Matters" below.

***Regulatory Matters***

On May 2, 2014, Navient Solutions, Inc., now known as Navient Solutions, LLC ("Solutions"), a wholly-owned subsidiary of Navient, and Sallie Mae Bank entered into consent orders, without admitting any wrongdoing, with the Federal Deposit Insurance Corporation (the "FDIC") (respectively, the "Solutions Order" and the "Bank Order"; collectively, the "FDIC Orders") to settle matters related to certain cited violations of Section 5 of the Federal Trade Commission Act, including the disclosures and assessments of certain late fees, The FDIC lifted the FDIC Order with respect to Solutions effective as of March 23, 2017 with no conditions.

With respect to alleged civil violations of the Servicemembers Civil Relief Act (the "SCRA"), Solutions and Sallie Mae Bank entered into a consent order with the DOJ in May 2014. The DOJ consent order (the "DOJ Order") covers all loans either owned by Sallie Mae Bank or serviced by Solutions from November 28, 2005 until the effective date of the settlement. The DOJ Order required Solutions to fund a $60 million settlement fund, which represents the total amount of compensation due to service members under the DOJ agreement, and to pay $55,000 in civil penalties. The DOJ Order was approved by the United States District Court in Delaware on September 29, 2014 and has a term of four years. Shortly thereafter, Navient funded the settlement fund and paid the civil money penalties pursuant to the terms of the order. The funds were disbursed beginning in the second quarter of 2015. In the third quarter of 2016, the Company completed the distributions from the fund by distributing the remaining funds to charities approved by the DOJ pursuant to the terms of the order.

The total reserves established by the Company in 2013 and 2014 to cover these costs were $177 million, and as of June 30, 2017, substantially all of this amount had been paid to customers or credited or refunded to customer accounts. The final cost of these proceedings will remain uncertain until all of the work under the consent orders has been completed and the remaining consent order is lifted.

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

- In December 2013, Navient received Civil Investigative Demands ("CIDs") issued by the State of Illinois Office of Attorney General and the State of Washington Office of the Attorney General and multiple other state Attorneys General. According to the CIDs, the investigations were initiated to ascertain whether any practices declared to be unlawful under the Consumer Fraud and Deceptive Business Practices Act have occurred or are about to occur.

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

- In April 2014, Solutions received a CID from the Consumer Financial Protection Bureau (the "CFPB") as part of the CFPB's separate investigation regarding allegations relating to Navient's disclosures and assessment of late fees and other matters. Navient has received a series of supplemental CIDs on these matters. In August 2015, Solutions received a letter from the CFPB notifying Solutions that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise ("NORA") process, the CFPB's Office of Enforcement is considering recommending that the CFPB take legal action against Solutions. The NORA letter related to a previously disclosed investigation into Solutions' disclosures and assessment of late fees and other matters and states that, in connection with any action, the CFPB may seek restitution, civil monetary penalties and corrective action against Solutions. The Company responded to the NORA letter in September 2015.
- In November 2014, Navient's subsidiary, Pioneer Credit Recovery, Inc. ("Pioneer"), received a CID from the CFPB as part of the CFPB's investigation regarding Pioneer's activities relating to rehabilitation loans and collection of defaulted student debt.
- In December 2014, Solutions received a subpoena from the New York Department of Financial Services (the "NY DFS") as part of the NY DFS's inquiry with regard to whether persons or entities have engaged in fraud or misconduct with respect to a financial product or service under New York Financial Services Law or other laws.

On January 18, 2017, the CFPB and Attorneys General for the State of Illinois and the State of Washington (collectively the "Attorneys General") initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of Federal and State consumer protection statutes, including the Consumer Financial Protection Act of 2010, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and various state consumer protection laws. These civil actions are related to the CIDs and the NORA letter discussed above that were previously issued by the CFPB and the Attorneys General. In addition to these matters, a number of lawsuits have been filed by nongovernmental parties or may be filed by additional governmental or nongovernmental parties seeking damages or other remedies related to similar issues raised by the CFPB and the Attorneys General. The Company filed its Motion to Dismiss on March 20, 2017 with respect to the Attorneys General actions and on March 24, 2017 with respect to the CFPB action. In April 2017, the CFPB filed a response to our Motion to Dismiss and in May 2017, we filed our response. A hearing on our Motion to Dismiss was held on June 27, 2017. On May 24, 2017, the Attorney General for the State of Washington filed their response to our Motion to Dismiss and on July 5, 2017, we filed our response. The Motion to Dismiss was denied on July 10, 2017, after a hearing. On May 24, 2017, the Attorney General for the State of Illinois filed their response to our Motion to Dismiss and on June 30, 2017, we filed our response. A hearing on our Motion to Dismiss was held on July 18, 2017. As the Company has previously stated, we believe the suit improperly seeks to impose penalties on Navient based on new servicing standards applied retroactively and applied only against one servicer and that the allegations are false. As stated above, we intend to vigorously defend against the allegations.

In addition, Navient and its subsidiaries are subject to examination or regulation by the SEC, CFPB, FDIC, ED and various state agencies as part of its ordinary course of business. Items or matters similar to or different

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

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. The Company endeavors to cooperate with each such inquiry or request.

Under the terms of the Separation Agreement, Navient has agreed to indemnify SLM BankCo for all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM BankCo occurring prior to the Spin-Off other than those specifically excluded in the Separation and Distribution Agreement. As a result, subject to the Separation and Distribution Agreement, Navient has 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, other than fines or penalties directly levied against Sallie Mae Bank and other matters specifically excluded. Navient has no additional reserves related to indemnification matters with SLM BankCo as of June 30, 2017.

***OIG Audit***

The Office of the Inspector General (the “OIG”) of ED commenced an audit regarding Special Allowance Payments (“SAP”) on September 10, 2007. On September 25, 2013, we received the final audit determination of Federal Student Aid (the “Final Audit Determination”) on the final audit report issued by the OIG on August 3, 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 relating to this Final Audit Determination to the Administrative Actions and Appeals Service Group of ED. This matter remains open. We continue to believe that our SAP billing practices were proper, considering then-existing ED guidance and lack of applicable regulations. The Company established a reserve for this matter in 2014 as part of the total reserve for pending regulatory matters discussed previously and does not believe, at this time, that an adverse ruling would have a material effect on the Company as a whole.

***Contingencies***

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

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 numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of our regulated activities.

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

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.

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## 9. Commitments and Contingencies (Continued)

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

## 10. Segment Reporting

### *FFELP Loans Segment*

In the FFELP Loans segment, we acquire and finance FFELP Loans. Although FFELP Loans are no longer originated, we continue to pursue acquisitions of FFELP Loan portfolios. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the FFELP Loan portfolio (after provision for loan losses). This segment is expected to generate significant amounts of earnings and cash flow as the portfolio amortizes.

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

| (Dollars in millions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| FFELP Loans, net | $86,140 | $ 87,730 |
| Cash and investments[1] | 3,088 | 3,212 |
| Other | 1,979 | 1,907 |
| Total assets | $91,207 | $ 92,849 |

(1) Includes restricted cash and investments.

### *Private Education Loans Segment*

In this segment, we acquire, finance, and service our Private Education Loans. Private Education Loans primarily bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans, or students' and families' resources. They also allow borrowers to refinance existing education loans at a lower rate. We pursue acquisitions of Private Education Loan portfolios. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the Private Education Loan portfolio (after provision for loan losses). This segment is expected to generate significant amounts of earnings and cash flow as the portfolio amortizes.

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

| (Dollars in millions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Private Education Loans, net | $24,223 | $ 23,340 |
| Cash and investments[1] | 737 | 667 |
| Other | 1,513 | 1,567 |
| Total assets | $26,473 | $ 25,574 |

(1) Includes restricted cash and investments.

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**10. Segment Reporting (Continued)**

***Business Services Segment***

Our Business Services segment generates revenue from business processing solutions related to servicing, asset recovery and other business processing activities. Within this segment, we generate revenue primarily through servicing our FFELP Loan portfolio as well as servicing education loans for Guarantors of FFELP Loans and other institutions, including ED. We provide asset recovery services for loans and receivables on behalf of Guarantors of FFELP Loans and higher education institutions. In addition, we provide asset recovery and other business processing solutions for federal, state, court, and municipal clients, public authorities, and health care organizations.

At June 30, 2017 and December 31, 2016, the Business Services segment had total assets of $589 million and $587 million, respectively, on a GAAP basis.

***Other Segment***

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, our corporate liquidity portfolio, unallocated overhead and regulatory-related costs. We also include results from certain smaller wind-down operations within this segment.

At June 30, 2017 and December 31, 2016, the Other segment had total assets of $2.1 billion on a GAAP basis.

***Measure of Profitability***

We prepare financial statements and present financial results in accordance with GAAP. However, we also evaluate our business segments and present financial results on a basis that differs from GAAP. We refer to this different basis of presentation as “Core Earnings.” We provide this “Core Earnings” basis of presentation on a consolidated basis 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 three items, discussed below, that are either related to the Spin-Off or 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 three items we remove to result in our “Core Earnings” presentations are:

1. Unrealized 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;
2. The accounting for goodwill and acquired intangible assets; and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

**10. Segment Reporting (Continued)**

3. The financial results attributable to the operations of SLM BankCo prior to the Spin-Off and related restructuring and reorganization expense incurred in connection with the Spin-Off, including the restructuring expenses related to the restructuring initiative launched in second-quarter 2015 to simplify and streamline the Company's management structure post-Spin-Off. For GAAP purposes, Navient reflected the deemed distribution of SLM BankCo on April 30, 2014. For "Core Earnings," we exclude the consumer banking business (SLM BankCo) as if it had never been a part of Navient's historical results prior to the deemed distribution of SLM BankCo on April 30, 2014. There are no adjustments related to this for the periods presented in this Form 10-Q (see 2016 Form 10-K for description of how earlier periods were impacted by this adjustment).

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 10. Segment Reporting (Continued)

### *Segment Results and Reconciliations to GAAP*

| | Three Months Ended June 30, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Elimina-tions[1] | Total "Core Earnings" | Reclassi-fications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Education loans | $ 664 | $ 386 | $ — | $ — | $ — | $ 1,050 | $ 18 | $ (14) | $ 4 | $ 1,054 |
| Other loans | — | — | — | 6 | — | 6 | — | — | — | 6 |
| Cash and investments | 7 | 1 | — | 2 | — | 10 | — | — | — | 10 |
| Total interest income | 671 | 387 | — | 8 | — | 1,066 | 18 | (14) | 4 | 1,070 |
| Total interest expense | 495 | 193 | — | 35 | — | 723 | (1) | (3) | (4) | 719 |
| Net interest income (loss) | 176 | 194 | — | (27) | — | 343 | 19 | (11) | 8 | 351 |
| Less: provisions for loan losses | 10 | 95 | — | — | — | 105 | — | — | — | 105 |
| Net interest income (loss) after provisions for loan losses | 166 | 99 | — | (27) | — | 238 | 19 | (11) | 8 | 246 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 13 | — | 145 | — | (88) | 70 | — | — | — | 70 |
| Asset recovery and business processing revenue | — | — | 111 | — | — | 111 | — | — | — | 111 |
| Other income (loss) | — | — | — | 4 | — | 4 | (19) | (4) | (23) | (19) |
| Total other income (loss) | 13 | — | 256 | 4 | (88) | 185 | (19) | (4) | (23) | 162 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 90 | 38 | 129 | 6 | (88) | 175 | — | — | — | 175 |
| Overhead expenses | — | — | — | 55 | — | 55 | — | — | — | 55 |
| Operating expenses | 90 | 38 | 129 | 61 | (88) | 230 | — | — | — | 230 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 6 | 6 | 6 |
| Total expenses | 90 | 38 | 129 | 61 | (88) | 230 | — | 6 | 6 | 236 |
| Income (loss) before income tax expense (benefit) | 89 | 61 | 127 | (84) | — | 193 | — | (21) | (21) | 172 |
| Income tax expense (benefit)[3] | 32 | 22 | 46 | (30) | — | 70 | — | (10) | (10) | 60 |
| Net income (loss) | $ 57 | $ 39 | $ 81 | $ (54) | $ — | $ 123 | $ — | $ (11) | $ (11) | $ 112 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| | Three Months Ended June 30, 2017 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
| Net interest income (loss) after provisions for loan losses | $ 8 | $ — | $ 8 |
| Total other income (loss) | (23) | — | (23) |
| Goodwill and acquired intangible asset impairment and amortization | — | 6 | 6 |
| Total "Core Earnings" adjustments to GAAP | $ (15) | $ (6) | (21) |
| Income tax expense (benefit) | | | (10) |
| Net income (loss) | | | $ (11) |

(3) 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 June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 10. Segment Reporting (Continued)

| | Three Months Ended June 30, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations[1] | Total "Core Earnings" | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Education loans | $ 588 | $ 402 | $ — | $ — | $ — | $ 990 | $ 56 | $ (26) | $ 30 | $ 1,020 |
| Other loans | — | — | — | 2 | — | 2 | — | — | — | 2 |
| Cash and investments | 5 | — | — | 1 | — | 6 | — | — | — | 6 |
| Total interest income | 593 | 402 | — | 3 | — | 998 | 56 | (26) | 30 | 1,028 |
| Total interest expense | 388 | 173 | — | 29 | — | 590 | 9 | — | 9 | 599 |
| Net interest income (loss) | 205 | 229 | — | (26) | — | 408 | 47 | (26) | 21 | 429 |
| Less: provisions for loan losses | 10 | 100 | — | — | — | 110 | — | — | — | 110 |
| Net interest income (loss) after provisions for loan losses | 195 | 129 | — | (26) | — | 298 | 47 | (26) | 21 | 319 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 14 | 3 | 153 | — | (99) | 71 | — | — | — | 71 |
| Asset recovery and business processing revenue | — | — | 101 | — | — | 101 | — | — | — | 101 |
| Other income (loss) | — | — | — | 4 | — | 4 | (47) | (6) | (53) | (49) |
| Total other income (loss) | 14 | 3 | 254 | 4 | (99) | 176 | (47) | (6) | (53) | 123 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 101 | 41 | 125 | 7 | (99) | 175 | — | — | — | 175 |
| Overhead expenses | — | — | — | 55 | — | 55 | — | — | — | 55 |
| Operating expenses | 101 | 41 | 125 | 62 | (99) | 230 | — | — | — | 230 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 6 | 6 | 6 |
| Total expenses | 101 | 41 | 125 | 62 | (99) | 230 | — | 6 | 6 | 236 |
| Income (loss) before income tax expense (benefit) | 108 | 91 | 129 | (84) | — | 244 | — | (38) | (38) | 206 |
| Income tax expense (benefit)[3] | 40 | 34 | 48 | (32) | — | 90 | — | (9) | (9) | 81 |
| Net income (loss) | $ 68 | $ 57 | $ 81 | $ (52) | $ — | $ 154 | $ — | $ (29) | $ (29) | $ 125 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| | Three Months Ended June 30, 2016 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
| Net interest income (loss) after provisions for loan losses | $ 21 | $ — | $ 21 |
| Total other income (loss) | (53) | — | (53) |
| Goodwill and acquired intangible asset impairment and amortization | — | 6 | 6 |
| Total "Core Earnings" adjustments to GAAP | $ (32) | $ (6) | (38) |
| Income tax expense (benefit) | | | (9) |
| Net income (loss) | | | $ (29) |

(3) 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 June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 10. Segment Reporting (Continued)

| | Six Months Ended June 30, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations[(1)] | Total "Core Earnings" | Reclassifications | Additions/ (Subtractions) | Total Adjustments[(2)] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Education loans | $ 1,287 | $ 760 | $ — | $ — | $ — | $ 2,047 | $ 38 | $ (27) | $ 11 | $ 2,058 |
| Other loans | — | — | — | 10 | — | 10 | — | — | — | 10 |
| Cash and investments | 12 | 1 | — | 4 | — | 17 | — | — | — | 17 |
| Total interest income | 1,299 | 761 | — | 14 | — | 2,074 | 38 | (27) | 11 | 2,085 |
| Total interest expense | 951 | 380 | — | 66 | — | 1,397 | 2 | (5) | (3) | 1,394 |
| Net interest income (loss) | 348 | 381 | — | (52) | — | 677 | 36 | (22) | 14 | 691 |
| Less: provisions for loan losses | 20 | 190 | — | 2 | — | 212 | — | — | — | 212 |
| Net interest income (loss) after provisions for loan losses | 328 | 191 | — | (54) | — | 465 | 36 | (22) | 14 | 479 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 26 | 4 | 294 | — | (178) | 146 | — | — | — | 146 |
| Asset recovery and business processing revenue | — | — | 210 | — | — | 210 | — | — | — | 210 |
| Other income (loss) | — | — | 2 | 8 | — | 10 | (36) | (16) | (52) | (42) |
| Total other income (loss) | 26 | 4 | 506 | 8 | (178) | 366 | (36) | (16) | (52) | 314 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 183 | 78 | 256 | 12 | (178) | 351 | — | — | — | 351 |
| Overhead expenses | — | — | — | 118 | — | 118 | — | — | — | 118 |
| Operating expenses | 183 | 78 | 256 | 130 | (178) | 469 | — | — | — | 469 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 11 | 11 | 11 |
| Total expenses | 183 | 78 | 256 | 130 | (178) | 469 | — | 11 | 11 | 480 |
| Income (loss) before income tax expense (benefit) | 171 | 117 | 250 | (176) | — | 362 | — | (49) | (49) | 313 |
| Income tax expense (benefit)[(3)] | 63 | 43 | 91 | (65) | — | 132 | — | (19) | (19) | 113 |
| Net income (loss) | $ 108 | $ 74 | $ 159 | $ (111) | $ — | $ 230 | $ — | $ (30) | $ (30) | $ 200 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| | Six Months Ended June 30, 2017 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
| Net interest income (loss) after provisions for loan losses | $ 14 | $ — | $ 14 |
| Total other income (loss) | (52) | — | (52) |
| Goodwill and acquired intangible asset impairment and amortization | — | 11 | 11 |
| Total "Core Earnings" adjustments to GAAP | $ (38) | $ (11) | (49) |
| Income tax expense (benefit) | | | (19) |
| Net income (loss) | | | $ (30) |

