



Proposal for:

Jefferson Parish Government
Merchant Card Payment Processing Services
RFP No. 0438

Due date: May 24, 2022 – 3:30 p.m. CT

Original – Technical Response

Submitted by:

Gila LLC d/b/a
Municipal Services Bureau



This response includes data that shall not be disclosed outside the Jefferson Parish Government (Parish) and shall not be duplicated, used, or disclosed — in whole or in part — for any purpose other than to evaluate this proposal. If, however, a contract is awarded to this offeror as a result of — or in connection with — the submission of this data, the Parish shall have the right to duplicate, use, or disclose the data to the extent provided in the resulting contract. This restriction does not limit the Parish's right to use information contained in these data if it is obtained from another source without restriction. The data subject to this restriction are contained on all sheets marked as Confidential Trade Secret Information.

**This response is presented by
Gila LLC, d/b/a Municipal Services Bureau (MSB),
a wholly owned and controlled subsidiary of Navient Corporation.
For simplicity, we routinely refer to our company as
“MSB” or “Navient.”**

A COVER LETTER

A. Cover Letter: Containing summary of proposer's ability to perform the services described in the RFP and confirms that proposer is willing to perform those services and negotiate a contract with the Parish. The letter shall be signed by a person having authority to negotiate and to commit the proposer to a contract. If proposer is a sole-proprietorship, proposer must include a statement that the company is a sole-proprietorship signed by the owner. If proposer is an agency, corporation, partnership or other legal entity, the president, vice-president, secretary or treasurer, or an authorized agent shall sign the proposal, and satisfactory evidence of the authority of the person signing for the agency, corporation, partnership or other legal entity shall be attached to the proposal. A sample corporate resolution may be downloaded from the Purchasing Department webpage of the Jefferson Parish website.

Proposers should exhibit their understanding and approach to the project and address how each element will be accomplished. Proposers are advised that except as otherwise provided by law, all documents submitted to the Parish under this RFP are subject to the Louisiana Public Records Act, LSA-R.S. 44:1 et seq., and may be released when a public records request is made in accordance with the law.

Response:

MSB has provided a cover letter that contains a summary of our ability to perform the services described in this RFP. We confirm that we are willing to perform these services and negotiate a contract with the Parish.

May 24, 2022

Sidney Duffy
Jefferson Parish
Department of Purchasing
P. O. Box 9
Gretna, Louisiana 70054

Re: Merchant Card Payment Processing Services, RFP No. 0438

Dear Ms. Duffy and Members of the Selection Committee,

Gila LLC, d/b/a Municipal Services Bureau (MSB), is pleased to submit this proposal for RFP No. 0438 – Merchant Card Payment Processing Services to Jefferson Parish Government (Parish). Our submission includes all required forms and details our proposed solution, including how we will continue to benefit the Parish, its constituents, and other stakeholders by facilitating outcomes that match each of the Parish's objectives detailed in the RFP. We value our relationship with the Parish.

MSB has partnered with the Parish since 2018 and through an extension in 2020. One of the main goals of the Parish was to move toward a cash free transaction policy and MSB has worked to accommodate this goal. During this period, MSB has provided and customized payment solutions for point of sale, online, and IVR payment processing several departments including the Water Department, Code Enforcement, Planning, Parks and Recreation, and currently implement the permits section of the planning department. MSB went live with the first department in January of 2019, over the course of the project processed 358,838 transactions with a principal amount of \$45,289,347.99. We are prepared to maintain our current fee structure for Parish constituents.

The foundation of our proposal is the Nexus 2.0, MSB's proven software as a service (SaaS) electronic payment and reporting platform. Nexus reflects decades of experience and input from our government clients, making it a payment processing services solution specifically tailored to the Parish's needs and goals. Our system meets and exceeds the requirements stated in this RFP, and our modular integration practices have earned the praise of our clients for our implementations nationwide. Our payment processing operation is based exclusively in the United States of America.

To ensure easy real-time connectivity and up to the minute payment updates, MSB creates integration modules that bolt onto our core payment system, allowing a unique connection for each of our clients' billing and case management systems. With more than forty system integrations under our belt, including multi departments within the Parish, the methodology has proven itself and allows for rapid and low-effort service transitions, for any new departments to be added to the system.

As a certified PCI Level 1 Service Provider (the highest level), MSB maintains policies and practices that have been tested and proven to successfully protect



CONTACT



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Elye.Sackmary@Gilacorp.com

sensitive payment card data, banking data and Personally Identifiable Information ("PII"). Payment data and PII is always encrypted while at rest or in-transit, as well as is encrypted point-to-point when swiped or dipped at point-of-sale. We tokenize data when customers elect to establish an account and save their payment card and banking data for use in the future.

The primary contact person regarding our proposal submission is Senior Account Executive, Ken Duncan. He can be reached by phone at 615-238-1582 or by email at ken.duncan@gilacorp.com. The Project Manager for the Parish will remain Kevin Yabann.

As President and CEO, I am authorized to make representations, negotiate, and legally bind the company to any subsequent agreement. We welcome the opportunity to partner with the Parish and implement our industry-leading payment solution that increases efficiencies, enhances customer services and delivers enhanced electronic payment capabilities. If you have any questions regarding our services or would like to discuss our proposal, please do not hesitate to contact me directly.

Sincerely,



Elye Sackmary
President and Chief Executive Officer
Municipal Services Bureau
512-323-4223 | elye.sackmary@gilacorp.com

Executive Summary

Gila LLC d/b/a Municipal Services Bureau (MSB) is well-positioned to continue meeting all requirements scoped in RFP No. 0438. Founded in 1991, MSB partners with government agencies, including the Parish, nationwide to process billions in payments and serves millions of unique customers.

MSB delights in submitting a proposal to the Parish for Payment Processing Services. Our working relationship with the Parish allows us to understand the Parish's broad goal to move to a cash free transaction solution and will continue to provide the constituents with the option to pay for services such as debit card, credit card, and other forms of electronic payments which include face to face, online, and over the phone payments, while maintaining the highest standard of service and maximizing net revenue for the Parish.

Leading-edge Technology

Having deployed our solution for the Parish, we are no strangers to the need for custom configurations and can deploy new departments with a custom solution. We designed an agile payment platform, with most features being managed through an onboarding user friendly wizard, with business users setting toggles to accommodate different variances in aesthetic and functionality. While some programming/coding work is required for site linking and data exchange, most of the implementation work is carried out by MSB's business users, bringing us from kick-off to go-live significantly faster than our competition.

Data Security

Maintaining an unblemished record of data security requires more than building firewalls and access checkpoints and requires more than maintaining PCI-DSS Level 1. MSB is committed to protecting information, whether it is about our company, business practices or our clients. We do this by observing high standards of ethical conduct, maintaining secure information systems, fulfilling contractual obligations and complying with applicable laws. Safeguarding information is a key component of our daily work. As an organization, we ensure information is used or disclosed only as authorized. We analyze cyber threats proactively, with threat actor attribution being front and center in our review. For us to stay ahead of criminal elements, we must know their capabilities and their psychology and behavioral drivers.

Threat actor attribution is the process of identifying participants behind an attack and identifying the likely attacker and requires a deep dive due to the anonymity that online activities allow. Due to the wide availability of hacking tools and easy access to the dark web, individuals with even limited knowledge of

MSB processes payments for government, and only for government

- ❖ Our solution has been regularly updated for three decades due to feedback from our government partners yielding a payment service built by government for government
- ❖ MSB was awarded the Parish's contract in August 2018 was extended in 2020, meaning there would be no interruption in services should you choose our solution once again
- ❖ Our solution is configurable, allowing each Parish department to put its own unique stamp on the final product
- ❖ When the Parish needs us, we're there. Our response time for Parish inquiries is measured in minutes
- ❖ MSB has never been hacked or had card data compromised in our 31-year history of operation. Data security is of paramount importance and our successful track record bears out our commitment to safeguarding all cardholder data in our care

computing technology can effectively steal data. This means threat actor attribution is a critically important part of our threat mitigation plan.