(3) 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 June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 10. Segment Reporting (Continued)

| | Six Months Ended June 30, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations[1] | Total "Core Earnings" | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Education loans | $ 1,143 | $ 813 | $ — | $ — | $ — | $ 1,956 | $ 195 | $ (86) | $ 109 | $ 2,065 |
| Other loans | — | — | — | 3 | — | 3 | — | — | — | 3 |
| Cash and investments | 8 | 1 | — | 3 | — | 12 | — | — | — | 12 |
| Total interest income | 1,151 | 814 | — | 6 | — | 1,971 | 195 | (86) | 109 | 2,080 |
| Total interest expense | 746 | 345 | — | 56 | — | 1,147 | 18 | — | 18 | 1,165 |
| Net interest income (loss) | 405 | 469 | — | (50) | — | 824 | 177 | (86) | 91 | 915 |
| Less: provisions for loan losses | 17 | 204 | — | — | — | 221 | — | — | — | 221 |
| Net interest income (loss) after provisions for loan losses | 388 | 265 | — | (50) | — | 603 | 177 | (86) | 91 | 694 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 31 | 8 | 315 | — | (200) | 154 | — | — | — | 154 |
| Asset recovery and business processing revenue | — | — | 191 | — | — | 191 | — | — | — | 191 |
| Other income (loss) | — | — | — | 7 | — | 7 | (177) | 108 | (69) | (62) |
| Total other income (loss) | 31 | 8 | 506 | 7 | (200) | 352 | (177) | 108 | (69) | 283 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 206 | 84 | 258 | 14 | (200) | 362 | — | — | — | 362 |
| Overhead expenses | — | — | — | 116 | — | 116 | — | — | — | 116 |
| Operating expenses | 206 | 84 | 258 | 130 | (200) | 478 | — | — | — | 478 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 10 | 10 | 10 |
| Total expenses | 206 | 84 | 258 | 130 | (200) | 478 | — | 10 | 10 | 488 |
| Income (loss) before income tax expense (benefit) | 213 | 189 | 248 | (173) | — | 477 | — | 12 | 12 | 489 |
| Income tax expense (benefit)[3] | 79 | 70 | 91 | (64) | — | 176 | — | 8 | 8 | 184 |
| Net income (loss) | $ 134 | $ 119 | $ 157 | $ (109) | $ — | $ 301 | $ — | $ 4 | $ 4 | $ 305 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| | Six Months Ended June 30, 2016 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
| Net interest income (loss) after provisions for loan losses | $ 91 | $ — | $ 91 |
| Total other income (loss) | (69) | — | (69) |
| Goodwill and acquired intangible asset impairment and amortization | — | 10 | 10 |
| Total "Core Earnings" adjustments to GAAP | $ 22 | $ (10) | 12 |
| Income tax expense (benefit) | | | 8 |
| Net income (loss) | | | $ 4 |

(3) 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 June 30, 2017 and for the three and six months ended
June 30, 2017 and 2016 is unaudited) (Continued)

## 10. Segment Reporting (Continued)

***Summary of "Core Earnings" Adjustments to GAAP***

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **"Core Earnings" adjustments to GAAP:** | | | | |
| Net impact of derivative accounting[1] | $ (15) | $ (32) | $ (38) | $ 22 |
| Net impact of goodwill and acquired intangible assets[2] | (6) | (6) | (11) | (10) |
| Net tax effect[3] | 10 | 9 | 19 | (8) |
| Total "Core Earnings" adjustments to GAAP | $ (11) | $ (29) | $ (30) | $ 4 |

(1) **Derivative accounting:** "Core Earnings" exclude periodic unrealized 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 unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our FFELP Loans, Private Education Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our "Core Earnings" presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.

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

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

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

This report contains “forward-looking” statements 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,” or “target.” Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements.

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

- increases in financing costs;
- the availability of financing or limits on liquidity resulting from disruptions in the capital markets or other factors;
- unanticipated increases in costs associated with compliance with federal, state or local laws and regulations;
- changes in the marketplaces in which we compete (including changes in demand or changes resulting from new laws and regulations);
- changes in accounting standards including but not limited to changes pertaining to loan loss reserves and estimates or other accounting standards that may impact our operations;
- adverse outcomes in any significant litigation to which we are a party;
- credit risk associated with our exposure to third parties, including counterparties to hedging or other derivative transactions; and
- changes in the terms of education loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws).

We could also be affected by, among other things:

- unanticipated deferrals in our FFELP securitization trusts that would delay repayment of the bonds beyond their legal final maturity date;
- reductions to our credit ratings, the credit ratings of asset-backed securitizations we sponsor or the credit ratings of the United States of America;
- failures of our operating systems or infrastructure, or those of third-party vendors;
- risks related to cybersecurity including the potential disruption of our systems or potential disclosure of confidential customer information;
- damage to our reputation resulting from cyber-breaches, litigation, the politicization of student loan servicing or other actions or factors;
- failure to successfully implement cost-cutting initiatives and adverse effects of such initiatives on our business;
- failure to adequately integrate acquisitions or realize anticipated benefits from acquisitions including delays or errors in converting portfolio acquisitions to our servicing platform;
- changes in law and regulations including but not limited to changes with respect to the student lending or servicing business and financial institutions generally, securitizations or derivatives;
- increased competition from banks and other consumer lenders;
- changes in the general interest rate environment, including the relationship between the relevant money-market index rate and the rate at which our assets are priced;

- our ability to successfully effectuate any acquisitions and other strategic initiatives;
- changes in the demand for asset management and business processing solutions;
- changes in general economic conditions; and
- the other factors that are described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") and in our other reports filed with the Securities and Exchange Commission ("SEC").

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

Definitions for certain capitalized terms used but not otherwise defined in this Quarterly Report on Form 10-Q can be found in the "Glossary" section of our 2016 Form 10-K.

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

**Navient's Business**

Navient is a leading provider of asset management and business processing solutions for education, health care, and government clients at the federal, state, and local levels. We help our clients and millions of Americans achieve financial success through services and support. Headquartered in Wilmington, Delaware, Navient employs team members in western New York, northeastern Pennsylvania, Indiana, Tennessee, Texas, Virginia, and other locations.

Navient holds the largest portfolio of education loans insured or federally guaranteed under the Federal Family Education Loan Program ("FFELP"). We also hold the largest portfolio of Private Education Loans. Navient services its own portfolio of education loans, as well as education loans owned by the United States Department of Education ("ED"), financial institutions and nonprofit education lenders. Navient is one of the largest servicers to ED under its Direct Student Loan Program ("DSLP"). Our data-driven insight, service and innovation support customers on the path to successful education loan repayment.

Navient also provides business processing solutions to education-related clients, such as guaranty agencies and colleges and universities.

Finally, the company leverages its scale and expertise to provide additional business processing solutions to a variety of other clients, including federal agencies, state and local governments, regional authorities, courts, hospitals, health care systems and other health care providers, financial service providers, and municipalities.

For all our clients, we aim to improve their financial performance, optimize their operations, and maintain compassionate, compliant service for their customers and constituents.

As of June 30, 2017, Navient's principal assets consisted of:

- $86.1 billion in FFELP Loans, with a net interest margin of 0.80 percent for the quarter ended June 30, 2017 on a "Core Earnings" basis and a weighted average life of 7.1 years;
- $24.2 billion in Private Education Loans, with a net interest margin of 3.28 percent for the quarter ended June 30, 2017 on a "Core Earnings" basis and a weighted average life of 6.4 years;

- a leading education loan servicing platform that services loans for more than 12 million DSLP Loan, FFELP Loan and Private Education Loan customers (including cosigners), including 6 million customer accounts serviced under Navient's contract with ED; and
- a leading business processing platform through which we provide services for over 1,000 clients in the education, health care and public sectors.

**Strengths and Opportunities**

Navient possesses a number of competitive advantages that distinguish it from its competitors, including:

***Large, high quality asset base generating significant and predictable cash flows.*** At June 30, 2017, Navient's $110.4 billion education loan portfolio is 76 percent funded to term and is expected to produce predictable cash flows over the remaining life of the portfolio. Navient's $86.1 billion portfolio of FFELP Loans generally bears a maximum 3 percent loss exposure under the terms of the federal guaranty. Navient's $24.2 billion portfolio of Private Education Loans bears the full credit risk of the borrower and any cosigner. Navient expects that cash flows from its FFELP Loan and Private Education Loan portfolios will significantly exceed future debt service obligations. Our interest earning assets are funded by both secured and unsecured debt.

***Efficient and large-scale operating platforms.*** Navient services over $300 billion in education loans for more than 12 million customers. Navient's inventory of contingent asset recovery receivables is $20.9 billion as of June 30, 2017. We provide services to over 1,000 education, health care and public sector clients. Navient has demonstrated scalable infrastructure with capacity to add volume at a low cost. Our market share and tested infrastructure have enabled expansion to additional clients and asset types.

***Superior performance.*** Navient has demonstrated superior default prevention performance and industry-leading services. The combined portfolio of federal loans serviced by Navient experienced a Cohort Default Rate ("CDR") that is 31 percent lower than our peers, as calculated from the most recent CDR released by ED in September 2016. We are consistently a top performer in our asset recovery business and deliver superior service to our public and private sector clients. We continually leverage data-driven insights and customer service to identify new ways to add value to our clients.

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

***Strong capital return.*** As a result of our significant cash flow and capital generation, Navient expects to return excess capital to stockholders through dividends and share repurchases. In December 2016, Navient's board of directors authorized a new $600 million share repurchase program effective January 1, 2017. For the six months ended June 30, 2017, Navient repurchased 18.3 million shares of common stock for $275 million. As of June 30, 2017, the remaining common share repurchase authority was $325 million.

Navient has paid a quarterly dividend of $0.16 per share of common stock since the first quarter of 2015. For the six months ended June 30, 2017, Navient paid $91 million in dividends.

***Meaningful growth opportunities.*** In the Asset Management business, Navient will continue pursuing opportunistic acquisitions of FFELP and Private Education Loan portfolios, including refinanced Private Education Loans. During the six months ended June 30, 2017, Navient acquired $7.9 billion of education loans. In June 2017, we closed on the acquisition of $6.5 billion of education loans, comprised of $3.5 billion in FFELP Loans and $3.0 billion in Private Education Loans.

In the Business Processing Solutions business, Navient will pursue additional growth opportunities, including, among others:

- The continued expansion and growth of providing services to state and local governments through our Gila LLC subsidiary (commonly known as Municipal Services Bureau, or MSB). Gila provides receivables management services and account processing solutions for state governments, agencies, court systems, municipalities, toll authorities and financial services entities. Gila expands our customer base in the public sector and leverages our business processing solutions.

  On July 31, 2017, Navient acquired Duncan Solutions, a transportation revenue management company serving municipalities and toll authorities, for approximately $80 million. Based in Milwaukee, Wisconsin, the company employs 250 people and serves clients in nearly 30 states. Its parking and tolling-related services, along with industry-leading data capabilities, will complement Gila's offerings in this space and Navient's other business processing solutions offerings.
- The continued expansion and growth of providing services to federal agencies. For example, on September 26, 2016, the Internal Revenue Service announced that it plans to begin private collection of certain overdue federal tax debts in the spring of 2017. A Navient subsidiary, Pioneer Credit Recovery, was selected along with three other contractors to implement the new program. We began collecting under this new contract in April 2017.
- The continued expansion and growth of providing services to hospitals, health care systems and other health care providers through our Xtend Healthcare subsidiary, a health care revenue cycle management company. Xtend's services include full revenue cycle outsourcing, accounts receivable management, extended business office support and consulting engagements. Xtend leverages Navient's asset recovery and business processing capabilities into the health care payments sector.
- The continued expansion and growth of providing services to education-related clients. On April 4, 2016, ED published the first part of a two-part RFP related to a new servicing platform for the Direct Student Loan Program. The first part of the RFP focused on screening candidates' capabilities relative to certain published criteria. In July 2016, Navient was selected as one of three companies eligible to submit responses in the second part of the RFP process. On October 26, 2016, ED published the second part of the RFP for which we submitted our bid on January 9, 2017. As a result of a voluntary corrective action by ED due to a bid protest filed in relation to this RFP, ED issued a series of amendments to the RFP in May and June, 2017. We submitted our bid to the amended RFP on July 10, 2017. A company other than one of three companies selected to be eligible to submit responses filed a bid protest in relation to this RFP on July 7, 2017.

Navient intends to leverage its large-scale operating platforms, superior and data-driven default prevention and asset recovery performance, operating efficiency and regulatory compliance and risk management infrastructure in growing these businesses and in pursuing other growth opportunities.

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

Navient services loans for more than 12 million DSLP Loan, FFELP Loan, and Private Education Loan customers, including 6 million customers whose accounts are serviced under Navient's contract with ED. We help our customers navigate the path to financial success through proactive outreach and innovative, data-driven approaches.

**Leveraging four decades of expertise:** In our experience, customer success means making steady progress toward repayment and avoiding falling behind on or putting off payments. With customer success and default prevention as our top priorities, we apply data-driven outreach that draws from our more than 40 years of experience. Our strategists employ risk modeling to pinpoint struggling borrowers and deploy resources where needed. By tailoring our approach to each borrower's unique situation—e.g., recent graduates, students re-entering school, those experiencing hardships or those with student debt but no degree—we help ensure industry-leading outcomes, as evidenced by a default rate that is 31 percent lower than other servicers. Nine times out of 10 when we can reach federal loan customers who have missed payments, we can identify a solution to help them avoid default.

**Getting borrowers into the right payment plans:** We help customers understand the complex array of federal loan repayment options so they can make informed choices about the plans that are aligned with their financial circumstances and goals. We promote awareness of federal repayment plan options, including Income-Driven Repayment (“IDR”), through more than 154 million communications annually, including mail, email, phone calls, videos and text messages. As a result, more than one in four federal student borrowers and half of student loan balances serviced by Navient for the government were enrolled in an IDR plan (excluding loan types ineligible for the plans). We also help borrowers understand that options lengthening their repayment term may increase the total cost of their loans, while reminding them that they may pay extra or switch repayment plans at any time.

**Leading the industry:** Navient is a leader in recommending policy reforms aimed at improving upfront education and simplifying federal loan repayment options—reforms that we believe would make a meaningful difference for millions of Americans with student loans.

In 2009, we pioneered the creation of a loan modification program to help Private Education Loan borrowers needing additional assistance. As of June 30, 2017, $2.6 billion of our Private Education Loans were enrolled in this interest rate reduction program, helping customers through more affordable monthly payments while making progress in repaying their principal loan balance.

We continually make enhancements designed to help our customers, drawing from a variety of inputs including customer surveys, analysis of customer inquiries and complaint data, regulator commentary and website activity. We regularly use customer and employee research panels to gather real-time feedback to inform enhancements underway.

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

We also continue to offer free resources to help customers and the general public build knowledge on personal finance topics, and we make recommendations for reforms to enhance student loan repayment success. We offer Path to Success, a series of interactive financial literacy videos, and Career Playbook, a career development video series. We also conduct a national research study, *Money Under 35*, that measures the financial health of Americans ages 22 to 35.

We take seriously our commitment to serve military customers and have developed a best-in-class approach to assist them. 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 offers a single point of contact for all calls from service members and their families to help them learn about and access the benefits designed for them, including interest rate benefits, deferment and other options.

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**Selected Historical Financial Information and Ratios**

| (In millions, except per share data) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **GAAP Basis** | | | | |
| Net income attributable to Navient Corporation | $ 112 | $ 125 | $ 200 | $ 305 |
| Diluted earnings per common share attributable to Navient Corporation | $ .39 | $ .38 | $ .69 | $ .91 |
| Weighted average shares used to compute diluted earnings per common share | 285 | 328 | 291 | 335 |
| Net interest margin, FFELP Loans | .82% | .95% | .81% | 1.04% |
| Net interest margin, Private Education Loans | 3.32% | 3.44% | 3.24% | 3.46% |
| Return on assets | .39% | .40% | .35% | .49% |
| Ending FFELP Loans, net | $ 86,140 | $ 92,521 | $ 86,140 | $ 92,521 |
| Ending Private Education Loans, net | 24,223 | 24,741 | 24,223 | 24,741 |
| Ending total education loans, net | $110,363 | $117,262 | $110,363 | $117,262 |
| Average FFELP Loans | $ 85,321 | $ 93,900 | $ 86,032 | $ 94,811 |
| Average Private Education Loans | 23,114 | 25,700 | 23,306 | 26,138 |
| Average total education loans | $108,435 | $119,600 | $109,338 | $120,949 |
| **"Core Earnings" Basis[(1)]** | | | | |
| Net income attributable to Navient Corporation | $ 123 | $ 154 | $ 230 | $ 301 |
| Diluted earnings per common share attributable to Navient Corporation | $ .43 | $ .47 | $ .79 | $ .90 |
| Weighted average shares used to compute diluted earnings per common share | 285 | 328 | 291 | 335 |
| Net interest margin, FFELP Loans | .80% | .85% | .79% | .83% |
| Net interest margin, Private Education Loans | 3.28% | 3.50% | 3.22% | 3.53% |
| Return on assets | .43% | .49% | .40% | .48% |
| Ending FFELP Loans, net | $ 86,140 | $ 92,521 | $ 86,140 | $ 92,521 |
| Ending Private Education Loans, net | 24,223 | 24,741 | 24,223 | 24,741 |
| Ending total education loans, net | $110,363 | $117,262 | $110,363 | $117,262 |
| Average FFELP Loans | $ 85,321 | $ 93,900 | $ 86,032 | $ 94,811 |
| Average Private Education Loans | 23,114 | 25,700 | 23,306 | 26,138 |
| Average total education loans | $108,435 | $119,600 | $109,338 | $120,949 |

(1) "Core Earnings" are non-GAAP financial measures and do not represent a comprehensive basis of accounting. For a greater explanation of "Core Earnings," see the section titled "'Core Earnings' — Definition and Limitations" and subsequent sections.

## Overview

The following discussion and analysis presents a review of our business and operations as of and for the three and six months ended June 30, 2017.

We monitor and assess our ongoing operations and results based on the following four reportable segments: (1) FFELP Loans (2) Private Education Loans, (3) Business Services and (4) Other.

### *FFELP Loans Segment*

In the FFELP Loans segment, we acquire and finance FFELP Loans. Although FFELP Loans are no longer originated, we continue to pursue acquisitions of FFELP Loan portfolios. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the FFELP Loan portfolio (after provision for loan losses). This segment is expected to generate significant amounts of earnings and cash flow as the portfolio amortizes.

***Private Education Loans Segment***

In this segment, we acquire, finance, and service our Private Education Loans. Private Education Loans primarily bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans, or students' and families' resources. They also allow borrowers to refinance existing education loans at a lower rate. We pursue acquisitions of Private Education Loan portfolios. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the Private Education Loan portfolio (after provision for loan losses). This segment is expected to generate significant amounts of earnings and cash flow as the portfolio amortizes.

***Business Services Segment***

Our Business Services segment generates revenue from business processing solutions related to servicing, asset recovery and other business processing activities. Within this segment, we generate revenue primarily through servicing our FFELP Loan portfolio as well as servicing education loans for Guarantors of FFELP Loans and other institutions, including ED. We provide asset recovery services for loans and receivables on behalf of Guarantors of FFELP Loans and higher education institutions. In addition, we provide asset recovery and other business processing solutions for federal, state, court, and municipal clients, public authorities, and health care organizations.

***Other***

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, our corporate liquidity portfolio, unallocated overhead and regulatory-related costs. We also include results from certain smaller wind-down operations within this segment.

**Key Financial Measures**

Our operating results are primarily driven by net interest income, provisions for loan losses and expenses incurred in our education loan portfolios; the revenues and expenses generated by our servicing, asset recovery and business processing businesses; and gains and losses on loan sales and debt repurchases. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures (net interest income; provisions for loan losses; charge-offs and delinquencies; servicing, asset recovery and business processing revenues; other income (loss); and operating expenses) can be found in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2016 Form 10-K.

**Second-Quarter 2017 Summary of Results**

We report financial results on a GAAP basis and also present certain "Core Earnings" performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these "Core Earnings" measures to monitor our business performance. See "'Core Earnings' — Definition and Limitations" for a further discussion and a complete reconciliation between GAAP net income and "Core Earnings."

Second-quarter 2017 GAAP net income was $112 million ($0.39 diluted earnings per share), versus net income of $125 million ($0.38 diluted earnings per share) in the second-quarter 2016. The changes in GAAP net income are impacted by the same "Core Earnings" items discussed below, as well as changes in net income attributable to (1) unrealized, mark-to-market gains/losses on derivatives and (2) goodwill and acquired intangible asset amortization and impairment. These items are recognized in GAAP but are not included in "Core Earnings" results. Second-quarter 2017 GAAP results included losses of $15 million from derivative accounting treatment that are excluded from "Core Earnings" results, compared with losses of $32 million from this derivative accounting treatment in the year-ago period. See "'Core Earnings' — Definition and Limitations—Differences between 'Core Earnings' and GAAP" for a complete reconciliation between GAAP net income and "Core Earnings."

"Core Earnings" for the quarter were $123 million ($0.43 diluted earnings per share), compared with $154 million ($0.47 diluted earnings per share) for the year-ago quarter. The decrease in diluted "Core Earnings" per share was primarily the result of a $65 million reduction in net interest income due to the amortization of the portfolio and a decrease in the net interest margin, partially offset by a $9 million increase in fee revenue, a $5 million decrease in provisions for loan losses and fewer shares outstanding due to common share repurchases. Second-quarter 2017 and 2016 diluted "Core Earnings" per share were $0.44 and $0.48, respectively, excluding regulatory-related costs of $3 million and $4 million, respectively.

During the first six months of 2017, we:

- acquired $7.9 billion of education loans;
- issued $2.9 billion of FFELP asset-backed securities ("ABS");
- extended the maturity date of our FFELP asset-backed commercial paper ("ABCP") facility from March 2018 to April 2019 and increased the maximum financing amount from $6.75 billion to $7.75 billion;
- extended the maturity date of our Private Education Loan ABCP facility from June 2017 to June 2018, and closed on a new $2.0 billion Private Education Loan ABCP facility that matures in June 2020;
- closed on two new Private Education Loan ABS repurchase facilities totaling $1.2 billion;
- issued $1.4 billion in unsecured debt;
- retired or repurchased $822 million of our senior unsecured debt;
- repurchased 18.3 million common shares for $275 million; and
- paid $91 million in common dividends.

**Results of Operations**

We present the results of operations below first on a consolidated basis in accordance with GAAP. Following our discussion of consolidated earnings results on a GAAP basis, we present our results on a segment basis. We have four business segments: FFELP Loans, Private Education Loans, Business Services and Other. Since these segments operate in distinct business environments and we manage and evaluate the financial performance of these segments using non-GAAP financial measures, these segments are presented on a "Core Earnings" basis (see "'Core Earnings' — Definition and Limitations").

**GAAP Statements of Income (Unaudited)**

| (In millions, except per share data) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Increase (Decrease) $ | Increase (Decrease) % | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | Increase (Decrease) $ | Increase (Decrease) % |
|---|---|---|---|---|---|---|---|---|
| Interest income: | | | | | | | | |
| FFELP Loans | $ 668 | $ 618 | $ 50 | 8% | $ 1,298 | $ 1,252 | $ 46 | 4% |
| Private Education Loans | 386 | 402 | (16) | (4) | 760 | 813 | (53) | (7) |
| Other loans | 6 | 2 | 4 | 200 | 10 | 3 | 7 | 233 |
| Cash and investments | 10 | 6 | 4 | 67 | 17 | 12 | 5 | 42 |
| Total interest income | 1,070 | 1,028 | 42 | 4 | 2,085 | 2,080 | 5 | — |
| Total interest expense | 719 | 599 | 120 | 20 | 1,394 | 1,165 | 229 | 20 |
| Net interest income | 351 | 429 | (78) | (18) | 691 | 915 | (224) | (24) |
| Less: provisions for loan losses | 105 | 110 | (5) | (5) | 212 | 221 | (9) | (4) |
| Net interest income after provisions for loan losses | 246 | 319 | (73) | (23) | 479 | 694 | (215) | (31) |
| Other income (loss): | | | | | | | | |
| Servicing revenue | 70 | 71 | (1) | (1) | 146 | 154 | (8) | (5) |
| Asset recovery and business processing revenue | 111 | 101 | 10 | 10 | 210 | 191 | 19 | 10 |
| Other income (loss) | 6 | (21) | 27 | 129 | (1) | (35) | 34 | (97) |
| Gains (losses) on derivative and hedging activities, net | (25) | (28) | 3 | (11) | (41) | (27) | (14) | 52 |
| Total other income | 162 | 123 | 39 | 32 | 314 | 283 | 31 | 11 |
| Expenses: | | | | | | | | |
| Operating expenses | 230 | 230 | — | — | 469 | 478 | (9) | (2) |
| Goodwill and acquired intangible asset impairment and amortization expense | 6 | 6 | — | — | 11 | 10 | 1 | 10 |
| Total expenses | 236 | 236 | — | — | 480 | 488 | (8) | (2) |
| Income before income tax expense | 172 | 206 | (34) | (17) | 313 | 489 | (176) | (36) |
| Income tax expense | 60 | 81 | (21) | (26) | 113 | 184 | (71) | (39) |
| **Net income** | 112 | 125 | (13) | (10) | 200 | 305 | (105) | (34) |
| Less: net income (loss) attributable to noncontrolling interest | — | — | — | — | — | — | — | — |
| Net income attributable to Navient Corporation | $ 112 | $ 125 | $ (13) | (10)% | $ 200 | $ 305 | $(105) | (34)% |
| **Basic earnings per common share attributable to Navient Corporation** | $ .40 | $ .39 | $ .01 | 3% | $ .70 | $ .92 | $ (.22) | (24)% |
| **Diluted earnings per common share attributable to Navient Corporation** | $ .39 | $ .38 | $ .01 | 3% | $ .69 | $ .91 | $ (.22) | (24)% |
| Dividends per common share attributable to Navient Corporation | $ .16 | $ .16 | $ — | —% | $ .32 | $ .32 | $ — | —% |

**Consolidated Earnings Summary — GAAP-basis**

**Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016**

For the three months ended June 30, 2017, net income was $112 million, or $0.39 diluted earnings per common share, compared with net income of $125 million, or $0.38 diluted earnings per common share, for the three months ended June 30, 2016. The decrease in net income was primarily due to a $78 million decrease in net interest income, partially offset by a $5 million decrease in the provision for loan losses, a $10 million increase in asset recovery and business processing revenue, and a $27 million increase in other income.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income decreased by $78 million, primarily as a result of the amortization of the education loan balance and a decline in the net interest margin. The decline in net interest margin was primarily due to higher funding credit spreads.
- Provisions for loan losses decreased $5 million from the year-ago quarter, related to the provision for Private Education Loan losses. The provision for Private Education Loan losses was $95 million in the second quarter of 2017, down $5 million from the second quarter of 2016. Excluding the $3.0 billion of Private Education Loans acquired in June 2017, there was a 12 percent decrease in Private Education Loans outstanding, a $5 million reduction in charge-offs and a $92 million reduction in delinquent loans compared to the year-ago quarter. These factors led to decreases in expected future charge-offs and the decrease in provision. See "Note 1 – Significant Accounting Policies – Education Loan Interest Income and Allowance for Loan Losses," for a description of the allowance for loan losses policy for the $3.0 billion of Private Education Loans acquired in June 2017.
- Asset recovery and business processing revenue increased $10 million primarily as a result of an increase in non-education loan-related asset recovery volume.
- Other income increased $27 million primarily due to a decrease in foreign currency translation losses. The foreign currency translation gains (losses) relate to a portion of our foreign currency denominated debt that does not receive hedge accounting treatment. These gains (losses) are partially offset by the "gains (losses) on derivative and hedging activities, net" line item on the income statement related to the derivatives used to economically hedge these debt instruments.
- Net losses on derivative and hedging activities decreased $3 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our 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.
- The effective tax rates for the second quarters of 2017 and 2016 were 35 percent and 39 percent, respectively. The decrease in effective tax rate was primarily driven by net excess tax benefits related to stock-based incentive payments recognized in the current quarter and the state tax rate impact of legal entity rationalization efforts.
- Second-quarter 2017 and 2016 expenses included regulatory-related costs of $3 million and $4 million, respectively. Excluding these regulatory-related costs, operating expenses were $227 million in second-quarter 2017, a $1 million increase from second-quarter 2016.

We repurchased 10.9 million and 13.6 million shares of our common stock during the three months ended June 30, 2017 and 2016, respectively, as part of our common share repurchase programs. Primarily as a result of ongoing common share repurchases, our average outstanding diluted shares decreased by 43 million common shares (or 13 percent) from the year-ago quarter.

**Six Months Ended June 30, 2017 Compared with Six Months Ended June 30, 2016**

For the six months ended June 30, 2017, net income was $200 million, or $0.69 diluted earnings per common share, compared with net income of $305 million, or $0.91 diluted earnings per common share, for the six months ended June 30, 2016. The decrease in net income was primarily due to a $224 million decrease in net interest income and a $14 million increase in net losses on derivative and hedging activities. This was partially offset by a $9 million decrease in the provision for loan losses, a $19 million increase in asset recovery and business processing revenue, a $34 million increase in other income and a $9 million decrease in operating expenses.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income decreased by $224 million, primarily as a result of the amortization of the education loan balance and a decline in the net interest margin. The decline in net interest margin was primarily due to higher funding credit spreads.
- Provisions for loan losses decreased $9 million from the year-ago period, primarily related to the provision for Private Education Loan losses. The provision for Private Education Loan losses was $190 million for the six months ended June 30, 2017, down $14 million from the year-ago period. Excluding the $3.0 billion of Private Education Loans acquired in June 2017, there was a 12 percent decrease in Private Education Loans outstanding, a $12 million reduction in charge-offs and a $92 million reduction in delinquent loans compared to the year-ago period. These factors led to decreases in expected future charge-offs and the decrease in provision. See "Note 1 – Significant Accounting Policies – Education Loan Interest Income and Allowance for Loan Losses," for a description of the allowance for loan losses policy for the $3.0 billion of Private Education Loans acquired in June 2017.
- Asset recovery and business processing revenue increased $19 million primarily as a result of an increase in non-education loan-related asset recovery volume.
- Other income increased $34 million primarily due to a decrease in foreign currency translation losses. The foreign currency translation gains (losses) relate to a portion of our foreign currency denominated debt that does not receive hedge accounting treatment. These gains (losses) are partially offset by the "gains (losses) on derivative and hedging activities, net" line item on the income statement related to the derivatives used to economically hedge these debt instruments.
- Net losses on derivative and hedging activities increased $14 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our 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.
- The effective tax rates for the six months ended June 30, 2017 and 2016 were 36 percent and 38 percent, respectively. The decrease in effective tax rate was primarily driven by net excess tax benefits related to stock-based incentive payments recognized in the current quarter.
- In the first six months of 2017 and 2016, we recorded regulatory-related costs of $8 million in each period. Excluding these regulatory-related costs, operating expenses were $461 million, a $9 million decrease from the year-ago period. This decrease was primarily due to a general reduction in costs primarily related to operating efficiency initiatives.

We repurchased 18.3 million and 32.8 million shares of our common stock during the six months ended June 30, 2017 and 2016, respectively, as part of our common share repurchase programs. Primarily as a result of ongoing common share repurchases, our average outstanding diluted shares decreased by 44 million common shares (or 13 percent) from the year-ago period.

**“Core Earnings” — Definition and Limitations**

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 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 three items, discussed below, that are either related to the Spin-Off or 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 three items we remove to result in our “Core Earnings” presentations are:

1. Unrealized 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;
2. The accounting for goodwill and acquired intangible assets; and
3. The financial results attributable to the operations of SLM BankCo prior to the Spin-Off and related restructuring and reorganization expense incurred in connection with the Spin-Off, including the restructuring expenses related to the restructuring initiative launched in second-quarter 2015 to simplify and streamline the Company’s management structure post-Spin-Off. For GAAP purposes, Navient reflected the deemed distribution of SLM BankCo on April 30, 2014. For “Core Earnings,” we exclude the consumer banking business (SLM BankCo) as if it had never been a part of Navient’s historical results prior to the deemed distribution of SLM BankCo on April 30, 2014. There are no adjustments related to this for the periods presented in this Form 10-Q (see 2016 Form 10-K for description of how earlier periods were impacted by this adjustment).

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 business 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 10 — Segment Reporting.”

| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations(1) | Total "Core Earnings" | Adjustments: Reclassifications | Adjustments: Additions/ (Subtractions) | Adjustments: Total Adjustments(2) | Total GAAP |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, 2017 | | | | | | | | | |
| Interest income: | | | | | | | | | | |
| Education loans | $ 664 | $ 386 | $ — | $ — | $ — | $ 1,050 | $ 18 | $ (14) | $ 4 | $ 1,054 |
| Other loans | — | — | — | 6 | — | 6 | — | — | — | 6 |
| Cash and investments | 7 | 1 | — | 2 | — | 10 | — | — | — | 10 |
| Total interest income | 671 | 387 | — | 8 | — | 1,066 | 18 | (14) | 4 | 1,070 |
| Total interest expense | 495 | 193 | — | 35 | — | 723 | (1) | (3) | (4) | 719 |
| Net interest income (loss) | 176 | 194 | — | (27) | — | 343 | 19 | (11) | 8 | 351 |
| Less: provisions for loan losses | 10 | 95 | — | — | — | 105 | — | — | — | 105 |
| Net interest income (loss) after provisions for loan losses | 166 | 99 | — | (27) | — | 238 | 19 | (11) | 8 | 246 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 13 | — | 145 | — | (88) | 70 | — | — | — | 70 |
| Asset recovery and business processing revenue | — | — | 111 | — | — | 111 | — | — | — | 111 |
| Other income (loss) | — | — | — | 4 | — | 4 | (19) | (4) | (23) | (19) |
| Total other income (loss) | 13 | — | 256 | 4 | (88) | 185 | (19) | (4) | (23) | 162 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 90 | 38 | 129 | 6 | (88) | 175 | — | — | — | 175 |
| Overhead expenses | — | — | — | 55 | — | 55 | — | — | — | 55 |
| Operating expenses | 90 | 38 | 129 | 61 | (88) | 230 | — | — | — | 230 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 6 | 6 | 6 |
| Total expenses | 90 | 38 | 129 | 61 | (88) | 230 | — | 6 | 6 | 236 |
| Income (loss) before income tax expense (benefit) | 89 | 61 | 127 | (84) | — | 193 | — | (21) | (21) | 172 |
| Income tax expense (benefit)(3) | 32 | 22 | 46 | (30) | — | 70 | — | (10) | (10) | 60 |
| Net income (loss) | $ 57 | $ 39 | $ 81 | $ (54) | $ — | $ 123 | $ — | $ (11) | $ (11) | $ 112 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
|---|---|---|---|
| | Three Months Ended June 30, 2017 | | |
| Net interest income (loss) after provisions for loan losses | $ 8 | $ — | $ 8 |
| Total other income (loss) | (23) | — | (23) |
| Goodwill and acquired intangible asset impairment and amortization | — | 6 | 6 |
| Total "Core Earnings" adjustments to GAAP | $ (15) | $ (6) | (21) |
| Income tax expense (benefit) | | | (10) |
| Net income (loss) | | | $ (11) |

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

| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations[1] | Total "Core Earnings" | Adjustments: Reclassifications | Adjustments: Additions/ (Subtractions) | Adjustments: Total Adjustments[2] | Total GAAP |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, 2016 | | | | | | | | | |
| Interest income: | | | | | | | | | | |
| Education loans | $ 588 | $ 402 | $ — | $ — | $ — | $ 990 | $ 56 | $ (26) | $ 30 | $ 1,020 |
| Other loans | — | — | — | 2 | — | 2 | — | — | — | 2 |
| Cash and investments | 5 | — | — | 1 | — | 6 | — | — | — | 6 |
| Total interest income | 593 | 402 | — | 3 | — | 998 | 56 | (26) | 30 | 1,028 |
| Total interest expense | 388 | 173 | — | 29 | — | 590 | 9 | — | 9 | 599 |
| Net interest income (loss) | 205 | 229 | — | (26) | — | 408 | 47 | (26) | 21 | 429 |
| Less: provisions for loan losses | 10 | 100 | — | — | — | 110 | — | — | — | 110 |
| Net interest income (loss) after provisions for loan losses | 195 | 129 | — | (26) | — | 298 | 47 | (26) | 21 | 319 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 14 | 3 | 153 | — | (99) | 71 | — | — | — | 71 |
| Asset recovery and business processing revenue | — | — | 101 | — | — | 101 | — | — | — | 101 |
| Other income (loss) | — | — | — | 4 | — | 4 | (47) | (6) | (53) | (49) |
| Total other income (loss) | 14 | 3 | 254 | 4 | (99) | 176 | (47) | (6) | (53) | 123 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 101 | 41 | 125 | 7 | (99) | 175 | — | — | — | 175 |
| Overhead expenses | — | — | — | 55 | — | 55 | — | — | — | 55 |
| Operating expenses | 101 | 41 | 125 | 62 | (99) | 230 | — | — | — | 230 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 6 | 6 | 6 |
| Total expenses | 101 | 41 | 125 | 62 | (99) | 230 | — | 6 | 6 | 236 |
| Income (loss) before income tax expense (benefit) | 108 | 91 | 129 | (84) | — | 244 | — | (38) | (38) | 206 |
| Income tax expense (benefit)[3] | 40 | 34 | 48 | (32) | — | 90 | — | (9) | (9) | 81 |
| Net income (loss) | $ 68 | $ 57 | $ 81 | $ (52) | $ — | $ 154 | $ — | $ (29) | $ (29) | $ 125 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
|---|---|---|---|
| | Three Months Ended June 30, 2016 | | |
| Net interest income (loss) after provisions for loan losses | $ 21 | $ — | $ 21 |
| Total other income (loss) | (53) | — | (53) |
| Goodwill and acquired intangible asset impairment and amortization | — | 6 | 6 |
| Total "Core Earnings" adjustments to GAAP | $ (32) | $ (6) | (38) |
| Income tax expense (benefit) | | | (9) |
| Net income (loss) | | | $ (29) |