Threat actor attribution

High level overview

People

What type of individual or group is interested in stealing constituent PII or card data?

- Criminal (prior and new), hacktivist, desperate non-criminal

Why do individuals want to steal this data?

- Profit, reprisal, political, peer pressure, challenge, amusement

What are their communication methods and characteristics?

- Forums, Darknet, off-book networking, tight group bonds, driven, able to operate anonymously with reduced effectiveness

Tools and applications

What are the common tools of the trade?

- Botnets, malware/exploits, non-public group only hacker tools, seldom code their own tools

Who are the preferred targets?

- Path of least resistance, outdated browsers, lack of user authentication, environments with outdated security patches, new exploits not widely publicized

This is your hacker



Not this



Threat actor attribution. High level overview.

Combatting the hacker community requires that MSB have top tier encryption, which more than meets the Parish's requirements of encryption while data is at rest and in transit. Understanding that the hacking community is highly resourceful, MSB stays abreast of vulnerabilities in browsers and other co-dependent applications (i.e., applications that can transmit information to MSB securely such as a constituent's computer).

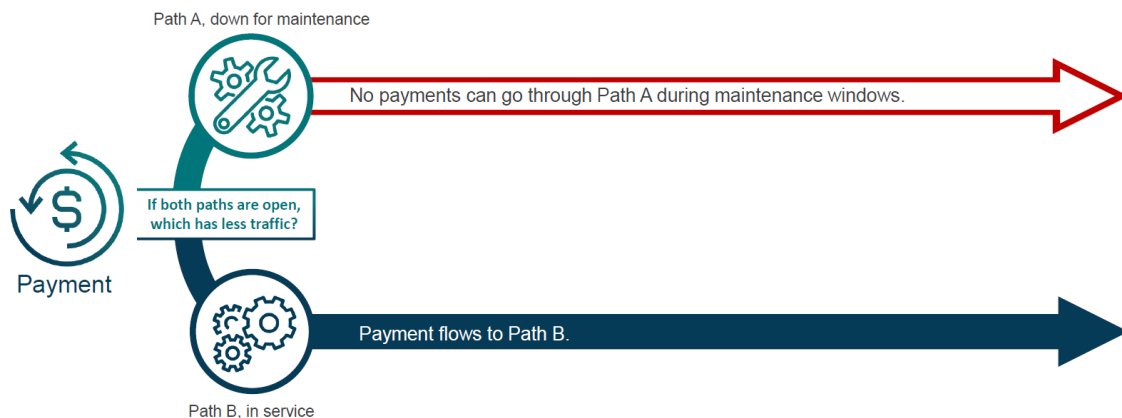
We use multiple layers of defense for all sites and web services we deploy, including restricted access, Transport Layer Security (TLS) 1.2 security for information transmittal, and honey potting (i.e., the establishment of decoy environments to gauge the sophistication of attackers). The best defense, however, is in rendering payment data itself useless to a potential thief, which we achieve through tokenization. So even if MSB's systems were breached, and information was taken, the information itself would be useless to whoever took it. Tokens being nothing more than random strings of characters, associated back to real data.

Consistency and Reliability (No Maintenance Downtime)

With MSB, the Parish not only achieves 99.99% up-time, but we also circumvent the need for standard maintenance windows for all but the most large-scale infrastructure changes. This means that we are up and running 24/7/365. We accomplish this using dual processing tracks, each with its own processing server. Normally, these tracks are monitored, and the least used track will receive the next transaction to

be processed. However, when one track is taken offline for maintenance, we simply route all transactions to the other, allowing maintenance windows to occur behind the scenes, without interruptions, and ensuring customers can tender payments on their own timetables.

Redundant flow



Processing transactions. *If routine maintenance is needed, we process transactions on separate path while the other is being updated.*

If an entire datacenter needs to be taken offline due to a regional emergency, MSB has multiple fail over sites, all pre-staged with the most current version of our production environment. We direct our processing hub to use those servers instead of the primary datacenter as part of business continuity and disaster recovery, again ensuring the constituent experience, and the cash flows to the Parish, are not impaired even in critical circumstances.



TRANSACTION REPORTS

Whether it is reporting by Subscription or reporting ad-hoc, our Nexus Payment Platform stores transactions indefinitely. Agencies can export reports 24/7 by site, user, terminal, date, and in formats including .pdf., .xls, .csv and more.

As a SaaS solution, our reporting platform only requires Agency employees have an internet connection.



FUNDING AND DEPOSITS

Deposits are remitted the day after transaction batches close. Deposits match transaction reports to the penny (or we don't send them until they do).

Reconciliation, remittance, and funding occur through scripted automated processes at MSB, by processing day (no transaction aggregation over weekends and holidays).



NO SURPRISES

When it comes to system enhancements, we don't take chances at MSB. All code updates are put through FAT, FIT, UAT, Smoke Testing, and Edge Case Review and a final round of quality assurance.

We install fallback protocols as well, including roll back options and environment fail overs.

Expectations of consistency.

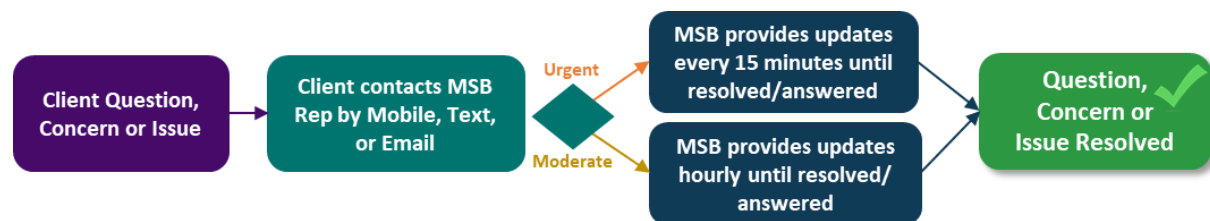
Service and Support – Rapid Response

MSB provides customer and technical support service to constituent callers (and supports the contract for services such as card reader equipment provisioning to language translation). MSB understands the critical nature that urgent means urgent. Our project team is on speed dial 24/7. Our project lead, Kevin Yabann, along with the escalation staff for the Parish on standby have the authority and empowerment to facilitate rapid response for all inquiries. One example of this was during the Christmas Light Trail, at Lafreneire Park, when they were experiencing connectivity issues on Friday night December 6th at 10:00 p.m., they reached out to Ken Duncan. MSB went right to work and had the issue resolved for the next day's events.

We have worked with government agencies exclusively for over 30 years and fully understand the vital importance of ensuring customers have their concerns addressed timely.

We offer a helpdesk with a highly skilled and extensively trained customer service team which responds to both routine and complex inquiries, if this is preferred in lieu of direct outreach. Our response to tickets will be the same as if the Parish teams call us. Once a ticket is received by the system, a text is sent to the assigned representative and the project distribution list. We will respond to the Parish in the same period as a direct contact.

Initially, we assign core project team to the implementation and ongoing maintenance of this contract and have included their experience for your review in within our response. This team will be available to client stakeholders and the client's core project team as needed, including both MSB's executive sponsor and MSB's head of project implementation.



Service Level expectations. *MSB understands the critical nature that urgent means urgent.*

During project implementations, all stakeholders for each client or department will receive weekly project updates, ad-hoc milestone updates, and have transparency into agile methodology (method of project management, used especially for software development), with a product owner, scrum master, and developer teams all playing their part with sprint cycles set for any coding/programming.

MSB's Proven Payment System

The foundation of our proposal is the Nexus 2.0, MSB's proven software as a service (SaaS) electronic payment and reporting platform. Nexus reflects decades of experience and input from our government clients, making it a payment processing services solution specifically tailored to state, county, and local agencies. Configurability of Parish sites is controlled by business users through the Nexus. In 2022, MSB began the process of upgrading all clients the Nexus 2.0, which includes Recurring Payments, and a more customer driving reporting module. Further the new platform will include the Verifone Carbon Fiber Smart Terminal.



Unlike traditional requirements gathering meetings, where a company takes a list of the Parish's preferences and returns a few weeks later for a mockup, MSB uses the requirements meeting as the opportunity to build the sites right then and there, during the first meeting and kick-off.

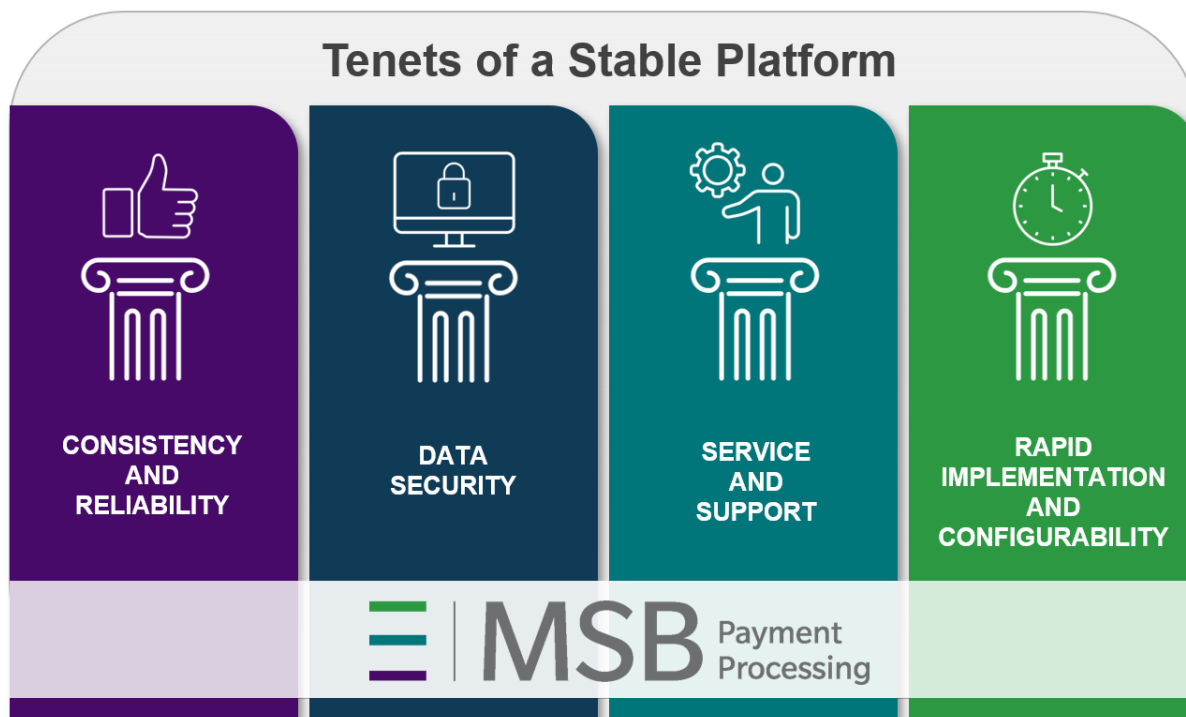
- If the Parish wants to insert a logo, we'll do it in real-time, at the preference of the department stakeholder, left side, right side, top or bottom of the page
- If the Parish wants a custom color scheme, stakeholders can try out any color combination that is displayable on the web or mobile emulator
- If the Parish wants to see how a site looks on a tablet or phone, we can view this via that same emulator

- If the client wants to move fields around so the entry of a person's name comes after the address instead of before, we can move fields through drag and drop, right during the meeting
- If the Parish needs to add some custom verbiage on the page, we will type it in right there, and position it at the top or bottom, or off to the side, at the stakeholders' preference
- If there are some fields displayed that Parish does not want, we will remove them right in that same meeting

Within our first hour of meeting, the Parish will have a site that is aesthetically and functionally the way you ideally would like. We can have a Merchant Identifier Number (MID) set up in less than ten minutes and can quickly update it and receipts to your specs and the Parish could take payments in-person and online before we walk out the door from the first time we meet with stakeholders (linkages from the clients' sites to MSB's platform and data sharing aside).

MSB's Stable Payment System

Payment processing services require a company to successfully support four key operational mantras. With MSB, these tenets are core to our solution, and have been since our founding.



A stable platform. *MSB tends to all four tenets of our core operational mantra.*

MSB's confidence in our capabilities is proven through experience: our consistent ability to execute and unwavering allegiance to ethical principles along the way. Our three decades of government experience, scale, and scope of operation with client contracts, billions of dollars processed for tens of millions of

individuals as well as our heavy vendor presence speaks to our proven success for projects just like that described in the Parish's RFP.

Concluding Introduction Summary

MSB hereby expresses continued full interest in the type of work proposed by the Parish. In closing, we are confident MSB's payment processing expertise and commitment to technical innovation and collaboration with Parish will provide the solution that the Parish requires and look forward to continuing a long-term, strong partnership. As you move forward with this project, please feel free to contact us with any questions. We recommend that we schedule a face-to-face meeting to discuss any additional services in full detail at your earliest convenience.

B TABLE OF CONTENTS

B. Table of Contents: Organized in the order cited in the format contained herein.

A Cover Letter	1
B Table of Contents	10
C Technical Proposal	1
C.1 Scope of Work/Services.....	1
C.1.1 Front-End Payment System	1
C.1.2 Online Features.....	2
C.1.3 Management Software	7
C.1.4 Application Programming Interface (API)	7
C.1.5 Other Parish Vendors.....	8
C.1.6 PCI Compliance	9
C.1.7 Payment Deposits	9
C.2 Proposal Elements	10
C.2.1 Technical Approach.....	10
C.2.2 Training	10
C.2.3 Innovative Concepts and Terms and Conditions	10
D Proposer Qualifications and Experience	12
D.1 Proposal Elements.....	13
D.1.1 Related Services.....	13
D.1.2 Key Personnel Resumes.....	15
E Innovative Concepts	16
F Project Schedule.....	17
G Financial Profile	18
H Cost Proposal.....	19
Attachments	20
Resumes	20
Financials	20
Certificate of Insurance	20
Required Forms	20

C TECHNICAL PROPOSAL

C. Technical Proposal: Illustrating and describing compliance with the RFP requirements defined in the Scope of Work/Services (Part II) and Proposer Qualifications