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

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| | Six Months Ended June 30, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations[1] | Total "Core Earnings" | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Education loans | $ 1,287 | $ 760 | $ — | $ — | $ — | $ 2,047 | $ 38 | $ (27) | $ 11 | $ 2,058 |
| Other loans | — | — | — | 10 | — | 10 | — | — | — | 10 |
| Cash and investments | 12 | 1 | — | 4 | — | 17 | — | — | — | 17 |
| Total interest income | 1,299 | 761 | — | 14 | — | 2,074 | 38 | (27) | 11 | 2,085 |
| Total interest expense | 951 | 380 | — | 66 | — | 1,397 | 2 | (5) | (3) | 1,394 |
| Net interest income (loss) | 348 | 381 | — | (52) | — | 677 | 36 | (22) | 14 | 691 |
| Less: provisions for loan losses | 20 | 190 | — | 2 | — | 212 | — | — | — | 212 |
| Net interest income (loss) after provisions for loan losses | 328 | 191 | — | (54) | — | 465 | 36 | (22) | 14 | 479 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 26 | 4 | 294 | — | (178) | 146 | — | — | — | 146 |
| Asset recovery and business processing revenue | — | — | 210 | — | — | 210 | — | — | — | 210 |
| Other income (loss) | — | — | 2 | 8 | — | 10 | (36) | (16) | (52) | (42) |
| Total other income (loss) | 26 | 4 | 506 | 8 | (178) | 366 | (36) | (16) | (52) | 314 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 183 | 78 | 256 | 12 | (178) | 351 | — | — | — | 351 |
| Overhead expenses | — | — | — | 118 | — | 118 | — | — | — | 118 |
| Operating expenses | 183 | 78 | 256 | 130 | (178) | 469 | — | — | — | 469 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 11 | 11 | 11 |
| Total expenses | 183 | 78 | 256 | 130 | (178) | 469 | — | 11 | 11 | 480 |
| Income (loss) before income tax expense (benefit) | 171 | 117 | 250 | (176) | — | 362 | — | (49) | (49) | 313 |
| Income tax expense (benefit)[3] | 63 | 43 | 91 | (65) | — | 132 | — | (19) | (19) | 113 |
| Net income (loss) | $ 108 | $ 74 | $ 159 | $ (111) | $ — | $ 230 | $ — | $ (30) | $ (30) | $ 200 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| | Six Months Ended June 30, 2017 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
| Net interest income (loss) after provisions for loan losses | $ 14 | $ — | $ 14 |
| Total other income (loss) | (52) | — | (52) |
| Goodwill and acquired intangible asset impairment and amortization | — | 11 | 11 |
| Total "Core Earnings" adjustments to GAAP | $ (38) | $ (11) | (49) |
| Income tax expense (benefit) | | | (19) |
| Net income (loss) | | | $ (30) |

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

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| (Dollars in millions) | FFELP Loans | Private Education Loans | Business Services | Other | Eliminations[1] | Total "Core Earnings" | Adjustments: Reclassifications | Adjustments: Additions/ (Subtractions) | Adjustments: Total Adjustments[2] | Total GAAP |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Six Months Ended June 30, 2016** | | | | | | | | | |
| Interest income: | | | | | | | | | | |
| Education loans | $ 1,143 | $ 813 | $ — | $ — | $ — | $ 1,956 | $ 195 | $ (86) | $ 109 | $ 2,065 |
| Other loans | — | — | — | 3 | — | 3 | — | — | — | 3 |
| Cash and investments | 8 | 1 | — | 3 | — | 12 | — | — | — | 12 |
| Total interest income | 1,151 | 814 | — | 6 | — | 1,971 | 195 | (86) | 109 | 2,080 |
| Total interest expense | 746 | 345 | — | 56 | — | 1,147 | 18 | — | 18 | 1,165 |
| Net interest income (loss) | 405 | 469 | — | (50) | — | 824 | 177 | (86) | 91 | 915 |
| Less: provisions for loan losses | 17 | 204 | — | — | — | 221 | — | — | — | 221 |
| Net interest income (loss) after provisions for loan losses | 388 | 265 | — | (50) | — | 603 | 177 | (86) | 91 | 694 |
| Other income (loss): | | | | | | | | | | |
| Servicing revenue | 31 | 8 | 315 | — | (200) | 154 | — | — | — | 154 |
| Asset recovery and business processing revenue | — | — | 191 | — | — | 191 | — | — | — | 191 |
| Other income (loss) | — | — | — | 7 | — | 7 | (177) | 108 | (69) | (62) |
| Total other income (loss) | 31 | 8 | 506 | 7 | (200) | 352 | (177) | 108 | (69) | 283 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 206 | 84 | 258 | 14 | (200) | 362 | — | — | — | 362 |
| Overhead expenses | — | — | — | 116 | — | 116 | — | — | — | 116 |
| Operating expenses | 206 | 84 | 258 | 130 | (200) | 478 | — | — | — | 478 |
| Goodwill and acquired intangible asset impairment and amortization | — | — | — | — | — | — | — | 10 | 10 | 10 |
| Total expenses | 206 | 84 | 258 | 130 | (200) | 478 | — | 10 | 10 | 488 |
| Income (loss) before income tax expense (benefit) | 213 | 189 | 248 | (173) | — | 477 | — | 12 | 12 | 489 |
| Income tax expense (benefit)[3] | 79 | 70 | 91 | (64) | — | 176 | — | 8 | 8 | 184 |
| Net income (loss) | $ 134 | $ 119 | $ 157 | $ (109) | $ — | $ 301 | $ — | $ 4 | $ 4 | $ 305 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangible Assets | Total |
|---|---|---|---|
| | **Six Months Ended June 30, 2016** | | |
| Net interest income (loss) after provisions for loan losses | $ 91 | $ — | $ 91 |
| Total other income (loss) | (69) | — | (69) |
| Goodwill and acquired intangible asset impairment and amortization | — | 10 | 10 |
| Total "Core Earnings" adjustments to GAAP | $ 22 | $ (10) | 12 |
| Income tax expense (benefit) | | | 8 |
| Net income (loss) | | | $ 4 |

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

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***Differences between "Core Earnings" and GAAP***

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 June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **"Core Earnings" net income attributable to Navient Corporation** | $ 123 | $ 154 | $ 230 | $ 301 |
| "Core Earnings" adjustments to GAAP: | | | | |
| Net impact of derivative accounting | (15) | (32) | (38) | 22 |
| Net impact of goodwill and acquired intangible assets | (6) | (6) | (11) | (10) |
| Net tax effect | 10 | 9 | 19 | (8) |
| Total "Core Earnings" adjustments to GAAP | (11) | (29) | (30) | 4 |
| **GAAP net income attributable to Navient Corporation** | $ 112 | $ 125 | $ 200 | $ 305 |

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

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

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 unrealized 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 June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **"Core Earnings" derivative adjustments:** | | | | |
| Gains (losses) on derivative and hedging activities, net, included in other income | $ (25) | $ (28) | $ (41) | $ (27) |
| Plus: Realized losses on derivative and hedging activities, net[(1)] | 19 | 47 | 36 | 177 |
| Unrealized gains on derivative and hedging activities, net[(2)] | (6) | 19 | (5) | 150 |
| Amortization of net premiums on Floor Income Contracts in net interest income for "Core Earnings" | (14) | (26) | (27) | (86) |
| Other derivative accounting adjustments[(3)] | 5 | (25) | (6) | (42) |
| Total net impact of derivative accounting[(4)] | $ (15) | $ (32) | $ (38) | $ 22 |

(1) See "Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities" below for a detailed breakdown of the components of realized losses on derivative and hedging activities.

(2) "Unrealized gains on derivative and hedging activities, net" comprises the following unrealized mark-to-market gains (losses):

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Floor Income Contracts | $ 13 | $ 7 | $ 66 | $ 34 |
| Basis swaps | (14) | (6) | (15) | 7 |
| Foreign currency hedges | 13 | 2 | (19) | 90 |
| Other | (18) | 16 | (37) | 19 |
| Total unrealized gains on derivative and hedging activities, net | $ (6) | $ 19 | $ (5) | $ 150 |

(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.

(4) Negative amounts are subtracted from "Core Earnings" net income to arrive at GAAP net income and positive amounts are added to "Core Earnings" net income to arrive at GAAP net income.

*Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities*

Derivative accounting requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized gains (losses) on derivative and hedging activities") 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 gains and losses are reclassified to the income statement line item of the economically hedged item. For our "Core Earnings" net interest margin, 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 basis swaps to debt interest expense. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a "Core Earnings" basis.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Reclassification of realized gains (losses) on derivative and hedging activities:** | | | | |
| Net settlement expense on Floor Income Contracts reclassified to net interest income | $ (18) | $ (56) | $ (38) | $ (195) |
| Net settlement income on interest rate swaps reclassified to net interest income | (1) | 9 | 2 | 18 |
| Total reclassifications of realized losses on derivative and hedging activities | $ (19) | $ (47) | $ (36) | $ (177) |

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

As of June 30, 2017, derivative accounting has reduced GAAP equity by approximately $115 million as a result of cumulative net unrealized 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 unrealized after tax net losses related to derivative accounting.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Beginning impact of derivative accounting on GAAP equity | $ (90) | $ (329) | $ (90) | $ (281) |
| Net impact of net unrealized gains (losses) under derivative accounting[1] | (25) | (59) | (25) | (107) |
| Ending impact of derivative accounting on GAAP equity | $ (115) | $ (388) | $ (115) | $ (388) |

(1) Net impact of net unrealized gains (losses) under derivative accounting is composed of the following:

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Total pre-tax net impact of derivative accounting recognized in net income[a] | $ (15) | $ (32) | $ (38) | $ 22 |
| Tax impact of derivative accounting adjustments recognized in net income | 5 | 12 | 13 | (8) |
| Change in unrealized gain (losses) on derivatives, net of tax recognized in other comprehensive income | (15) | (39) | — | (121) |
| Net impact of net unrealized gains (losses) under derivative accounting | $ (25) | $ (59) | $ (25) | $ (107) |

(a) See "'Core Earnings' derivative adjustments" table above.

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*Hedging FFELP Loan Embedded Floor Income*

Net Floor premiums received on Floor Income Contracts that have not been amortized into “Core Earnings” as of the respective year-ends are presented in the table below. These net premiums will be recognized in “Core Earnings” in future periods. As of June 30, 2017, the remaining amortization term of the net floor premiums was approximately 5.0 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 the effective portion of these hedges are recorded in accumulated other comprehensive income and gains and losses on the ineffective portion are recorded immediately to earnings. 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 June 30, 2017, the remaining hedged period is approximately 5.0 years. Historically, we have used pay-fixed interest rate swaps on a periodic basis to hedge embedded Floor Income and depending upon market conditions and pricing, we may enter into swaps in the future. The balance of unrecognized hedged Floor Income will increase as we enter into new swaps and decline as revenue is recognized.

| (Dollars in millions) | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Unamortized net Floor premiums (net of tax) | $ (153) | $ (138) |
| Unrecognized hedged Floor Income related to pay fixed interest rate swaps (net of tax) | (564) | (577) |
| Total[(1)] | $ (717) | $ (715) |

(1) $(1.1) billion and $(1.1) billion on a pre-tax basis as of June 30, 2017 and 2016, 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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2017 | 2016 | 2017 | 2016 |
| “Core Earnings” goodwill and acquired intangible asset adjustments[(1)] | $ (6) | $ (6) | $ (11) | $ (10) |

(1) Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income.

**Business Segment Earnings Summary — "Core Earnings" Basis**

**FFELP Loans Segment**

The following table includes "Core Earnings" results for our FFELP Loans segment.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 |
|---|---|---|---|---|---|---|
| "Core Earnings" interest income: | | | | | | |
| FFELP Loans | $ 664 | $ 588 | 13% | $ 1,287 | $ 1,143 | 13% |
| Cash and investments | 7 | 5 | 40 | 12 | 8 | 50 |
| Total "Core Earnings" interest income | 671 | 593 | 13 | 1,299 | 1,151 | 13 |
| Total "Core Earnings" interest expense | 495 | 388 | 28 | 951 | 746 | 27 |
| Net "Core Earnings" interest income | 176 | 205 | (14) | 348 | 405 | (14) |
| Less: provision for loan losses | 10 | 10 | — | 20 | 17 | 18 |
| Net "Core Earnings" interest income after provision for loan losses | 166 | 195 | (15) | 328 | 388 | (15) |
| Servicing revenue | 13 | 14 | (7) | 26 | 31 | (16) |
| Direct operating expenses | 90 | 101 | (11) | 183 | 206 | (11) |
| Income before income tax expense | 89 | 108 | (18) | 171 | 213 | (20) |
| Income tax expense | 32 | 40 | (20) | 63 | 79 | (20) |
| "Core Earnings" | $ 57 | $ 68 | (16)% | $ 108 | $ 134 | (19)% |

"Core Earnings" for the segment were $57 million in second-quarter 2017, compared with the year-ago quarter's $68 million. This decrease was primarily the result of a $29 million decrease in net interest income due to the amortization of the portfolio and a decrease in net interest margin, partially offset by an $11 million decrease in operating expenses.

"Core Earnings" key performance metrics are as follows:

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| FFELP Loan spread | .89% | .93% | .87% | .91% |
| Net interest margin | .80% | .85% | .79% | .83% |
| Provision for loan losses | $ 10 | $ 10 | $ 20 | $ 17 |
| Charge-offs | $ 13 | $ 13 | $ 26 | $ 29 |
| Charge-off rate | .08% | .07% | .08% | .08% |
| Total delinquency rate | 12.8% | 13.2% | 12.8% | 13.2% |
| Greater than 90-day delinquency rate | 6.0% | 7.2% | 6.0% | 7.2% |
| Forbearance rate | 12.3% | 14.8% | 12.3% | 14.8% |

***FFELP Loan Net Interest Margin***

The following table includes the "Core Earnings" basis FFELP Loan net interest margin along with reconciliation to the GAAP basis FFELP Loan net interest margin.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| "Core Earnings" basis FFELP Loan yield | 3.55% | 2.92% | 3.44% | 2.89% |
| Hedged Floor Income | .40 | .36 | .35 | .30 |
| Unhedged Floor Income | .05 | .17 | .11 | .15 |
| Consolidation Loan Rebate Fees | (.67) | (.66) | (.67) | (.65) |
| Repayment Borrower Benefits | (.11) | (.11) | (.11) | (.11) |
| Premium amortization | (.10) | (.16) | (.10) | (.16) |
| "Core Earnings" basis FFELP Loan net yield | 3.12 | 2.52 | 3.02 | 2.42 |
| "Core Earnings" basis FFELP Loan cost of funds | (2.23) | (1.59) | (2.15) | (1.51) |
| "Core Earnings" basis FFELP Loan spread | .89 | .93 | .87 | .91 |
| "Core Earnings" basis other interest-earning asset spread impact | (.09) | (.08) | (.08) | (.08) |
| "Core Earnings" basis FFELP Loan net interest margin[1] | .80% | .85% | .79% | .83% |
| "Core Earnings" basis FFELP Loan net interest margin[1] | .80% | .85% | .79% | .83% |
| Adjustment for GAAP accounting treatment[2] | .02 | .10 | .02 | .21 |
| GAAP basis FFELP Loan net interest margin[1] | .82% | .95% | .81% | 1.04% |

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

| (Dollars in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| FFELP Loans | $ 85,321 | $ 93,900 | $ 86,032 | $ 94,811 |
| Other interest-earning assets | 3,368 | 3,594 | 3,344 | 3,598 |
| Total FFELP Loan "Core Earnings" basis interest-earning assets | $ 88,689 | $ 97,494 | $ 89,376 | $ 98,409 |

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

The Company acquired $4.0 billion of FFELP Loans in second-quarter 2017. As of June 30, 2017, our FFELP Loan portfolio totaled $86.1 billion, comprising $30.2 billion of FFELP Stafford Loans and $55.9 billion of FFELP Consolidation Loans. The weighted average life of these portfolios as of June 30, 2017 was 4.7 years and 8.3 years, respectively, assuming a Constant Prepayment Rate ("CPR") of 5 percent and 3 percent, 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 June 30, 2017 and 2016, based on interest rates as of those dates.

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| (Dollars in billions) | Fixed Borrower Rate | Variable Borrower Rate | Total | Fixed Borrower Rate | Variable Borrower Rate | Total |
| Education loans eligible to earn Floor Income | $ 75.6 | $ 9.8 | $ 85.4 | $ 80.4 | $ 11.0 | $ 91.4 |
| Less: post-March 31, 2006 disbursed loans required to rebate Floor Income | (38.4) | (.7) | (39.1) | (41.6) | (.8) | (42.4) |
| Less: economically hedged Floor Income | (21.2) | — | (21.2) | (17.6) | — | (17.6) |
| Education loans eligible to earn Floor Income | $ 16.0 | $ 9.1 | $ 25.1 | $ 21.2 | $ 10.2 | $ 31.4 |
| Education loans earning Floor Income | $ 2.3 | $ .5 | $ 2.8 | $ 14.4 | $ 1.3 | $ 15.7 |

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 July 1, 2017 to December 31, 2021.

| (Dollars in billions) | July 1,2017 to December 31, 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged | $ 21.0 | $22.4 | $20.0 | $17.0 | $11.5 | $1.2 |

***Operating Expenses — FFELP Loans***

Operating expenses for our FFELP Loans segment primarily include the contractual rates we pay to service loans in term asset-backed securitization trusts or a similar rate if a loan is not in a term financing facility (which is presented as an intercompany charge from the Business Services segment who services the loans), the fees we pay for third-party loan servicing and costs incurred to acquire loans. The intercompany revenue charged by the Business Services segment and included in those amounts was $88 million and $99 million for the quarters ended June 30, 2017 and 2016, respectively, and $178 million and $200 million for the six months ended June 30, 2017 and 2016, respectively. These amounts exceed the actual cost of servicing the loans. Operating expenses were 42 basis points and 43 basis points of average FFELP Loans in the quarters ended June 30, 2017 and 2016, respectively, and 43 basis points and 44 basis points of average FFELP Loans in the six months ended June 30, 2017 and 2016, respectively. The decrease in operating expenses from the year-ago periods was primarily the result of the decrease in the balance of the portfolio.