C.1 SCOPE OF WORK/SERVICES

C.1.1 FRONT-END PAYMENT SYSTEM

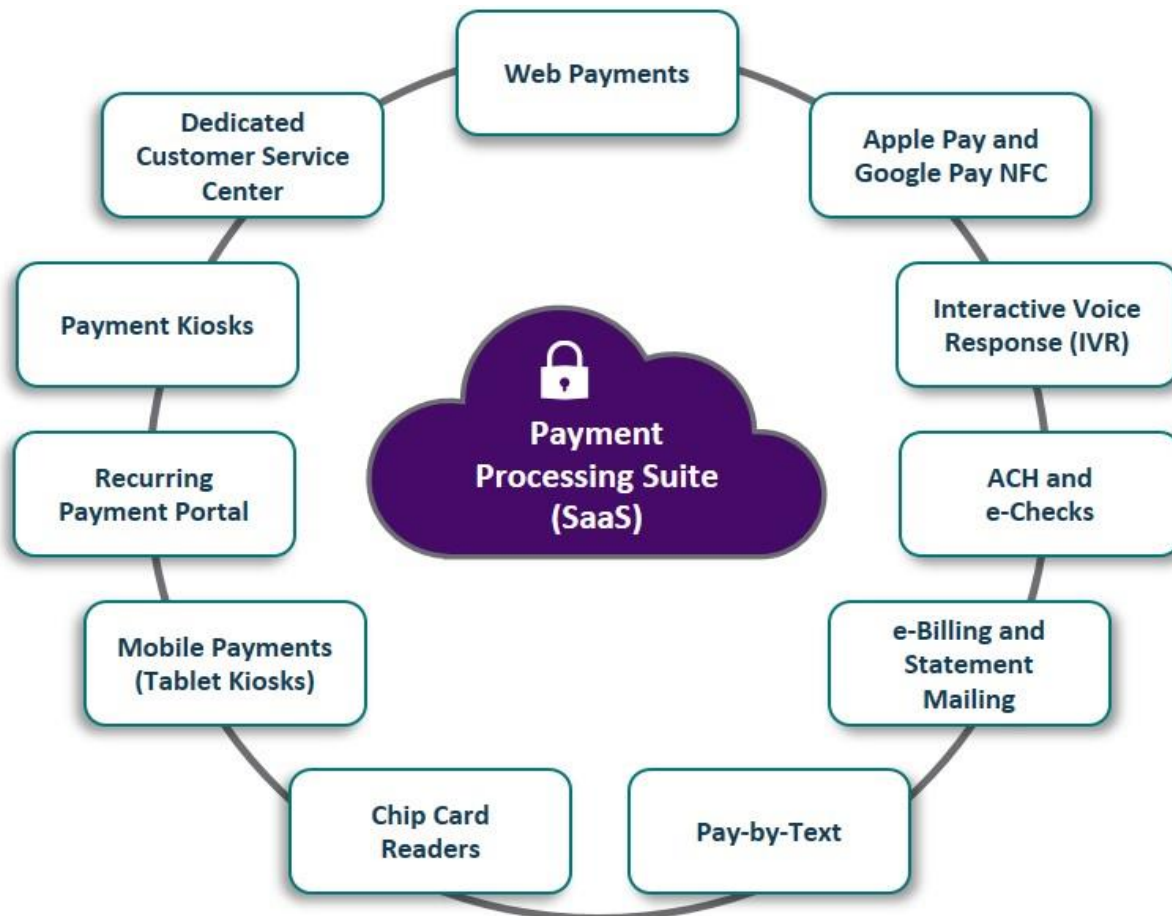
1. The Merchant service provider (or providers, if multiple contracts are awarded) will be required to provide and operate, consistent with Parish guidelines and oversight, its own front-end payment system to process customer payments for various debt types owed to the Parish.

Response:

MSB's electronic payment processing service is a cloud-based platform designed specifically for city, county, and state government agencies for payment processing with multichannel support including web, IVR, mobile, kiosk, pay-by-text, over the counter, lockbox, and operator-assisted call center. Our payment processing service is highly configurable and customizable which will integrate with your applications and improve customer satisfaction. We provide payment services to government agencies only. MSB has partnered with the Parish since 2018 and through an extension in 2020.

MSB provides services and manages a real time e-payment environment through the entire payment supply chain, from transaction acceptance to funding.

MSB provides a comprehensive, and a point-to-point electronic payment processing suite for Visa, MasterCard, Discover, and American Express cards and e-Check/ACH. Our suite of services includes credit, prepaid credit and PIN-based debit cards. We facilitate payments electronically online, in-person point-of-sale as well as through telephone IVR or telephonic agent assisted transactions.



Payments Suite of Services. *Our suite of best-of-breed solution ensures success and satisfaction for the Parish and those it serves.*

C.1.2 ONLINE FEATURES

2. Online features of the merchant account management software - The vendor should highlight how the merchant account is managed by the accounting/finance functions. For example, describe all the tools and methods for viewing transactions/batches, changing account information, responding to charge backs, user management, etc.

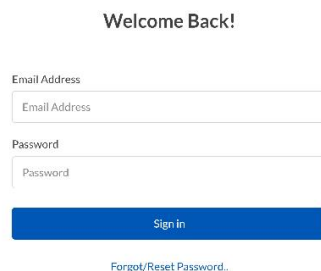
Response:

MSB's payment integration platform enables clients and vendors to have bidirectional data communication for processing orders and payments. Clients and vendors can pass order data and embed an MSB hosted payment form for accepting and processing a customer's payment information. This greatly reduces PCI scope and overall risk. On payment completion, pertinent payment information can be sent back to the vendor from MSB for reconciling partner and vendor systems.

In addition, the same integration can be used to conduct Point-of-Sale payments where the client or vendor personnel initiates a Point of Sale (POS) payment from MSB's payment platform. Our system would provide a selection of configured terminal devices for the given merchant account.

For POS payments, selecting a terminal would prompt the customer to complete payment on a physical device by dipping or swiping their card.

All PCI related information is captured and processed through MSB payment gateway. The MSB payment interface is completely secure.



Welcome Back!

Email Address

Password

Sign In

[Forgot/Reset Password..](#)



Landing page. MSB provides all clients with credentials to access the Nexus Payment System application.

Nexus Optics

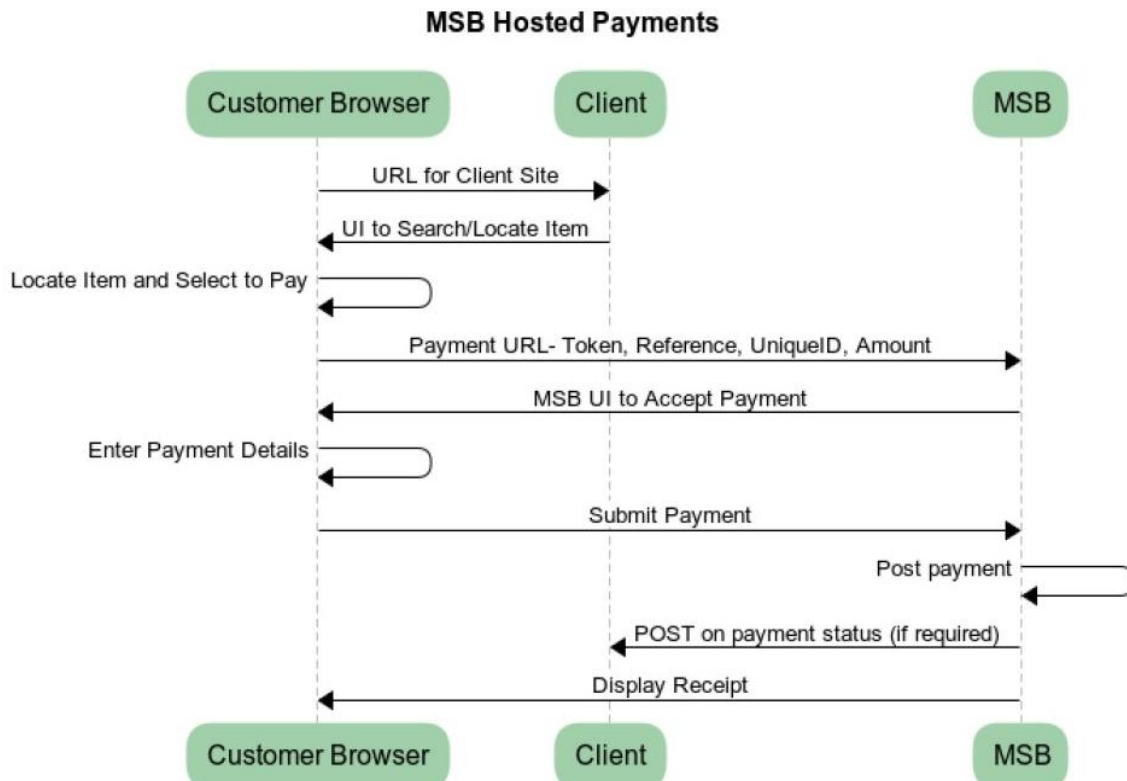
MSB provides a real-time view of MSB's payment platform whether it be the status of any of the terminals to preliminary notification of chargebacks. Each Client user can set their own notification criteria, including defining what is and is not a critical or urgent notification by job role, and selecting whether notifications are pushed via e-mail, through the Nexus platform, or both. There are presently twenty elements which are eligible for this type of notification with more being added regularly.

Overview for Online Payments

The high-level process flow for payment integration is as follows:

- The user will log into the client or partner website and enter all the details. When the user is ready to pay, the client or partner application will send a payment request to an MSB provided URL with agreed upon parameters.
- After the client or partner redirects to the payment URL, MSB will present the user a hosted payment interface displaying parameters passed in the initial request.
- User is then prompted to select a payment method (credit card or e-Check).

- A **payment details form** prompts the user to enter pertinent credit card or ACH information for processing.
- On submission, If the payment is successful, the payment interface will redirect to the RedirectURL specified as a parameter (if needed) as well as make a POST call to a PostbackURL to send payment status information to the client or partner server.



High Level Process Flow for Payments Integration.

A **payment details form** (see following screenshot) prompts the user to enter pertinent credit card or ACH information for processing.

Open Orders

Item Reference	Description	Amount
OP91323992	Tax Payment	\$1,334.75

Payment Details

Please enter the payment details below to proceed with your payment.

Payment type

Select Payment type

Contact Details

Please enter the contact details below.

Billing address line 1

Enter billing address line 1

Billing address line 2

Enter billing address line 2

Billing city

Enter billing city

Billing state

Select State

Billing zip code

Enter zipcode

Phone number

(999) 999-9999

* Email address

email@address.com

Payment summary

Subtotal

\$1,334.75

Convenience fee

\$0.00

Total amount

\$1,334.75

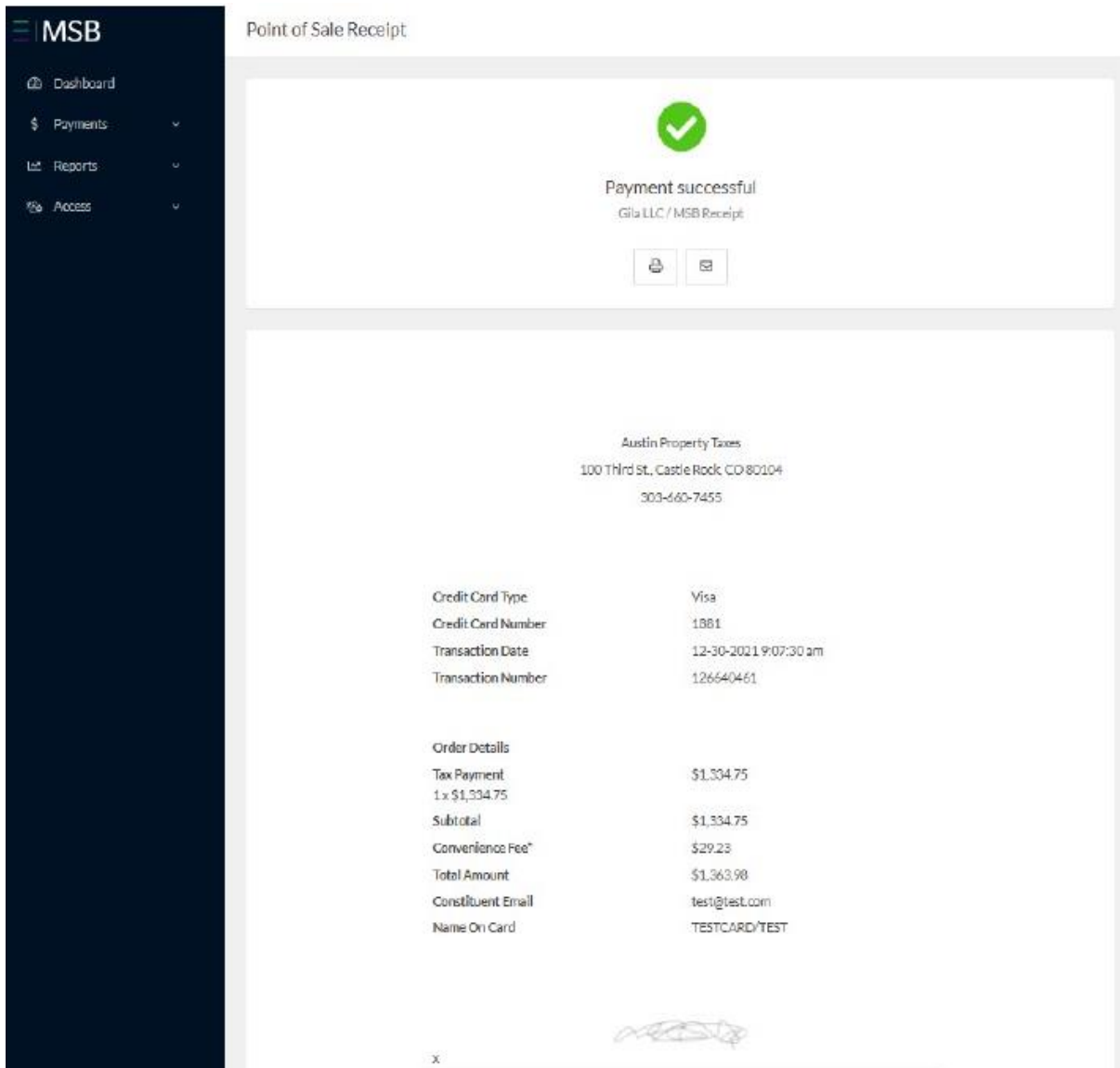
☐ I agree to the Terms and Conditions

Submit payment

Cancel payment

Payment Details. MSB payment interface on a successful redirect from the client or vendor application.

An online payment receipt available for printing by the end-user is available.



The screenshot displays the MSB online payment receipt interface. On the left is a dark blue sidebar with the MSB logo and navigation links: Dashboard, Payments, Reports, and Access. The main content area is titled 'Point of Sale Receipt' and features a large green checkmark icon with the text 'Payment successful' and 'Gila LLC / MSB Receipt'. Below this are icons for printing and emailing the receipt. The receipt details include the merchant name 'Austin Property Taxes', address '100 Third St., Castle Rock, CO 80104', and phone number '303-660-7455'. A table lists transaction details: Credit Card Type (Visa), Credit Card Number (1881), Transaction Date (12-30-2021 9:07:30 am), and Transaction Number (126640461). Another table shows order details: Tax Payment (\$1,334.75), Subtotal (\$1,334.75), Convenience Fee* (\$29.23), Total Amount (\$1,363.98), Constituent Email (test@test.com), and Name On Card (TESTCARD/TEST). At the bottom, there is a signature line with a stylized signature and the letter 'X'.

Order Details	
Tax Payment	\$1,334.75
1 x \$1,334.75	
Subtotal	\$1,334.75
Convenience Fee*	\$29.23
Total Amount	\$1,363.98
Constituent Email	test@test.com
Name On Card	TESTCARD/TEST

MSB Online Payment Receipt. *MSB Receipt shown after a successful payment.*

C.1.3 MANAGEMENT SOFTWARE

3. Merchant account - management software must be able to identify sub departments in transactions or multiple accounts.

Response:

MSB understands and acknowledges that our merchant account - management software must be able to identify sub departments in transactions or multiple accounts.