**Private Education Loans Segment**

The following table includes “Core Earnings” results for our Private Education Loans segment.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 |
|---|---|---|---|---|---|---|
| “Core Earnings” interest income: | | | | | | |
| Private Education Loans | $ 386 | $ 402 | (4)% | $ 760 | $ 813 | (7)% |
| Cash and investments | 1 | — | 100 | 1 | 1 | — |
| Total “Core Earnings” interest income | 387 | 402 | (4) | 761 | 814 | (7) |
| Total “Core Earnings” interest expense | 193 | 173 | 12 | 380 | 345 | 10 |
| Net “Core Earnings” interest income | 194 | 229 | (15) | 381 | 469 | (19) |
| Less: provision for loan losses | 95 | 100 | (5) | 190 | 204 | (7) |
| Net “Core Earnings” interest income after provision for loan losses | 99 | 129 | (23) | 191 | 265 | (28) |
| Servicing revenue | — | 3 | (100) | 4 | 8 | (50) |
| Direct operating expenses | 38 | 41 | (7) | 78 | 84 | (7) |
| Income before income tax expense | 61 | 91 | (33) | 117 | 189 | (38) |
| Income tax expense | 22 | 34 | (35) | 43 | 70 | (39) |
| “Core Earnings” | $ 39 | $ 57 | (32)% | $ 74 | $ 119 | (38)% |

“Core Earnings” for the segment were $39 million in second-quarter 2017, compared with the year-ago quarter’s $57 million. This decrease was primarily the result of a $35 million decrease in net interest income due to the amortization of the portfolio and a decrease in net interest margin. “Core Earnings” key performance metrics are as follows:

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Private Education Loan spread | 3.48% | 3.66% | 3.40% | 3.68% |
| Net interest margin | 3.28% | 3.50% | 3.22% | 3.53% |
| Provision for loan losses | $ 95 | $ 100 | $ 190 | $ 204 |
| Charge-offs | $ 122 | $ 127 | $ 259 | $ 271 |
| Charge-off rate | 2.3% | 2.2% | 2.4% | 2.3% |
| Total delinquency rate | 6.0% | 6.1% | 6.0% | 6.1% |
| Greater than 90-day delinquency rate | 2.8% | 2.9% | 2.8% | 2.9% |
| Forbearance rate | 3.6% | 3.7% | 3.6% | 3.7% |
| Loans in repayment with more than 12 payments made | 95% | 95% | 95% | 95% |
| Cosigner rate | 65% | 64% | 65% | 64% |

***Private Education Loan Net Interest Margin***

The following table shows the "Core Earnings" basis Private Education Loan net interest margin along with reconciliation to the GAAP basis Private Education Loan net interest margin before provision for loan losses.

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| "Core Earnings" basis Private Education Loan yield | 6.69% | 6.29% | 6.57% | 6.26% |
| "Core Earnings" basis Private Education Loan cost of funds | (3.21) | (2.63) | (3.17) | (2.58) |
| "Core Earnings" basis Private Education Loan spread | 3.48 | 3.66 | 3.40 | 3.68 |
| "Core Earnings" basis other interest-earning asset spread impact | (.20) | (.16) | (.18) | (.15) |
| "Core Earnings" basis Private Education Loan net interest margin(1) | 3.28% | 3.50% | 3.22% | 3.53% |
| "Core Earnings" basis Private Education Loan net interest margin(1) | 3.28% | 3.50% | 3.22% | 3.53% |
| Adjustment for GAAP accounting treatment(2) | .04 | (.06) | .02 | (.07) |
| GAAP basis Private Education Loan net interest margin(1) | 3.32% | 3.44% | 3.24% | 3.46% |

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

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Private Education Loans | $ 23,114 | $ 25,700 | $ 23,306 | $ 26,138 |
| Other interest-earning assets | 615 | 618 | 597 | 609 |
| Total Private Education Loan "Core Earnings" basis interest-earning assets | $ 23,729 | $ 26,318 | $ 23,903 | $ 26,747 |

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

The decline in the net interest margin primarily relates to an increase in the cost of funds as a result of higher funding credit spreads, as well as a widening of the asset and related funding interest rate indices.

The Company acquired $3.1 billion of Private Education Loans in the second-quarter 2017. As of June 30, 2017, our Private Education Loan portfolio totaled $24.2 billion. The weighted-average life of this portfolio as of June 30, 2017 was 6.4 years assuming a CPR of 5 percent.

***Private Education Loan Provision for Loan Losses***

In establishing the allowance for Private Education Loan losses as of June 30, 2017, we considered several factors with respect to our Private Education Loan portfolio. Excluding the $3.0 billion Private Education Loans acquired in June 2017, total loan delinquencies of $1.3 billion were down $92 million from $1.4 billion in the year-ago quarter and loan delinquencies of 90 days or more decreased to $637 million, down $31 million from $668 million in the year-ago quarter. Charge-offs decreased to $122 million, down $5 million from $127 million in the year-ago quarter. Loans in forbearance decreased to $819 million, down $73 million from $892 million in the year-ago quarter.

The provision for Private Education Loan losses was $95 million in the second quarter of 2017, down $5 million from the second quarter of 2016. Excluding the $3.0 billion of Private Education Loans acquired in June 2017, there was a 12 percent decrease in Private Education Loans outstanding, a $5 million reduction in charge-offs and a $92 million reduction in delinquent loans compared to the year-ago quarter. These factors led to decreases in expected future charge-offs and the decrease in provision. See “Note 1 — Significant Accounting Policies – Education Loan Interest Income and Allowance for Loan Losses,” for a description of the allowance for loan losses policy for the $3.0 billion of Private Education Loans acquired in June 2017.

***Operating Expenses — Private Education Loans Segment***

Operating expenses for our Private Education Loans segment include costs incurred to service and collect on our Private Education Loan portfolio. Operating expenses were $38 million and $41 million for the quarters ended June 30, 2017 and 2016, respectively, and $78 million and $84 million for the six months ended June 30, 2017 and 2016, respectively.

**Business Services Segment**

The following table includes “Core Earnings” results for our Business Services segment.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 |
|---|---|---|---|---|---|---|
| Net interest income | $ — | $ — | —% | $ — | $ — | —% |
| Servicing revenue: | | | | | | |
| Intercompany loan servicing | 88 | 99 | (11) | 178 | 200 | (11) |
| Third-party loan servicing | 52 | 51 | 2 | 106 | 105 | 1 |
| Guarantor servicing | 5 | 2 | 150 | 10 | 10 | — |
| Other servicing | — | 1 | (100) | — | — | — |
| Total servicing revenue | 145 | 153 | (5) | 294 | 315 | (7) |
| Asset recovery and business processing revenue | 111 | 101 | 10 | 210 | 191 | 10 |
| Other Business Services revenue | — | — | — | 2 | — | 100 |
| Total other income | 256 | 254 | 1 | 506 | 506 | — |
| Direct operating expenses | 129 | 125 | 3 | 256 | 258 | (1) |
| Income from continuing operations, before income tax expense | 127 | 129 | (2) | 250 | 248 | 1 |
| Income tax expense | 46 | 48 | (4) | 91 | 91 | — |
| “Core Earnings” | $ 81 | $ 81 | —% | $ 159 | $ 157 | 1% |

“Core Earnings” were $81 million in second-quarter 2017, unchanged from the year-ago quarter. Key segment metrics are as follows:

| (Dollars in billions) | As of June 30, 2017 | As of June 30, 2016 |
|---|---|---|
| Number of accounts serviced for ED (in millions) | 6.0 | 6.2 |
| Total federal loans serviced | $ 293 | $ 289 |
| Contingent collections receivables inventory: | | |
| Education loans | $ 8.6 | $10.1 |
| Other | 12.3 | 9.1 |
| Total contingent collections receivables inventory | $20.9 | $19.2 |

Revenues related to services performed on FFELP Loans accounted for 63 percent and 65 percent, respectively, of total Business Services segment revenues for the quarters ended June 30, 2017 and 2016, and 65 percent and 65 percent, respectively, of total Business Services segment revenues for the six months ended June 30, 2017 and 2016.

*Servicing Revenue*

Our Business Services segment includes intercompany loan servicing fees from servicing the FFELP Loans in our FFELP Loans segment. The average balance of this portfolio was $84 billion and $93 billion for the quarters ended June 30, 2017 and 2016, respectively, and $85 billion and $94 billion for the six months ended June 30, 2017 and 2016, respectively. The decline in the intercompany loan servicing revenue from the year-ago periods was the primary reason for the decline in servicing revenue and was due to the decline in the average balance of FFELP Loans serviced.

The Company services education loans for more than 12 million DSLP Loan, FFELP Loan and Private Education Loan customers (including cosigners), including 6 million customer accounts under the ED Servicing Contract as of June 30, 2017, compared with 6.2 million customer accounts serviced at June 30, 2016. Third-party loan servicing fees in the quarters ended June 30, 2017 and 2016 included $38 million and $37 million, respectively, of servicing revenue related to the ED Servicing Contract. On June 13, 2014, ED extended its servicing contract with us to service Direct Student Loan Program federal loans for five more years.

On April 4, 2016, ED published the first part of a two-part RFP related to a new servicing platform for the Direct Student Loan Program. The first part of the RFP focused on screening candidates' capabilities relative to certain published criteria. In July 2016, Navient was selected as one of three companies eligible to submit responses in the second part of the RFP process. On October 26, 2016, ED published the second part of the RFP for which we submitted our bid on January 9, 2017. As a result of a voluntary corrective action by ED due to a bid protest filed in relation to this RFP, ED issued a series of amendments to the RFP in May and June, 2017. We submitted our bid on July 10, 2017. A company other than one of three companies selected to be eligible to submit responses filed a bid protest in relation to this RFP on July 7, 2017. At this time, we cannot predict the outcome of the bid protest or the procurement.

*Asset Recovery and Business Processing Revenue*

Our asset recovery and business processing revenue consists of fees we receive for asset recovery of delinquent and defaulted debt on behalf of third-party clients performed on a contingent basis. Business processing revenue consists of fees we earn processing transactions on behalf of our municipal, public authority and hospital clients. Asset recovery and business processing revenue increased $10 million from the year-ago quarter primarily due to an increase in non-education loan-related asset recovery volume.

Since 1997, Navient has provided asset recovery services on defaulted education loans to ED. This contract expired by its terms on February 21, 2015 and our Pioneer Credit Recovery ("Pioneer") subsidiary received no new account placements under the contract. We engaged with ED to learn more about their decision and address any questions or concerns they may have. In addition, in March 2015, Pioneer filed a bid protest with the U.S. Government Accountability Office ("GAO") which protest was dismissed in March 2015 from the GAO based upon overlapping jurisdiction. Following the bid protest dismissal, Pioneer filed its own complaint with the U.S. Court of Federal Claims ("COFC"), which complaint was consolidated with several similar cases filed by other private collection agencies. On April 16, 2015, Pioneer's complaint, together with the other plaintiffs' consolidated complaints, was dismissed for lack of jurisdiction. We appealed this decision to the United States Court of Appeals for the Federal Circuit and, in July 2016, the Court of Appeals reversed the ruling of the COFC and remanded the case for further proceedings. As a result of these proceedings, ED undertook voluntary corrective action, reassessed Pioneer's eligibility to receive a term extension and awarded the company a new contract in May 2017. The COFC has issued a preliminary injunction in the matter and the related protest of the new contract for similar services discussed below. This preliminary injunction prevents ED from assigning contracts to Pioneer under its new contract and the other interested parties. Several interested parties have appealed the injunction to the U.S. Court of Appeals for the Federal Circuit. This matter remains open.

Separately, we had submitted a response to ED's RFP in relation to a new contract for similar services. On December 9, 2016, Navient was informed by ED that neither of our subsidiaries, Pioneer nor General Revenue

Corporation ("GRC"), was awarded a contract to perform collections and loan rehabilitation services for federal student loan borrowers. In December 2016, both Pioneer and GRC filed bid protests with the GAO. GRC's bid protest was dismissed in part in January 2017 and GRC filed a supplemental protest. GRC's protest was sustained on March 27, 2017. Pioneer's bid protest with the GAO was dismissed from the GAO on March 30, 2017 based upon over lapping jurisdiction. Pioneer filed a substantially similar complaint with the COFC on April 11, 2017. Pioneer and GRC are subject to the same injunction discussed above. These matters are still outstanding.

In December 2016, Great Lakes Higher Education Assistance Corp. ("Great Lakes") assumed control of United Student Aid Funds, Inc. ("USAF"). As part of this transfer, Great Lakes notified us of their intent to rebid the services we currently provide for USAF and Northwest Education Loan Association ("NELA"). The services we provide primarily relate to FFELP-related servicing and asset recovery services. Prior to this announcement, Navient had not provided these services directly to Great Lakes. If we are unsuccessful in our efforts to win these services along with additional opportunities with Great Lakes, the current agreements would be terminated effective as of December 31, 2017.

***Operating Expenses — Business Services Segment***

Operating expenses for our Business Services segment primarily include costs incurred to service our FFELP Loan portfolio, third-party servicing and asset recovery and business processing costs, and other operating costs. The $4 million increase in operating expenses in the second quarter of 2017 compared with the year-ago quarter was primarily due to an increase in legal contingency expense.

**Other Segment**

The following table includes "Core Earnings" results of our Other segment.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | % Increase (Decrease) 2017 vs. 2016 |
|---|---|---|---|---|---|---|
| Net interest loss after provision for loan losses | $ (27) | $ (26) | 4% | $ (54) | $ (50) | 8% |
| Other income | 4 | 4 | — | 8 | 7 | 14 |
| Direct operating expenses | 6 | 7 | (14) | 12 | 14 | (14) |
| Overhead expenses: | | | | | | |
| Corporate overhead | 28 | 28 | — | 63 | 62 | 2 |
| Unallocated information technology costs | 27 | 27 | — | 55 | 54 | 2 |
| Total overhead expenses | 55 | 55 | — | 118 | 116 | 2 |
| Total operating expenses | 61 | 62 | (2) | 130 | 130 | — |
| Loss before income tax benefit | (84) | (84) | — | (176) | (173) | 2 |
| Income tax benefit | (30) | (32) | (6) | (65) | (64) | 2 |
| "Core Earnings" (loss) | $ (54) | $ (52) | 4% | $ (111) | $ (109) | 2% |

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

Net interest loss after provision for loan losses includes net interest loss related to our corporate liquidity portfolio, partially offset by net interest income related to our mortgage and consumer loan portfolios.

***Overhead — Other Segment***

Unallocated corporate overhead is comprised of costs related to executive management, the board of directors, accounting, finance, legal, human resources and stock-based compensation expense. Unallocated information technology costs are related to infrastructure and operations.

**Financial Condition**

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

*Average Balance Sheets — GAAP*

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| (Dollars in millions) | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate |
| **Average Assets** | | | | | | | | |
| FFELP Loans | $ 85,321 | 3.14% | $ 93,900 | 2.65% | $ 86,032 | 3.04% | $ 94,811 | 2.66% |
| Private Education Loans | 23,114 | 6.69 | 25,700 | 6.29 | 23,306 | 6.57 | 26,138 | 6.26 |
| Other loans | 197 | 11.55 | 67 | 8.66 | 185 | 11.37 | 68 | 8.58 |
| Cash and investments | 5,350 | .75 | 5,501 | .47 | 5,189 | .66 | 5,460 | .43 |
| Total interest-earning assets | 113,982 | 3.76% | 125,168 | 3.30% | 114,712 | 3.67% | 126,477 | 3.31% |
| Non-interest-earning assets | 3,728 | | 3,733 | | 3,969 | | 3,937 | |
| Total assets | $117,710 | | $128,901 | | $118,681 | | $130,414 | |
| **Average Liabilities and Equity** | | | | | | | | |
| Short-term borrowings | $ 2,750 | 4.13% | $ 2,152 | 3.10% | $ 2,487 | 3.86% | $ 2,292 | 2.85% |
| Long-term borrowings | 109,216 | 2.54 | 120,797 | 1.94 | 110,206 | 2.46 | 121,953 | 1.87 |
| Total interest-bearing liabilities | 111,966 | 2.58% | 122,949 | 1.96% | 112,693 | 2.50% | 124,245 | 1.88% |
| Non-interest-bearing liabilities | 2,164 | | 2,241 | | 2,333 | | 2,406 | |
| Equity | 3,580 | | 3,711 | | 3,655 | | 3,763 | |
| Total liabilities and equity | $117,710 | | $128,901 | | $118,681 | | $130,414 | |
| Net interest margin | | 1.23% | | 1.38% | | 1.21% | | 1.46% |

*Rate/Volume Analysis — GAAP*

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

| | Increase | Change Due To[1] | |
|---|---|---|---|
| (Dollars in millions) | (Decrease) | Rate | Volume |
| **Three Months Ended June 30, 2017 vs. 2016** | | | |
| Interest income | $ 42 | $ 136 | $ (94) |
| Interest expense | 120 | 176 | (56) |
| Net interest income | $ (78) | $ (40) | $ (38) |
| **Six Months Ended June 30, 2017 vs. 2016** | | | |
| Interest income | $ 5 | $ 213 | $ (208) |
| Interest expense | 229 | 348 | (119) |
| Net interest income | $ (224) | $(135) | $ (89) |

(1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each.