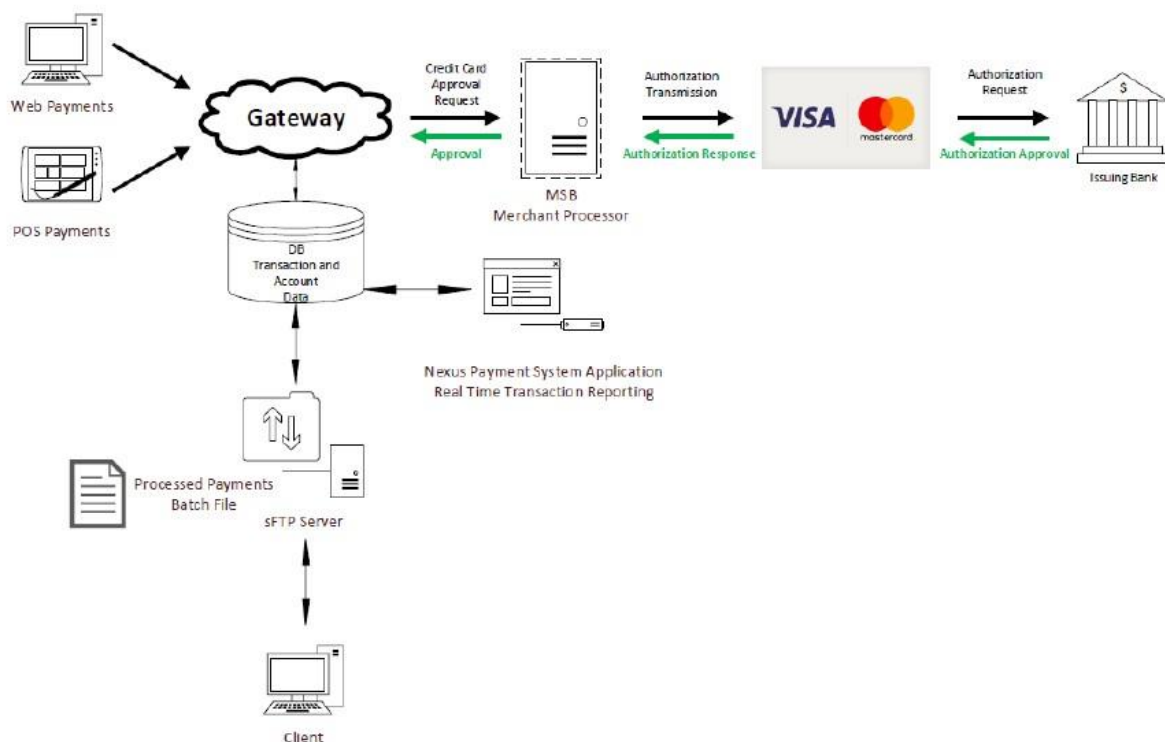
Our fully integrated payment processing solution has automation capability for reconciliation services. The system can provide any report for any type of transaction, deposit, return, refund, void, reversal, and chargeback. Nexus can also reconcile by department, MID#, sub-department, etc. You can input any type of parameter for reconciliation and our system can deliver the report in real time.

C.1.4 APPLICATION PROGRAMMING INTERFACE (API)

4. Merchant service provider is asked to provide application programming interface (API) for the debit/credit card processing that is .NET based and can be imbedded in any Jefferson Parish .Net application software.

Response:

If including API technology for this project, we construct connections using Parish's provided schema and then push to a test environment for internal FAT testing. From there, using test cases, the API instance is pushed to demo, where Parish can conduct UAT. We will document this all in a final test plan to be approved by the customer of record (COR) for Parish.



API flow.

We protect data using physical and logical security, network protection (i.e., firewalls, intrusion detection), encryption, audit logging, password challenges, and strict privacy policies. MSB works actively to ensure that our clients comply with the industry PCI DSS Level 1, and we recognize the importance of protecting our merchant partners and their customers from any data compromises. In addition to working directly with our clients to define the PCI level applicable to their environment, MSB offers a best-in-class data security solution that can significantly reduce the risk of data compromise.

Security is an issue in payment processing because of the many participants involved; the customer, the customer's card issuing bank or card association, the merchant, the acquiring bank, the payment processor, the payment gateway, the independent sales organization, etc. To complete a transaction, card data is transferred many times and makes many "hops" as it moves through the payment process. Transfers are typically secured as data travels over the internet via Transit Layer Security (TLS is a successor to Secure Sockets Layer protocol). TLS provides secure communications on the Internet for such things as e-mail, Internet faxing, and other data transfers).

C.1.5 OTHER PARISH VENDORS

5. Merchant service provider must also be able to work with other Parish Vendors to develop APIs between their payment system and service delivery or billing software.

Response:

MSB understands and acknowledges that we will work with other Parish Vendors to develop APIs between their payment system and service delivery or billing software.

Payments Solution Software Integration

MSB has current integration with the Parish vendors including My Permit Now, AS-400, Civic Rec and Pet Point. As new departments and integrations arise, we use the following protocols described below.

MSB works directly with your software vendors to support batch update integration. Just let your software vendor know we will be calling, and we take it from there. Your vendor must work with us to integrate properly. We are currently integrated with more than 50 leading software vendors and gateways. A listing of current integrations follows (only a sampling, not all inclusive):

Sample List of Integrations			
Goldshield PayMyTix	TrakiT (Tyler Technologies)	Sungard Public Sector (Superion)	Transcendent Technologies
Computronix	Delta Software	Harris Software	Authorize.net
New World	PayTrace	Civic Systems	PaySimple
UDS	2Checkout.com	GovEase	Local Government Corporation
Cardinal Tracking	Courtview	First Data	Data Systems, Inc.
Icon Software	PayPal	SecurePay.com	Cityview
Tyler, Eagle Treasurer	Vantiv ONE	Amazon Pay	Aumentum

Sample list of integrations.

MSB will work with the client to implement new gateways involving third-party software applications and provide interfacing and conversion strategies, as applicable and required by client.

MSB's system is modular, and we can adjust the schema needed to establish connectivity to adapt to requirements of any given software vendor (third-party or government facilitated). We just need the mapping information, and we can build out the connectors needed (as is shown in examples of software integrations in the table above).

C.1.6 PCI COMPLIANCE

6. All software (API) provided must be PCI compliant.

Response:

As a company that accepts credit cards online and offline, nothing is more important to us than keeping individuals' card data secure. MSB is compliant with Payment Card Industry Data Security Standards (PCI-DSS). In April 2022, MSB received its latest Security Standard Attestation of Compliance for Onsite Assessments – Service Providers.



MSB always maintains PCI-DSS Level 1 Compliance. MSB can release the entire PCI report upon the Parish signing a nondisclosure agreement with your department.

In addition to being PCI 1 compliant, MSB is a Payment Facilitator recognized by both MasterCard and Visa on their national registries. Additionally, MSB is a Payment Facilitator of the Merchant Acquirer Worldpay, a subsidiary of FIS. Our Sponsoring Bank is Fifth Third Bank. This all means we can function as a true aggregator on behalf of Parish, significantly limiting Parish's PCI scope.

C.1.7 PAYMENT DEPOSITS

7. All payments made by a customer must be immediately deposited directly into a designated Parish bank account through a Parish-approved banking partner, and at no time would flow through the Contractor's bank account.

Response:

MSB understands and acknowledges that all payments made by a customer must be immediately deposited directly into a designated Parish bank account through a Parish-approved banking partner. We also understand and acknowledge that, at no time, payments should flow through our bank account.

C.2 PROPOSAL ELEMENTS

C.2.1 TECHNICAL APPROACH

1. Each proposer shall address how the proposer will achieve/meet the scope of work as stated in Section 2.1. Technical approach shall detail the following: Plans and/or schedule of implementation, orientation, and/or installation, etc. (whichever is relevant to the RFP requirements).

Response:

MSB has addressed how we will not only achieve but exceed the scope of work as stated in RFP Section 2.1. Our technical approach is detailed in both **Section C Technical Proposal** and **Section F Project Schedule**.

C.2.2 TRAINING

2. Plans for necessary training, where applicable. Information demonstrating an affirmative statement shall be required that the proposer has reviewed the scope of work, understands the nature thereof and is willing and capable of providing the services thereof.