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

*Ending Education Loan Balances, net — GAAP and "Core Earnings" Basis*

| (Dollars in millions) | June 30, 2017 FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
|---|---|---|---|---|---|
| Total education loan portfolio: | | | | | |
| In-school[1] | $ 114 | $ — | $ 114 | $ 66 | $ 180 |
| Grace, repayment and other[2] | 29,674 | 55,659 | 85,333 | 25,653 | 110,986 |
| Total, gross | 29,788 | 55,659 | 85,447 | 25,719 | 111,166 |
| Unamortized premium/(discount) | 463 | 291 | 754 | (994) | (240) |
| Receivable for partially charged-off loans | — | — | — | 784 | 784 |
| Allowance for loan losses | (36) | (25) | (61) | (1,286) | (1,347) |
| Total education loan portfolio | $ 30,215 | $ 55,925 | $86,140 | $24,223 | $110,363 |
| % of total FFELP | 35% | 65% | 100% | | |
| % of total | 27% | 51% | 78% | 22% | 100% |

| (Dollars in millions) | December 31, 2016 FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
|---|---|---|---|---|---|
| Total education loan portfolio: | | | | | |
| In-school[1] | $ 148 | $ — | $ 148 | $ 104 | $ 252 |
| Grace, repayment and other[2] | 31,700 | 55,070 | 86,770 | 24,229 | 110,999 |
| Total, gross | 31,848 | 55,070 | 86,918 | 24,333 | 111,251 |
| Unamortized premium/(discount) | 510 | 369 | 879 | (457) | 422 |
| Receivable for partially charged-off loans | — | — | — | 815 | 815 |
| Allowance for loan losses | (39) | (28) | (67) | (1,351) | (1,418) |
| Total education loan portfolio | $ 32,319 | $ 55,411 | $87,730 | $23,340 | $111,070 |
| % of total FFELP | 37% | 63% | 100% | | |
| % of total | 29% | 50% | 79% | 21% | 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.

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*Average Education Loan Balances (net of unamortized premium/discount) — GAAP and "Core Earnings" Basis*

| | Three Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
| Total | $ 30,866 | $ 54,455 | $85,321 | $ 23,114 | $ 108,435 |
| % of FFELP | 36% | 64% | 100% | | |
| % of total | 29% | 50% | 79% | 21% | 100% |

| | Three Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
| Total | $ 35,263 | $ 58,637 | $93,900 | $ 25,700 | $119,600 |
| % of FFELP | 38% | 62% | 100% | | |
| % of total | 30% | 49% | 79% | 21% | 100% |

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
| Total | $ 31,424 | $ 54,608 | $86,032 | $ 23,306 | $ 109,338 |
| % of FFELP | 37% | 63% | 100% | | |
| % of total | 29% | 50% | 79% | 21% | 100% |

| | Six Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total Portfolio |
| Total | $ 35,878 | $ 58,933 | $94,811 | $ 26,138 | $ 120,949 |
| % of FFELP | 38% | 62% | 100% | | |
| % of total | 29% | 49% | 78% | 22% | 100% |

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*Education Loan Activity — GAAP and "Core Earnings" Basis*

| | Three Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 31,184 | $ 54,100 | $85,284 | $ 22,552 | $107,836 |
| Acquisitions | 416 | 3,495 | 3,911 | 2,554 | 6,465 |
| Capitalized interest and premium/discount amortization | 229 | 249 | 478 | 92 | 570 |
| Consolidations to third parties | (727) | (741) | (1,468) | (160) | (1,628) |
| Repayments and other | (887) | (1,178) | (2,065) | (815) | (2,880) |
| Ending balance | $ 30,215 | $ 55,925 | $86,140 | $ 24,223 | $110,363 |

| | Three Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 35,646 | $ 59,276 | $94,922 | $25,547 | $120,469 |
| Acquisitions | 337 | 286 | 623 | 23 | 646 |
| Capitalized interest and premium/discount amortization | 251 | 272 | 523 | 105 | 628 |
| Consolidations to third parties | (733) | (618) | (1,351) | (134) | (1,485) |
| Repayments and other | (1,016) | (1,180) | (2,196) | (800) | (2,996) |
| Ending balance | $ 34,485 | $ 58,036 | $92,521 | $24,741 | $117,262 |

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 32,319 | $ 55,411 | $87,730 | $ 23,340 | $111,070 |
| Acquisitions | 725 | 3,872 | 4,597 | 2,666 | 7,263 |
| Capitalized interest and premium/discount amortization | 471 | 501 | 972 | 177 | 1,149 |
| Consolidations to third parties | (1,492) | (1,484) | (2,976) | (320) | (3,296) |
| Repayments and other | (1,808) | (2,375) | (4,183) | (1,640) | (5,823) |
| Ending balance | $ 30,215 | $ 55,925 | $86,140 | $ 24,223 | $110,363 |

| | Six Months Ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 36,854 | $ 59,548 | $96,402 | $26,394 | $122,796 |
| Acquisitions | 610 | 1,544 | 2,154 | 29 | 2,183 |
| Capitalized interest and premium/discount amortization | 521 | 534 | 1,055 | 219 | 1,274 |
| Consolidations to third parties | (1,412) | (1,088) | (2,500) | (255) | (2,755) |
| Repayments and other | (2,088) | (2,502) | (4,590) | (1,646) | (6,236) |
| Ending balance | $ 34,485 | $ 58,036 | $92,521 | $24,741 | $117,262 |

*Education Loan Allowance for Loan Losses Activity — GAAP and "Core Earnings" Basis*

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Total Portfolio | FFELP Loans | Private Education Loans | Total Portfolio |
| Beginning balance | $ 64 | $ 1,311 | $ 1,375 | $ 69 | $ 1,434 | $ 1,503 |
| Less: | | | | | | |
| Charge-offs[1] | (13) | (122) | (135) | (13) | (127) | (140) |
| Plus: | | | | | | |
| Provision for loan losses | 10 | 95 | 105 | 10 | 100 | 110 |
| Reclassification of interest reserve[2] | — | 2 | 2 | — | 3 | 3 |
| Ending balance | $ 61 | $ 1,286 | $ 1,347 | $ 66 | $ 1,410 | $ 1,476 |
| Percent of total | 5% | 95% | 100% | 4% | 96% | 100% |
| Troubled debt restructuring[3] | $ — | $10,594 | $10,594 | $ — | $10,760 | $10,760 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| (Dollars in millions) | FFELP Loans | Private Education Loans | Total Portfolio | FFELP Loans | Private Education Loans | Total Portfolio |
| Beginning balance | $ 67 | $ 1,351 | $ 1,418 | $ 78 | $ 1,471 | $ 1,549 |
| Less: | | | | | | |
| Charge-offs[1] | (26) | (259) | (285) | (29) | (271) | (300) |
| Plus: | | | | | | |
| Provision for loan losses | 20 | 190 | 210 | 17 | 204 | 221 |
| Reclassification of interest reserve[2] | — | 4 | 4 | — | 6 | 6 |
| Ending balance | $ 61 | $ 1,286 | $ 1,347 | $ 66 | $ 1,410 | $ 1,476 |
| Percent of total | 5% | 95% | 100% | 4% | 96% | 100% |
| Troubled debt restructuring[3] | $ — | $10,594 | $10,594 | $ — | $10,760 | $10,760 |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.

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

(3) Represents the recorded investment of loans classified as troubled debt restructuring.

***FFELP Loan Portfolio Performance***

*FFELP Loan Delinquencies and Forbearance — GAAP and "Core Earnings" Basis*

| (Dollars in millions) | FFELP Loan Delinquencies June 30, 2017 Balance | 2017 % | 2016 Balance | 2016 % |
|---|---|---|---|---|
| Loans in-school/grace/deferment(1) | $ 5,538 | | $ 7,138 | |
| Loans in forbearance(2) | 9,814 | | 12,496 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 61,108 | 87.2% | 62,527 | 86.8% |
| Loans delinquent 31-60 days(3) | 3,187 | 4.5 | 2,664 | 3.7 |
| Loans delinquent 61-90 days(3) | 1,596 | 2.3 | 1,603 | 2.3 |
| Loans delinquent greater than 90 days(3) | 4,204 | 6.0 | 5,197 | 7.2 |
| Total FFELP Loans in repayment | 70,095 | 100% | 71,991 | 100% |
| Total FFELP Loans, gross | 85,447 | | 91,625 | |
| FFELP Loan unamortized premium | 754 | | 961 | |
| Total FFELP Loans | 86,201 | | 92,586 | |
| FFELP Loan allowance for losses | (61) | | (65) | |
| FFELP Loans, net | $86,140 | | $92,521 | |
| Percentage of FFELP Loans in repayment | | 82.0% | | 78.6% |
| Delinquencies as a percentage of FFELP Loans in repayment | | 12.8% | | 13.2% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance | | 12.3% | | 14.8% |

(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.

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

*Allowance for FFELP Loan Losses — GAAP and "Core Earnings" Basis*

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Allowance at beginning of period | $ 64 | $ 69 | $ 67 | $ 78 |
| Provision for FFELP Loan losses | 10 | 10 | 20 | 17 |
| Charge-offs | (13) | (13) | (26) | (29) |
| Allowance at end of period | $ 61 | $ 66 | $ 61 | $ 66 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .08% | .07% | .08% | .08% |
| Allowance coverage of charge-offs (annualized) | 1.1 | 1.2 | 1.2 | 1.1 |
| Allowance as a percentage of ending total loans, gross | .07% | .07% | .07% | .07% |
| Allowance as a percentage of ending loans in repayment | .09% | .09% | .09% | .09% |
| Ending total loans, gross | $85,447 | $91,625 | $85,447 | $91,625 |
| Average loans in repayment | $68,915 | $72,980 | $69,108 | $73,339 |
| Ending loans in repayment | $70,095 | $71,991 | $70,095 | $71,991 |

***Private Education Loan Portfolio Performance***

*Private Education Loan Delinquencies and Forbearance — GAAP and “Core Earnings” Basis*

| | Private Education Loan Delinquencies June 30, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[(1)] | $ 1,236 | | $ 1,636 | |
| Loans in forbearance[(2)] | 870 | | 892 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 22,187 | 94.0% | 21,843 | 93.9% |
| Loans delinquent 31-60 days[(3)] | 481 | 2.0 | 467 | 2.0 |
| Loans delinquent 61-90 days[(3)] | 287 | 1.2 | 287 | 1.2 |
| Loans delinquent greater than 90 days[(3)] | 658 | 2.8 | 668 | 2.9 |
| Total Private Education Loans in repayment | 23,613 | 100% | 23,265 | 100% |
| Total Private Education Loans, gross | 25,719 | | 25,793 | |
| Private Education Loan unamortized discount | (994) | | (489) | |
| Total Private Education Loans | 24,725 | | 25,304 | |
| Private Education Loan receivable for partially charged-off loans | 784 | | 847 | |
| Private Education Loan allowance for losses | (1,286) | | (1,410) | |
| Private Education Loans, net | $24,223 | | $24,741 | |
| Percentage of Private Education Loans in repayment | | 91.8% | | 90.2% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 6.0% | | 6.1% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 3.6% | | 3.7% |
| Loans in repayment with more than 12 payments made | | 95% | | 95% |
| Percentage of Private Education Loans with a cosigner | | 65% | | 64% |

(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, 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.

*Allowance for Private Education Loan Losses — GAAP and "Core Earnings" Basis*

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Allowance at beginning of period | $ 1,311 | $ 1,434 | $ 1,351 | $ 1,471 |
| Provision for Private Education Loan losses | 95 | 100 | 190 | 204 |
| Charge-offs[1] | (122) | (127) | (259) | (271) |
| Reclassification of interest reserve[2] | 2 | 3 | 4 | 6 |
| Allowance at end of period | $ 1,286 | $ 1,410 | $ 1,286 | $ 1,410 |
| Charge-offs as a percentage of average loans in repayment (annualized) | 2.3% | 2.2% | 2.4% | 2.3% |
| Allowance coverage of net charge-offs (annualized) | 2.6 | 2.8 | 2.5 | 2.6 |
| Allowance as a percentage of ending total loans[3] | 4.9% | 5.3% | 4.9% | 5.3% |
| Allowance as a percentage of ending loans in repayment[3] | 5.4% | 6.1% | 5.4% | 6.1% |
| Ending total loans[4] | $26,503 | $26,640 | $26,503 | $26,640 |
| Average loans in repayment | $21,621 | $23,561 | $21,706 | $23,871 |
| Ending loans in repayment | $23,613 | $23,265 | $23,613 | $23,265 |

(1) Charge-offs are reported net of expected recoveries. The expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.

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

(3) See "Note 2 — Allowance for Loan Losses — Allowance for Loan Losses Metrics" for a discussion on the impact of the $6.5 billion of loans purchased in June 2017 on these ratios.

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

*Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for 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 remaining loan balance as the "receivable for partially 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 receivable for partially charged-off Private Education 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 receivable for partially charged-off Private Education Loans.

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Receivable at beginning of period | $ 800 | $ 867 | $ 815 | $ 881 |
| Expected future recoveries of current period defaults[1] | 29 | 32 | 63 | 68 |
| Recoveries[2] | (40) | (49) | (84) | (95) |
| Charge-offs[3] | (5) | (3) | (10) | (7) |
| Receivable at end of period | $ 784 | $ 847 | $ 784 | $ 847 |

(1) Represents our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall – the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the "Allowance for Private Education Loan Losses" table.

*Use of Forbearance as a Private Education Loan Collection Tool*

Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of recovery of the loan. Forbearance as a recovery tool is used most effectively when applied based on a customer's unique situation, including historical information and judgments. We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

Forbearance may be granted to customers who are exiting their grace period to provide additional time to obtain employment and income to support their obligations, or to current customers who are faced with a hardship and request forbearance time to provide temporary payment relief. In these circumstances, a customer's loan is placed into a forbearance status in limited monthly increments and is reflected in the forbearance status at month-end during this time. At the end of their granted forbearance period, the customer will enter repayment status as current and is expected to begin making their scheduled monthly payments on a go-forward basis.

Forbearance may also be granted to customers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the customer is returned to a current repayment status. In more limited instances, delinquent customers will also be granted additional forbearance time.

The tables below show the composition and status of the Private Education Loan portfolio aged by the number of months for which a scheduled monthly payment was received. As indicated in the tables, the percentage of loans that are in forbearance status, are delinquent greater than 90 days or that are charged off decreases the longer the loans have been making scheduled monthly payments.

At June 30, 2017, loans in forbearance status as a percentage of loans in repayment and forbearance were 13.3 percent for loans that have made less than 25 monthly payments. The percentage drops to 1.9 percent for loans that have made more than 48 monthly payments.

At June 30, 2017, loans in repayment that are delinquent greater than 90 days as a percentage of loans in repayment were 8.0 percent for loans that have made less than 25 monthly payments. The percentage drops to 1.6 percent for loans that have made more than 48 monthly payments.

For the three months ended June 30, 2017, charge-offs as a percentage of loans in repayment were 8.0 percent for loans that have made less than 25 monthly payments. The percentage drops to 1.1 percent for loans that have made more than 48 monthly payments.

*GAAP and "Core Earnings" Basis:*

| (Dollars in millions) June 30, 2017 | Monthly Scheduled Payments Received 0 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | Not Yet in Repayment | Total |
|---|---|---|---|---|---|---|---|
| Loans in-school/grace/deferment | $ — | $ — | $ — | $ — | $ — | $ 1,236 | $ 1,236 |
| Loans in forbearance | 241 | 98 | 99 | 104 | 328 | — | 870 |
| Loans in repayment — current | 983 | 901 | 1,433 | 2,341 | 16,529 | — | 22,187 |
| Loans in repayment — delinquent 31-60 days | 49 | 41 | 55 | 75 | 261 | — | 481 |
| Loans in repayment — delinquent 61-90 days | 35 | 30 | 38 | 43 | 141 | — | 287 |
| Loans in repayment — delinquent greater than 90 days | 94 | 82 | 98 | 110 | 274 | — | 658 |
| Total | $1,402 | $1,152 | $1,723 | $2,673 | $ 17,533 | $ 1,236 | 25,719 |
| Unamortized discount | | | | | | | (994) |
| Receivable for partially charged-off loans | | | | | | | 784 |
| Allowance for loan losses | | | | | | | (1,286) |
| Total Private Education Loans, net | | | | | | | $24,223 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 17.2% | 8.5% | 5.7% | 3.9% | 1.9% | —% | 3.6% |
| Loans in repayment — delinquent greater than 90 days as a percentage of loans in repayment | 8.1% | 7.8% | 6.1% | 4.3% | 1.6% | —% | 2.8% |
| Charge-offs as a percentage of loans in repayment | 9.4% | 6.4% | 4.9% | 3.3% | 1.1% | —% | 2.3% |

| (Dollars in millions) June 30, 2016 | Monthly Scheduled Payments Received 0 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | Not Yet in Repayment | Total |
|---|---|---|---|---|---|---|---|
| Loans in-school/grace/deferment | $ — | $ — | $ — | $ — | $ — | $ 1,636 | $ 1,636 |
| Loans in forbearance | 293 | 118 | 116 | 110 | 255 | — | 892 |
| Loans in repayment — current | 886 | 1,291 | 2,139 | 3,110 | 14,417 | — | 21,843 |
| Loans in repayment — delinquent 31-60 days | 70 | 53 | 69 | 73 | 202 | — | 467 |
| Loans in repayment — delinquent 61-90 days | 55 | 39 | 46 | 40 | 107 | — | 287 |
| Loans in repayment — delinquent greater than 90 days | 144 | 95 | 116 | 98 | 215 | — | 668 |
| Total | $1,448 | $1,596 | $2,486 | $3,431 | $ 15,196 | $ 1,636 | 25,793 |
| Unamortized discount | | | | | | | (489) |
| Receivable for partially charged-off loans | | | | | | | 847 |
| Allowance for loan losses | | | | | | | (1,410) |
| Total Private Education Loans, net | | | | | | | $24,741 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 20.2% | 7.4% | 4.7% | 3.2% | 1.7% | —% | 3.7% |
| Loans in repayment — delinquent greater than 90 days as a percentage of loans in repayment | 12.4% | 6.4% | 4.9% | 2.9% | 1.4% | —% | 2.9% |
| Charge-offs as a percentage of loans in repayment | 12.4% | 5.3% | 3.3% | 1.8% | 1.0% | —% | 2.2% |

*Private Education Loan Repayment Options*

Certain loan programs allow customers to select from a variety of repayment options depending on their loan type and their enrollment/loan status, which include the ability to extend their repayment term or change their monthly payment. The chart below provides the optional repayment offerings in addition to the standard level principal and interest payments as of June 30, 2017.

| | Loan Program | | | |
|---|---|---|---|---|
| (Dollars in millions) | Signature and Other | Smart Option | Career Training | Total |
| $ in repayment | $19,950 | $3,135 | $ 528 | $23,613 |
| $ in total | $21,748 | $3,412 | $ 559 | $25,719 |
| Payment method by enrollment status: | | | | |
| In-school/grace | Deferred(1) | Deferred(1), interest-only or fixed $25/month | Interest-only or fixed $25/month | |
| Repayment | Level principal and interest or graduated | Level principal and interest | Level principal and interest | |

(1) "Deferred" includes loans for which no payments are required and interest charges are capitalized into the loan balance.