Response:

MSB's award-winning training program has been recognized by Training magazine for eight consecutive years. For more than 20 years, Training magazine has been known to be "the industry standard for professional development and news for training, human resources and business management professionals in all industries". Training Magazine determines the Top 100 ranking by assessing critical factors such as the financial investment in employee development, the breadth of development programs, how closely those development efforts are linked to business goals and objectives, and their business impact effectiveness. Having a well-trained and highly skilled customer service staff is critical to our success on behalf of the Parish.

C.2.3 INNOVATIVE CONCEPTS AND TERMS AND CONDITIONS

3. Proposer shall likewise include any information concerning any innovative concepts pursuant to this RFP and terms and conditions that the proposer desires consideration by the Parish.

Response:

MSB has provided information concerning any innovative concepts pursuant to this RFP in **Section E Innovative Concepts**. Our following concerns and changes to the terms and conditions are in underlined and in bold below.

1.32 Indemnification

Proposer shall agree to indemnify and hold harmless the Parish of Jefferson, its departments, agencies, boards and commissions, officers, agents, servants and employees, including volunteers, against any and all claims, demands, suits, costs, liabilities or judgments for sums of money, and fines or penalties asserted by any party, firm or organization for loss of life or injury or damages to person or property, growing out of, resulting from, or by reason of any negligent acts, errors, and/or omissions by proposer, its agents, servants or employees, while engaged upon or in connection with the services required to be performed by proposer under this RFP.

Further, proposer shall agree to indemnify the Parish of Jefferson, its departments, agencies, boards and commissions, officers, agents, servants and employees, including volunteers for all reasonable expenses and attorney's fees incurred by or imposed in connection therewith for any loss, damage, injury or other casualty **resulting from the negligent acts, errors, and/or omissions by proposer, its agents, servants or employees, in connection with the services required to be performed by proposer under this RFP** . Proposer additionally shall agree to pay all reasonable expenses and attorney's fees incurred by the Parish of Jefferson, its departments, agencies, boards and commissions, officers, agents, servants and employees, including volunteers **if Parish of Jefferson is the prevailing party in a legal action or proceeding brought to establish** the right to indemnity pursuant to the provisions stated herein.

D PROPOSER QUALIFICATIONS AND EXPERIENCE

D. Proposer Qualifications and Experience: History and background of Proposer, including but not limited to status with related services to government entities existing customer satisfaction, demonstrated volume of merchants, etc.

Response:

MSB has provided financial services support to government for more than thirty years. Whether this be payment facilitation or revenue cycle management, our clientele has been government at the state and local level since our founding. This gives us a keen understanding of the nuances of government as it relates to constituent expectations, fiscal processes, and the court of public opinion.

MSB has provided solutions exclusively for government entities for over 30 years, so the Parish can be assured its payment platform will be perfectly suited for its unique needs.

MSB's payment clients consist largely of county and state governments around the country, with one of our most recent clients being El Paso County, TX (a client soon to begin implementation which has over 80 merchant IDs and over 130 card terminals to be deployed). Other examples of county clients include Chesterfield County, VA (Pop. 352,000), Sedgwick County, KS (Pop. 516,000), **Jefferson Parish, LA (Pop. 433,000)**, Douglas County, CO (Pop. 351,000), Clermont County, OH (Pop. 206,000), and Luzerne County, PA (Pop. 317,000) to name a few. In all, MSB supports more than a thousand government agencies and when it comes to our county clients, including utilities, parks, and permits.

Our lead project personnel have over 100 years of combined payment industry experience, and when it comes to a project like that contemplated by the Parish, that experience is crucial. While MSB has successfully deployed all our clients nationwide, deployments do not come without potential pitfalls and our depth of knowledge regarding implementations have allowed us to glean how we can address seamless cutovers of services from one payment provider to another, addressing edge cases relative to system integrations, and most importantly, how to keep a legacy provider and MSB running in parallel to ensure efficacy prior to launch.

Last, we understand that every government is different. Even adjacent counties have different methods of operations, different preferences for receipting, different reporting needs, and different fiscal requirements based on county rules. MSB's system is purposely designed to be malleable and modular, allowing for us to adapt the solution to whatever the needs are for each unique government we serve (and in many cases, even different departments within the same umbrella contract).

Jefferson Parish Government Experience

After being awarded the Parish's contract in 2018, MSB began a fully customized implementation of the Water Department (East and West Bank), Alario Center, Code Enforcement (East and West Bank) Animal Shelter (East and West Bank). The first departments went live in Jan 2019. In 2019 We began to implement IVR services for the Water Department, Parks and Rec, Lafreniere Park (including the creation of ticket acceptance for the 2019 Christmas light trail) and Library for Room rental. In 2020, the Parish Extended the MSB Contract and started adding additional departments, including the Attorney's Office, Housing Department for on-line payments. In 2021, MSB began to work with the Parish to add a web presence for the Attorney's Office and other web agencies. In 2022, we began implementation for the Permits in the

Planning Department and finalize validation of new mobile smart terminals for the Parish departments. To date we have processed 358,838 transactions with a principal balance of \$45,289,347.99. We have also processed 486 refunds, 226 chargebacks and 246 voids.

D.1 PROPOSAL ELEMENTS

D.1.1 RELATED SERVICES

1. Proposers shall provide a detailed statement of related services to government entities or private entities which identifies customer satisfaction, demonstrated volume of merchants, etc. Proposer must provide a detailed description of customer service capabilities, including resumes of personnel assigned, total number of personnel and timeline of customer inquiries and complaints, as applicable.

Response:

As part of Navient (Nasdaq: NAVI), and as standard practice, MSB does not release its entire client list in bid responses. However, due to our unlimited capacity to process transactions, our clients can be confident that their customers' transactions will be processed at any time in a secure, user-friendly environment.

From rural counties to large state agencies, we have a successful record of processing a wide range of payment volumes for a broad array of clients.

Following, we have provided examples of successful MSB payment solution deployments for our government clients.

Client References

↓ This Section Contains Confidential Trade Secret Information ↓

Outagamie County, Wisconsin	
Contact Person:	Trent Woelfel, County Treasurer
Telephone Number:	(920) 832-5067
Email:	trent.woelfel@outagamie.org
Address:	410 South Walnut Street Appleton, WI 54911
Description:	Credit/Debit Card Processing including acceptance of payments by financial transaction for expenses owed and donations made to the departments under the hiring authority. Provided a fully customized payment solution for multiple departments county wide, including bill presentment, payment portals and over the counter payments.
Processing Volume:	\$14,000,000/year

Chesterfield County VA	
Contact Person:	Rebecca Longnaker, Treasurer, Carol Bennett, Chief Deputy Treasurer
Telephone Number:	804-706-2862
Email:	LongnakerR@chesterfield.gov, bennettC@chesterfield.gov
Address:	9901 Lori Road, Suite 101, Chesterfield, VA 23832
Description:	Providing Onsite POS, Online and Bilingual IVR payment services to the County Treasures, Utilities, EMS, Building, Planning, Permits, Code Enforcement, Mental Health, Police Parking, Animal Control, Community Engagement. MSB also provided a large steel and robust outdoor Kiosk to accept tax and utility payments. Customer since March 2020.
Description:	Taxes, EMS, Planning, Building, Community Engagement, Code Enforcement, Utility
Processing Volume:	\$37,800,000 /year

Sedgwick County, Kansas	
Contact Person:	Brandi Baily, Principal Accountant
Telephone Number:	316-660-7132
Email:	brandi.baily@sedgwick.gov
Alternate Contact:	Greg Gann, IT Project Manager Security Awareness Specialist Division of Information & Technology (316) 660-9857 Greg.Gann@sedgwick.gov 538 N. Main, Ste. 221 Wichita, KS 67203
Address:	525 N. Main, Suite 823 Wichita, KS 67203
Description:	Payment processing services to accept payments for fines, taxes, permits, fees and/or other debt due, administrative tasks (customer service contact center and services via Website and IVR).
Scope of Work:	Payment processing services to accept payments for fines, taxes, permits, fees and/or other debt due, administrative tasks (customer service contact center and services via Website and IVR).
Overview:	In September 2018, MSB became the sole payments provider for the County of Sedgwick and all of its affiliate departments in the State of Kansas. MSB currently serves 23 individual departments under this contract. At the beginning of 2019, MSB signed an additional contract with the County to perform payment processing services for the Lake Afton Park & Recreation locations which required complicated and exquisite