The graduated repayment program that is part of Signature and Other Loans includes an interest-only payment feature that may be selected at the option of the customer. Customers elect to participate in this program at the time they enter repayment following their grace period. This program is available to customers in repayment, after their grace period, who would like a temporary lower payment from the required principal and interest payment amount. Customers participating in this program pay monthly interest with no amortization of their principal balance for up to 48 payments after entering repayment (dependent on the loan product type). The maturity date of the loan is not extended when a customer participates in this program. As of June 30, 2017 and 2016, customers in repayment owing approximately $0.5 billion (2 percent of loans in repayment) and $1.2 billion (5 percent of loans in repayment), respectively, were enrolled in the interest-only program.

## Liquidity and Capital Resources

### *Funding and Liquidity Risk Management*

The following "Liquidity and Capital Resources" discussion concentrates on our FFELP Loans and Private Education Loans segments. Our Business Services and Other segments require minimal capital and funding.

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 acquisitions of Private Education Loan and FFELP Loan portfolios, acquisitions of companies, the payment of common stock dividends and the repurchase of common stock under common share repurchase programs. To achieve these objectives, we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources including the issuance of unsecured debt and the issuance of secured debt primarily through asset-backed securitizations and/or other financing facilities.

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

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change, from time to time, based on our financial performance, industry and market dynamics and other factors. Other factors that influence our credit ratings include the ratings agencies' assessment of the general operating environment, our relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices. A negative change in our credit rating could have a negative effect on our liquidity because it might raise the cost and availability of funding and potentially require additional cash collateral or restrict cash currently held as collateral on existing borrowings or derivative collateral arrangements. It is our objective to improve our credit ratings so that we can continue to efficiently access the capital markets even in difficult economic and market conditions. We have unsecured debt that totaled $14.3 billion at June 30, 2017. Three credit rating agencies currently rate our long-term unsecured debt at below investment grade.

We expect to fund our ongoing liquidity needs, including the repayment of $1.9 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash, investments and unencumbered FFELP Loan portfolio, the predictable operating cash flows provided by operating activities ($625 million in the six months ended June 30, 2017), 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 secured loan facilities or additional Private Education Loan ABS repurchase facilities, or issue additional unsecured debt.

We no longer originate Private Education Loans or FFELP Loans and therefore have no liquidity requirements for new originations. We have purchased and may purchase, in future periods, Private Education Loan and FFELP Loan portfolios from third parties such as the $6.5 billion portfolio acquired in June 2017. This portfolio purchase and any future purchases will be part of our ongoing liquidity needs.

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

*Ending Balances*

| (Dollars in millions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Sources of primary liquidity:** | | |
| Total unrestricted cash and liquid investments | $1,156 | $ 1,256 |
| Unencumbered FFELP Loans | 936 | 359 |
| Total GAAP and "Core Earnings" basis | $2,092 | $ 1,615 |

*Average Balances*

| (Dollars in millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Sources of primary liquidity:** | | | | |
| Total unrestricted cash and liquid investments | $ 1,331 | $ 1,259 | $ 1,213 | $ 1,222 |
| Unencumbered FFELP Loans | 924 | 934 | 914 | 1,021 |
| Total GAAP and "Core Earnings" basis | $ 2,255 | $ 2,193 | $ 2,127 | $ 2,243 |

Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under the FFELP Loan-other facilities will vary and be subject to each agreement's borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of June 30, 2017 and 2016, the maximum additional capacity under these facilities was $2.4 billion and $2.9 billion, respectively. For the three months ended June 30, 2017 and 2016, the average maximum additional capacity under these facilities was $2.8 billion and $1.7 billion, respectively. For the six months ended June 30, 2017 and 2016, the average maximum additional capacity under these facilities was $2.7 billion and $1.8 billion, respectively.

In addition to the FFELP Loan-other facilities, liquidity may also be available from our Private Education Loan ABCP facility which matures on June 25, 2018. This facility's maximum financing amount is $750 million. At June 30, 2017, the available capacity under this facility was $136 million. Liquidity may also be available from the additional Private Education Loan ABCP facility that closed in June 2017 and matures on June 12, 2020. This facility's maximum financing amount is $2.0 billion. At June 30, 2017, the available capacity under this facility was $119 million. Borrowing under both these facilities will vary and is subject to the availability of qualifying collateral from unencumbered Private Education Loans and the other terms and conditions set forth in the agreements.

At June 30, 2017, we had a total of $7.1 billion of unencumbered tangible assets inclusive of those listed in the table above as sources of primary liquidity. Total unencumbered education loans comprised $3.6 billion of our unencumbered tangible assets of which $2.7 billion and $0.9 billion related to Private Education Loans and FFELP Loans, respectively. In addition, as of June 30, 2017, we had $11.0 billion of encumbered net assets (i.e., overcollateralization) in our various financing facilities (consolidated variable interest entities). In fourth-quarter 2015, we closed on a $550 million Private Education Loan ABS Repurchase Facility and in the second-quarter 2016, we closed on a second $478 million Private Education Loan ABS Repurchase Facility. In second-quarter 2017, we closed on two additional Private Education Loan ABS Repurchase Facilities totaling $1.2 billion. These repurchase facilities are collateralized by Residual Interests in previously issued Private Education Loan ABS trusts. These are examples of how we can effectively finance previously encumbered assets to generate additional liquidity in addition to the unencumbered assets we traditionally have encumbered in the past. Additionally, these repurchase facilities had a cost of funds lower than that of a new unsecured debt issuance.

For further discussion of our various sources of liquidity, our access to the ABS market, our asset-backed financing facilities, and our issuance of unsecured debt, see "Note 6—Borrowings" in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

| (Dollars in billions) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Net assets of consolidated variable interest entities (encumbered assets) — FFELP Loans | $ 4.8 | $ 4.7 |
| Net assets of consolidated variable interest entities (encumbered assets) — Private Education Loans | 6.2 | 6.1 |
| Tangible unencumbered assets[1] | 7.1 | 6.8 |
| Senior unsecured debt | (14.3) | (13.7) |
| Mark-to-market on unsecured hedged debt[2] | (.4) | (.4) |
| Other liabilities, net | (.5) | (.4) |
| Total tangible equity — GAAP Basis | $ 2.9 | $ 3.1 |

(1) At June 30, 2017 and December 31, 2016, excludes goodwill and acquired intangible assets, net, of $658 million and $670 million, respectively.
(2) At June 30, 2017 and December 31, 2016, there were $336 million and $403 million, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.

*Financing Transactions during the Six Months Ended June 30, 2017*

During the six months ended June 30, 2017, Navient issued $2.9 billion in FFELP ABS and $1.4 billion in unsecured debt.

In the first-quarter 2017, Navient extended the maturity date of its FFELP ABCP facility. The facility's maturity date was extended to April 2019 from March 2018 and its maximum financing amount was decreased as scheduled to $6.75 billion from $7.5 billion, with a step down to $6.0 billion in April 2018. In the second-quarter 2017, in connection with the acquisition of $3.5 billion of FFELP Loans, we increased the maximum financing amount of our FFELP ABCP facility from $6.75 billion to $7.75 billion. This facility provides liquidity for FFELP loans.

In the second-quarter 2017, Navient extended the maturity date of its Private Education Loan facility from June 2017 to June 2018 and, in connection with the acquisition of $3.0 billion Private Education Loans, closed on a new $2.0 billion Private Education Loan facility that matures in June 2020.

In the second-quarter 2017, Navient closed on two Private Education Loan repurchase facilities totaling $1.2 billion.

*Shareholder Distributions*

In the six months ended June 30, 2017, we paid two quarterly common stock dividends of $0.16 per share.

We repurchased 18.3 million shares of common stock for $275 million in the six months ended June 30, 2017. The shares were repurchased under our previously disclosed share repurchase program. As of June 30, 2017, the remaining repurchase authority was $325 million. In the six months ended June 30, 2016, we repurchased 32.8 million shares for $375 million. Since the Spin-Off, we repurchased 156 million shares.

*Recent Third-Quarter 2017 Financing Transactions*

In July 2017, we issued $1.0 billion in FFELP ABS.

***Counterparty Exposure***

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

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

Related to derivative transactions, protection against counterparty risk is generally provided by Master Agreements, Schedules, and Credit Support Annexes ("CSAs") developed by the International Swaps and Derivatives Association, Inc. ("ISDA documentation"). In particular, Navient's CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All corporate derivative contracts entered into by Navient are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Corporate derivative contracts traded through a clearing organization also require daily movement of collateral to be exchanged based on the net fair value of the contracts. Our securitization trusts with swaps have ISDA documentation with protections against counterparty risk. The collateral calculations contemplated in the ISDA documentation of our securitization trusts require collateral based on the fair value of the derivative which may be adjusted for additional collateral based on rating agency criteria requirements considered within the collateral agreement. The trusts are not required to post collateral to the counterparties. In all cases, our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties' credit risk when determining the fair value of derivative positions on our exposure net of collateral.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties. See "Note 7—Derivative Financial Instruments" in our 2016 Form 10-K for more information on the amount of cash that has been received and delivered to derivative counterparties.

The table below highlights exposure related to our derivative counterparties at June 30, 2017.

| (Dollars in millions) | Corporate Contracts | Securitization Trust Contracts |
|---|---|---|
| Exposure, net of collateral | $ 84 | $ 21 |
| Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3 | 75% | 1% |
| Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3 | 21% | 0% |

***"Core Earnings" Basis Borrowings***

The following tables present the ending balances of our "Core Earnings" basis borrowings as of June 30, 2017 and December 31, 2016, and average balances and average interest rates of our "Core Earnings" basis borrowings for the three and six months ended June 30, 2017 and 2016. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment. (See "'Core Earnings' — Definition and Limitations — Differences between 'Core Earnings' and GAAP — Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities" of this Item 2).

*Ending Balances*

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Short Term | Long Term | Total | Short Term | Long Term | Total |
| Unsecured borrowings: | | | | | | |
| Senior unsecured debt | $1,937 | $ 12,358 | $ 14,295 | $ 717 | $ 13,029 | $ 13,746 |
| Total unsecured borrowings | 1,937 | 12,358 | 14,295 | 717 | 13,029 | 13,746 |
| Secured borrowings: | | | | | | |
| FFELP Loan securitizations | — | 73,025 | 73,025 | — | 73,522 | 73,522 |
| Private Education Loan securitizations[(1)] | 685 | 13,000 | 13,685 | 548 | 14,125 | 14,673 |
| FFELP Loan — other facilities | — | 10,729 | 10,729 | — | 12,443 | 12,443 |
| Private Education Loan — other facilities | 613 | 1,879 | 2,492 | 464 | — | 464 |
| Other[(2)] | 632 | — | 632 | 606 | — | 606 |
| Total secured borrowings | 1,930 | 98,633 | 100,563 | 1,618 | 100,090 | 101,708 |
| "Core Earnings" basis borrowings | 3,867 | 110,991 | 114,858 | 2,335 | 113,119 | 115,454 |
| Adjustment for GAAP accounting treatment | 51 | (213) | (162) | (1) | (751) | (752) |
| GAAP basis borrowings | $3,918 | $110,778 | $114,696 | $2,334 | $112,368 | $114,702 |

(1) Includes $685 million and $548 million of short-term debt related to the Private Education Loan asset-backed securitization repurchase facilities ("Repurchase Facilities") as of June 30, 2017 and December 31, 2016, respectively. Includes $957 million and $475 million of long-term debt related to the Repurchase Facilities as of June 30, 2017 and December 31, 2016, respectively.

(2) "Other" primarily includes the obligation to return cash collateral held related to derivative exposures, which includes $139 million and $193 million of securities re-pledged subject to an overnight repurchase transaction as of June 30, 2017 and December 31, 2016, respectively.

Secured borrowings comprised 88 percent of our "Core Earnings" basis debt outstanding at June 30, 2017 and December 31, 2016.

*Average Balances*

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| (Dollars in millions) | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Unsecured borrowings: | | | | | | | | |
| Senior unsecured debt | $ 14,160 | 5.27% | $ 14,034 | 4.36% | $ 13,995 | 5.12% | $ 14,213 | 4.32% |
| Total unsecured borrowings | 14,160 | 5.27 | 14,034 | 4.36 | 13,995 | 5.12 | 14,213 | 4.32 |
| Secured borrowings: | | | | | | | | |
| FFELP Loan securitizations | 73,031 | 2.08 | 75,645 | 1.49 | 72,928 | 2.00 | 76,190 | 1.41 |
| Private Education Loan securitizations(1) | 13,466 | 3.00 | 16,388 | 2.58 | 13,815 | 3.00 | 16,528 | 2.50 |
| FFELP Loan — other facilities | 9,961 | 1.96 | 15,834 | 1.22 | 10,807 | 1.81 | 16,088 | 1.16 |
| Private Education Loan — other facilities | 898 | 2.58 | 366 | 2.69 | 701 | 2.61 | 425 | 2.44 |
| Other(2) | 450 | 2.93 | 682 | 1.06 | 447 | 2.83 | 801 | .94 |
| Total secured borrowings | 97,806 | 2.20 | 108,915 | 1.62 | 98,698 | 2.13 | 110,032 | 1.54 |
| "Core Earnings" basis borrowings | $111,966 | 2.59% | $122,949 | 1.93% | $112,693 | 2.50% | $124,245 | 1.86% |
| "Core Earnings" basis borrowings | $111,966 | 2.59% | $122,949 | 1.93% | $112,693 | 2.50% | $124,245 | 1.86% |
| Adjustment for GAAP accounting treatment | — | (.01) | — | .03 | — | — | — | .02 |
| GAAP basis borrowings | $111,966 | 2.58% | $122,949 | 1.96% | $112,693 | 2.50% | $124,245 | 1.88% |

(1) Includes $1.1 billion and $947 million of debt related to the Repurchase Facilities for the three months ended June 30, 2017 and 2016, respectively, and $1.1 billion and $747 million for the six months ended June 30, 2017 and 2016, respectively.

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

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with GAAP. A discussion of our critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, fair value measurement, transfers of financial assets and the VIE consolidation model, and derivative accounting can be found in our 2016 Form 10-K. There were no significant changes to these critical accounting policies during the first half of 2017.

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

### Interest Rate Sensitivity Analysis

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at June 30, 2017 and December 31, 2016, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings before unrealized gains (losses) on derivative and hedging activities, a sensitivity analysis was performed assuming the funding index increases 10 basis points while holding the asset index constant, if the funding index and repricing frequency are different than the asset index. These earnings sensitivities are applied only to financial assets and liabilities, including hedging instruments that existed at the balance sheet date and does not take into account new assets, liabilities or hedging instruments that may arise over the next 12 months.

| | As of June 30, 2017 Impact on Annual Earnings If: | | | As of June 30, 2016 Impact on Annual Earnings If: | | |
|---|---|---|---|---|---|---|
| | Interest Rates | | Funding Indices | Interest Rates | | Funding Indices |
| (Dollars in millions, except per share amounts) | Increase 100 Basis Points | Increase 300 Basis Points | Increase 10 Basis Points[1] | Increase 100 Basis Points | Increase 300 Basis Points | Increase 10 Basis Points[1] |
| **Effect on Earnings:** | | | | | | |
| Change in pre-tax net income before unrealized gains (losses) on derivative and hedging activities | $ (19) | $ (45) | $ (95) | $ (73) | $ (127) | $ (105) |
| Unrealized gains (losses) on derivative and hedging activities | 6 | (134) | — | 10 | (203) | 1 |
| Increase (decrease) in income before taxes | $ (13) | $ (179) | $ (95) | $ (63) | $ (330) | $ (104) |
| Increase (decrease) in net income after taxes | $ (8) | $ (114) | $ (60) | $ (40) | $ (208) | $ (66) |
| Increase (decrease) in diluted earnings per common share | $ (.03) | $ (.40) | $ (.21) | $ (.12) | $ (.64) | $ (.20) |

(1) If an asset is not funded with the same index/frequency reset of the asset then it is assumed the funding index increases 10 basis points while holding the asset index constant. There is no sensitivity analysis related to the unrealized gains (losses) on derivative and hedging activities as part of this potential impact on earnings.

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| (Dollars in millions) | At June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | |
| | Fair Value | $ | % | $ | % |
| **Effect on Fair Values:** | | | | | |
| Assets | | | | | |
| FFELP Loans | $ 85,837 | $ (350) | —% | $ (733) | (1)% |
| Private Education Loans | 24,569 | — | — | — | — |
| Other earning assets | 5,057 | — | — | — | — |
| Other assets | 4,934 | 17 | — | 393 | 8 |
| Total assets gain/(loss) | $120,397 | $ (333) | —% | $ (340) | —% |
| Liabilities | | | | | |
| Interest-bearing liabilities | $113,714 | $ (628) | (1)% | $ (1,751) | (2)% |
| Other liabilities | 2,094 | 222 | 11 | 1,110 | 53 |
| Total liabilities (gain)/loss | $115,808 | $ (406) | —% | $ (641) | (1)% |

| (Dollars in millions) | At December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | |
| | Fair Value | $ | % | $ | % |
| **Effect on Fair Values:** | | | | | |
| Assets | | | | | |
| FFELP Loans | $ 86,626 | $ (378) | —% | $ (782) | (1)% |
| Private Education Loans | 23,191 | — | — | — | — |
| Other earning assets | 5,203 | — | — | — | — |
| Other assets | 4,863 | (34) | (1) | 304 | 6 |
| Total assets gain/(loss) | $119,883 | $ (412) | —% | $ (478) | —% |
| Liabilities | | | | | |
| Interest-bearing liabilities | $112,172 | $ (607) | (1)% | $ (1,695) | (2)% |
| Other liabilities | 2,711 | 155 | 6 | 980 | 36 |
| Total liabilities (gain)/loss | $114,883 | $ (452) | —% | $ (715) | (1)% |

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate education loan portfolio with floating rate debt. However, 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. In addition, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

During the three and six months ended June 30, 2017 and 2016, 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 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our unhedged loans being in a fixed-rate mode due to Floor Income, while being funded with variable rate debt in low interest rate environments; and (ii) a portion of our fixed rate assets being funded with variable rate liabilities. Both items will generally cause income to decrease when interest rates increase. In both 2017 and 2016, the loss of income is due primarily to item (i) above. The decrease in the loss in 2017 as compared to 2016 was due to both the natural amortization of the FFELP loan portfolio as well as higher interest rates in second-quarter 2017 compared to second-quarter 2016, which resulted in a loss of unhedged Floor Income between the second quarter of 2016 and the second quarter of 2017. Item (ii) had little impact in either period as the Company generally enters into derivative contracts as a part of its overall interest rate risk management strategy, match-funding its floating rate assets with variable rate debt and fixed rate assets with fixed rate debt.

In the preceding tables, under the scenario where interest rates increase 100 and 300 basis points, the change in unrealized gains (losses) on derivative and hedging activities in 2017 and 2016 are primarily due to (1) the notional amount and remaining term of our derivative portfolio and related hedged debt and (2) the interest rate environment. As of June 30, 2017, the Company's derivative portfolio has declined in size and has a shorter remaining term than the prior year period due to the natural amortization of the education loan portfolios over the year. Both factors contribute to the Company losing less income in an increasing interest rate environment in the current period as compared to the prior-year period.

Under the scenario in the tables above labeled "Impact on Annual Earnings If: Funding Indices Increase 10 Basis Points," the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities in both the June 30, 2017 and 2016 analyses is primarily the result of one-month LIBOR-indexed FFELP Loans being funded with three-month LIBOR and other non-discrete indexed liabilities, as well as, to a lesser extent, Prime-indexed Private Education Loans being funded with LIBOR and other non-discrete indexed liabilities. See "Asset and Liability Funding Gap" of this Item 3 for a further discussion.

In addition to interest rate risk addressed in the preceding tables, we are also exposed to risks related to foreign currency exchange rates. Foreign currency exchange risk is primarily the result of foreign currency denominated debt issued by us. When we issue foreign denominated corporate unsecured and securitization debt, our policy is to use cross currency interest rate swaps to swap all foreign currency denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging instrument and hedged items matching. The balance sheet interest bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross-currency interest rate swaps in other assets or other liabilities. In the current economic environment, volatility in the spread between spot and forward foreign exchange rates has resulted in material 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.

**Asset and Liability Funding Gap**

The tables below present our assets and liabilities (funding) arranged by underlying indices as of June 30, 2017. 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[1] | Funding[2] | Funding Gap |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $ 4.1 | $ — | $ 4.1 |
| Prime | annual | .3 | — | .3 |
| Prime | quarterly | 3.4 | — | 3.4 |
| Prime | monthly | 11.1 | — | 11.1 |
| Prime | daily | — | — | — |
| PLUS Index | annual | .3 | — | .3 |
| 3-month LIBOR | quarterly | .7 | 43.8 | (43.1) |
| 3-month LIBOR | daily | — | 1.6 | (1.6) |
| 1-month LIBOR | monthly | 6.9 | 38.4 | (31.5) |
| 1-month LIBOR daily | daily | 81.3 | — | 81.3 |
| CMT/CPI Index | monthly/quarterly | — | .1 | (.1) |
| Non-Discrete reset[3] | monthly | — | 15.4 | (15.4) |
| Non-Discrete reset[4] | daily/weekly | 5.1 | .5 | 4.6 |
| Fixed Rate[5] | | 7.2 | 20.6 | (13.4) |
| Total | | $120.4 | $ 120.4 | $ — |

(1) FFELP Loans of $21.4 billion ($18.8 billion LIBOR index and $2.6 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

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

(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.

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

*"Core Earnings" Basis:*

| Index (Dollars in billions) | Frequency of Variable Resets | Assets[(1)] | Funding[(2)] | Funding Gap |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $ 4.1 | $ — | $ 4.1 |
| Prime | annual | .3 | — | .3 |
| Prime | quarterly | 3.4 | — | 3.4 |
| Prime | monthly | 11.1 | — | 11.1 |
| Prime | daily | — | — | — |
| PLUS Index | annual | .3 | — | .3 |
| 3-month LIBOR | quarterly | .7 | 34.3 | (33.6) |
| 3-month LIBOR | daily | — | 1.6 | (1.6) |
| 1-month LIBOR | monthly | 6.9 | 51.0 | (44.1) |
| 1-month LIBOR | daily | 81.3 | — | 81.3 |
| Non-Discrete reset[(3)] | monthly | — | 15.4 | (15.4) |
| Non-Discrete reset[(4)] | daily/weekly | 5.1 | .5 | 4.6 |
| Fixed Rate[(5)] | | 6.6 | 17.0 | (10.4) |
| Total | | $ 119.8 | $ 119.8 | $ — |

(1) FFELP Loans of $2.8 billion ($2.9 billion LIBOR index and $(0.1) billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) 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.

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

### Weighted Average Life

The following table reflects the weighted average life of our earning assets and liabilities at June 30, 2017.

| (Averages in Years) | Weighted Average Life |
|---|---|
| **Earning assets** | |
| Education loans | 6.9 |
| Other loans | 5.8 |
| Cash and investments | .1 |
| Total earning assets | 6.6 |
| **Borrowings** | |
| Short-term borrowings | .7 |
| Long-term borrowings | 6.3 |
| Total borrowings | 6.1 |

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of June 30, 2017. Based on this evaluation, our chief principal executive and principal financial officers concluded that, as of June 30, 2017, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our chief principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. We believe that these claims, lawsuits and other actions will not, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations, except as otherwise disclosed. Most of these matters are claims including individual and class action lawsuits against our servicing and collection subsidiaries by borrowers and debtors 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, our subsidiaries and affiliates receive information and document requests and investigative demands from state attorneys general, U.S. Attorneys, legislative committees and administrative agencies. These requests may be informational or regulatory in nature and may relate to our business practices, the industries in which we operate, or other companies with whom we conduct business. 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 are increasing the 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*

On March 18, 2011, an education loan borrower filed a putative class action complaint against SLM Corporation as it existed prior to the Spin-Off ("Old SLM") in the U.S. District Court for the Northern District of California. The complaint was captioned *Tina M. Ubaldi v. SLM Corporation et. al.* The plaintiff brought the complaint on behalf of a putative class consisting of other similarly situated California borrowers. The complaint alleged, among other things, that Old SLM's practice of charging late fees that were proportional to the amount of missed payments constituted liquidated damages in violation of California law and that Old SLM engaged in unfair business practices by charging daily interest on private educational loans. Plaintiffs subsequently amended their complaint to include usury claims under California state law and to seek restitution of late charges and interest paid by members of the putative class and other relief. In the fourth quarter of 2016, the parties reached a settlement in principle that would resolve the Ubaldi matter, as well as the related lawsuit of *Marlene Blyden v. Navient Corporation, et al*. While we cannot provide any assurances that we will be able to finalize the proposed settlement on terms that are acceptable to the Company or if the Court will ultimately approve the proposed settlement, we do not believe that the financial impact of the final settlement, if any, will be material. The Company agreed to settle these matters to avoid the burden, expense, risk, and uncertainty of continued litigation. A reserve was established for this matter as of December 31, 2016.

During the first quarter of 2016, Navient Corporation, certain Navient officers and directors, and the underwriters of certain Navient securities offerings were sued in three putative securities class action lawsuits filed on behalf of certain investors in Navient stock or Navient unsecured debt. These three cases, which were filed in the U.S. District Court for the District of Delaware, were consolidated by the District Court, with Lord Abbett Funds appointed as Lead Plaintiff. The caption of the consolidated case is *Lord Abbett Affiliated Fund, Inc.*, *et al. v. Navient Corporation*, *et al.* The plaintiffs filed their amended and consolidated complaint in September 2016. The Navient defendants intend to vigorously defend against the allegations in this lawsuit, and filed a Motion to Dismiss the Consolidated Amended Class Action Complaint in November 2016. Plaintiffs filed an Opposition in December 2016. At this stage in the proceedings, we are unable to anticipate the timing of resolution or the ultimate impact, if any, that the legal proceedings may have on the consolidated financial position, liquidity, results of operations or cash-flows of Navient and its affiliates. 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.

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. One of these putative class action suits is *Randy Johnson v. Navient Solutions, Inc.* ("NSI"). On May 4, 2015, Randy Johnson filed a putative class action in the United States District Court for the Southern District of Indiana alleging violations of the Telephone Consumer Protection Act ("TCPA"). During the fourth quarter of 2016, the parties entered into a settlement agreement and, in December 2016, filed a Motion to Approve the Class Action Settlement with the Court. The Court approved the settlement in July, 2017. NSI denied all claims asserted, but agreed to settle the case to avoid the burden, expense, risk and uncertainty of continued litigation. A reserve was established for this matter as of December 31, 2016.

On January 18, 2017, the CFPB and Attorneys General for the State of Illinois and the State of Washington (collectively the "Attorneys General") 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 Consumer Financial Protection Act of 2010, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and various state consumer protection laws. We intend to vigorously defend against the allegations. At this point in time, the Company is unable to anticipate the timing of a resolution or the ultimate 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. For additional information on these civil actions, please refer to section entitled "Regulatory Matters" below.

***Regulatory Matters***

On May 2, 2014, Navient Solutions, Inc., now known as Navient Solutions, LLC ("Solutions"), a wholly-owned subsidiary of Navient, and Sallie Mae Bank entered into consent orders, without admitting any wrongdoing, with the Federal Deposit Insurance Corporation (the "FDIC") (respectively, the "Solutions Order" and the "Bank Order"; collectively, the "FDIC Orders") to settle matters related to certain cited violations of Section 5 of the Federal Trade Commission Act, including the disclosures and assessments of certain late fees, The FDIC lifted the FDIC Order with respect to Solutions effective as of March 23, 2017 with no conditions.

With respect to alleged civil violations of the Servicemembers Civil Relief Act (the "SCRA"), Solutions and Sallie Mae Bank entered into a consent order with the DOJ in May 2014. The DOJ consent order (the "DOJ Order") covers all loans either owned by Sallie Mae Bank or serviced by Solutions from November 28, 2005 until the effective date of the settlement. The DOJ Order required Solutions to fund a $60 million settlement fund, which represents the total amount of compensation due to service members under the DOJ agreement, and to pay $55,000 in civil penalties. The DOJ Order was approved by the United States District Court in Delaware on September 29, 2014 and has a term of four years. Shortly thereafter, Navient funded the settlement fund and paid the civil money penalties pursuant to the terms of the order. The funds were disbursed beginning in the second quarter of 2015. In the third quarter of 2016, the Company completed the distributions from the fund by distributing the remaining funds to charities approved by the DOJ pursuant to the terms of the order.

The total reserves established by the Company in 2013 and 2014 to cover these costs were $177 million, and as of June 30, 2017, substantially all of this amount had been paid to customers or credited or refunded to customer accounts. The final cost of these proceedings will remain uncertain until all of the work under the consent orders has been completed and the remaining consent order is lifted.

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

- In December 2013, Navient received Civil Investigative Demands ("CIDs") issued by the State of Illinois Office of Attorney General and the State of Washington Office of the Attorney General and multiple other state Attorneys General. According to the CIDs, the investigations were initiated to ascertain whether any practices declared to be unlawful under the Consumer Fraud and Deceptive Business Practices Act have occurred or are about to occur.
- In April 2014, Solutions received a CID from the Consumer Financial Protection Bureau (the "CFPB") as part of the CFPB's separate investigation regarding allegations relating to Navient's disclosures and

assessment of late fees and other matters. Navient has received a series of supplemental CIDs on these matters. In August 2015, Solutions received a letter from the CFPB notifying Solutions that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise ("NORA") process, the CFPB's Office of Enforcement is considering recommending that the CFPB take legal action against Solutions. The NORA letter related to a previously disclosed investigation into Solutions' disclosures and assessment of late fees and other matters and states that, in connection with any action, the CFPB may seek restitution, civil monetary penalties and corrective action against Solutions. The Company responded to the NORA letter in September 2015.

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

On January 18, 2017, the CFPB and Attorneys General for the State of Illinois and the State of Washington (collectively the "Attorneys General") initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of Federal and State consumer protection statutes, including the Consumer Financial Protection Act of 2010, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and various state consumer protection laws. These civil actions are related to the CIDs and the NORA letter discussed above that were previously issued by the CFPB and the Attorneys General. In addition to these matters, a number of lawsuits have been filed by nongovernmental parties or may be filed by additional governmental or nongovernmental parties seeking damages or other remedies related to similar issues raised by the CFPB and the Attorneys General. The Company filed its Motion to Dismiss on March 20, 2017 with respect to the Attorneys General actions and on March 24, 2017 with respect to the CFPB action. In April 2017, the CFPB filed a response to our Motion to Dismiss and in May 2017, we filed our response. A hearing on our Motion to Dismiss was held on June 27, 2017. On May 24, 2017, the Attorney General for the State of Washington filed their response to our Motion to Dismiss and on July 5, 2017, we filed our response. The Motion to Dismiss was denied on July 10, 2017, after a hearing. On May 24, 2017, the Attorney General for the State of Illinois filed their response to our Motion to Dismiss and on June 30, 2017, we filed our response. A hearing on our Motion to Dismiss was held on July 18, 2017. As the Company has previously stated, we believe the suit improperly seeks to impose penalties on Navient based on new servicing standards applied retroactively and applied only against one servicer and that the allegations are false. As stated above, we intend to vigorously defend against the allegations.

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

Under the terms of the Separation Agreement, Navient has agreed to indemnify SLM BankCo for all claims, actions, damages, losses or expenses that may arise from the conduct of all activities of pre-Spin-Off SLM BankCo occurring prior to the Spin-Off other than those specifically excluded in the Separation and Distribution Agreement. As a result, subject to the Separation and Distribution Agreement, Navient has 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, other than fines or penalties directly levied against Sallie Mae Bank and other matters specifically excluded. Navient has no additional reserves related to indemnification matters with SLM BankCo as of June 30, 2017.

### *OIG Audit*

The Office of the Inspector General (the "OIG") of ED commenced an audit regarding Special Allowance Payments ("SAP") on September 10, 2007. On September 25, 2013, we received the final audit determination of Federal Student Aid (the "Final Audit Determination") on the final audit report issued by the OIG on August 3, 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 relating to this Final Audit Determination to the Administrative Actions and Appeals Service Group of ED. This matter remains open. We continue to believe that our SAP billing practices were proper, considering then-existing ED guidance and lack of applicable regulations. The Company established a reserve for this matter in 2014 as part of the total reserve for pending regulatory matters discussed previously and does not believe, at this time, that an adverse ruling would have a material effect on the Company as a whole.

## Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our 2016 Form 10-K.

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

### *Share Repurchases*

The following table provides information relating to our purchase of shares of our common stock in the three months ended June 30, 2017.

| (In millions, except per share data) | Total Number of Shares Purchased[1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2] | Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs[2] |
|---|---|---|---|---|
| **Period:** | | | | |
| April 1 — April 30, 2017 | 3.5 | $ 15.14 | 3.4 | $ 439 |
| May 1 — May 31, 2017 | 3.6 | 14.56 | 3.6 | $ 386 |
| June 1 — June 30, 2017 | 4.1 | 15.58 | 3.9 | $ 325 |
| Total second-quarter 2017 | 11.2 | $ 15.11 | 10.9 | |

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

(2) In December 2016, our board of directors authorized us to purchase up to $600 million of shares of our common stock.

The closing price of our common stock on the NASDAQ Global Select Market on June 30, 2017 was $16.65.

**Item 3. Defaults upon Senior Securities**

Nothing to report.

**Item 4. Mine Safety Disclosures**

Nothing to report.

**Item 5. Other Information**

Nothing to report.

**Item 6. Exhibits**

The following exhibits are furnished or filed, as applicable:

| | |
|---|---|
| 12.1* | Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. |
| 31.1* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

* Filed herewith

** Furnished herewith

## SIGNATURES

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

NAVIENT CORPORATION
(Registrant)

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

Date: August 1, 2017

**Exhibit 12.1**

**NAVIENT CORPORATION**
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**
**(Dollars in millions)**

| | Years Ended December 31, | | | | | Six Months Ended Jun 30, | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 | 2017 |
| Income (loss) from continuing operations before income taxes | $1,437 | $2,087 | $1,818 | $1,580 | $1,108 | $ 489 | $ 313 |
| Add: Fixed charges | 2,565 | 2,213 | 2,066 | 2,077 | 2,445 | 1,167 | 1,396 |
| Total earnings | $4,002 | $4,300 | $3,884 | $3,657 | $3,553 | $ 1,656 | $ 1,709 |
| Interest expense | $2,561 | $2,210 | $2,063 | $2,074 | $2,441 | $ 1,165 | $ 1,394 |
| Rental expense, net of income | 4 | 3 | 3 | 3 | 4 | 2 | 2 |
| Total fixed charges | 2,565 | 2,213 | 2,066 | 2,077 | 2,445 | 1,167 | 1,396 |
| Preferred stock dividends | 31 | 31 | 10 | — | — | — | — |
| Total fixed charges and preferred stock dividends | $2,596 | $2,244 | $2,076 | $2,077 | $2,445 | $ 1,167 | $ 1,396 |
| **Ratio of earnings to fixed charges(1)** | **1.56** | **1.94** | **1.88** | **1.76** | **1.45** | **1.42** | **1.22** |
| **Ratio of earnings to fixed charges and preferred stock dividends(1)** | **1.54** | **1.92** | **1.87** | **1.76** | **1.45** | **1.42** | **1.22** |

(1) For purposes of computing these ratios, earnings represent income (loss) from continuing operations before income tax expense plus fixed charges. Fixed charges represent interest expensed and capitalized plus one-third (the proportion deemed representative of the interest factor) of rents, net of income from subleases.

**Exhibit 31.1**

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

I, John F. Remondi, certify that:

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

/s/ JOHN F. REMONDI

John F. Remondi
Chief Executive Officer
(Principal Executive Officer)
August 1, 2017

**Exhibit 31.2**

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

I, Christian M. Lown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Navient Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHRISTIAN M. LOWN

Christian M. Lown
Chief Financial Officer
(Principal Financial Officer)
August 1, 2017

**Exhibit 32.1**

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

In connection with the Quarterly Report of Navient Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2017 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)
August 1, 2017

**Exhibit 32.2**

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

In connection with the Quarterly Report of Navient Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christian M. Lown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ CHRISTIAN M. LOWN
Christian M. Lown
Chief Financial Officer
(Principal Financial Officer)
August 1, 2017