Sedgwick County, Kansas	
	<p>custom kiosks. In July of this year, MSB will sign yet another contract for the entire DMV department in the State of Kansas to provide comprehensive custom payment kiosks across the County and State.</p> <p>We currently integrate with several systems across multiple departments including the Treasury.</p>
Processing Volume:	\$70,800,000/year
Contract Start Date:	2017 (all electronic payments)

↑ This Section Contains Confidential Trade Secret Information ↑

Compliance Management System

MSB employs a sophisticated Compliance Management System (CMS), comprised of stringent compliance, security and risk management procedures and processes, designed to preserve our approach to quality and to immediately identify and resolve incidents and concerns. Our Three Lines Model, which is based in part on standards created by the CFPB, establishes clear policies and procedures at different levels within our organization to ensure that:

- Each independent line supports and challenges the management team through absolute understanding of the rules that govern our performance
- Compliance controls are implemented, up to date and remain secure
- That regulatory changes are communicated to staff, included in training materials, and implemented at all levels
- Quality, issues, and results are closely scrutinized to ensure continuous achievement

D.1.2 KEY PERSONNEL RESUMES

2. Proposer shall provide resumes for account manager(s), designated customer service representative(s) and any and all key personnel anticipated to be assigned to this project, in addition to resumes of any and all subcontractors.

Response:

MSB has provided resumes for account managers, designated customer service representatives and any and all key personnel anticipated to be assigned to this project at the end of this proposal response. We will not be using subcontractors for this opportunity.

E INNOVATIVE CONCEPTS

E. Innovative Concepts: Present innovative concepts, if any, not discussed above for consideration.

Response:

MSB is deployed an upgrade to our Nexus Portal now known as Nexus 2.0. The Parish will continue to enjoy the benefits of the client friendly reporting and processing the departments have come to enjoy, but with added enhancements. Through input from our clients, we have developed our new Nexus 2.0, which will be deployed systemwide by July 2022. Main enhancements include the full level of customization of information the client will be able to gather. Additionally, a department who has a need for a new payment site will have the tools to create and deploy in as little as one hour.

MSB is also updating our payment hardware which will include a new mobile friendly terminal. The Verifone V400m smart terminal can process payments in a traditional Point of Sale card environment with a secure network connection or as standalone payment solution with WIFI/Bluetooth connectivity, such as ticket sales applications. The self-contained unit holds information to initiate the transaction, print receipts, scan bar/Q-codes, and will connect via the cloud for transactional reporting to the Nexus portal.



Verifone V400m smart terminal. MSB's new mobile friendly terminal.

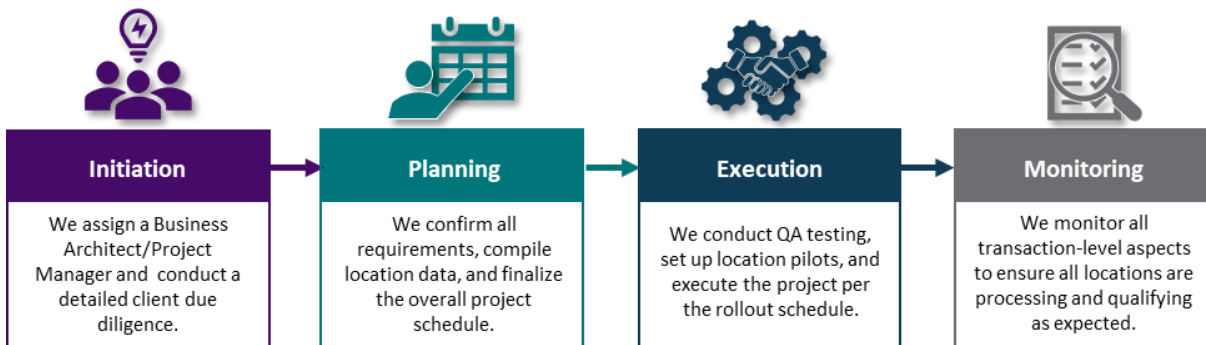
F PROJECT SCHEDULE

F. Project Schedule: Detailed schedule of implementation plan for pilot (if applicable) and full implementation. This schedule is to include implementation actions, timelines, responsible parties, etc.

Response:

As a current client, the Parish will enjoy continued seamless use of the payment solution, with system enhancements to be deployed on an agreed upon schedule. This will allow deployment of Nexus 2.0 to go without a need to re-implement the system. Further, as we begin to phase in new technologies, such as the Verifone Carbon Fiber Smart terminals, our equipment team can work with agencies to provision, test, deliver and deploy new hardware as need in weeks not months.

As new departments come on board, the Parish will enjoy an implantation schedule of a couple of sprint cycles and not months of work.



Project methodology. *MSB follows a four-phase project management methodology.*

G FINANCIAL PROFILE

G. Financial Profile: Proposers are requested to submit documentation from the past three (3) years demonstrating proposer's financial stability. Documentation may include audited financial statements including balance sheets, income statements, documentation regarding retained earnings, assets, liabilities, etc. Such information should be included in the technical portion of the proposal submission and MUST NOT be included with the cost proposals and/or price schedules.

Response:

MSB has provided the past 3 years of our financial stability at the end of this proposal response.

H COST PROPOSAL

H. Cost Proposal: Proposer's fees and other costs shall be submitted in a separate online envelope (Named Price Attachments) with proposal submission. This cost proposal shall include any and all costs the proposer wishes to have considered in the proposed contractual arrangement with the Parish of Jefferson. The cost proposal shall be worth twenty-five percent (25%) of the total points assigned. Evaluation of cost proposal shall take place after technical evaluation has been completed.

Response:

MSB has submitted our Cost Proposal as a sperate online envelope titled "Price Attachments".

ATTACHMENTS

RESUMES

FINANCIALS

CERTIFICATE OF INSURANCE

REQUIRED FORMS

Kevin Yabann

Senior Project Coordinator

Summary of Qualifications

A skilled leader and manager with direct customer relationship management and technical field operations supervisory experience. Diversity of this experience includes a private transportation solutions provider, Oil and Gas service companies, US Navy Recruiting and Naval Aviation maintenance. A strong focus on project management, customer success, service quality and quality assurance in process, procedure and technology, training, and personnel development.

Primary Areas of Responsibility

Handles administrative tasks for the project manager and team members to keep the project running smoothly, including ordering equipment and supplies, managing deadlines and workflow, and scheduling meetings and appointments.

Professional Experience

Sr. Project Coordinator **2021 to Present**
Municipal Services Bureau

Director, Business Development **2017 to 2021**
Dolphin Solutions Group (Seagate Holdings LLC)

- Managed, coached, and motivated a team of logistics sales professionals and customer care agents to establish and retain new customers increasing monthly top line revenue of over \$400,000 by managing RFPs, contracts, budget, and P&L functions for the Division
- Managed a team of 8 logistics customer services agents on a 24/7 schedule remotely who were responsible for providing updates to all clients on transition times, load delivery statuses and provision of Proof of Delivery (POD) making approximately 100 calls every shift
- Created corporate structure outlining job roles and responsibilities, and conducted market research to determine competitive remuneration packages for current and prospective contractors and employees increasing workflow and retention by 80%
- Assigned Project Management Lead in implementation of Transportation and Logistics ERP and Operations software packages with a budget of \$800,000, planning and coordinating training at each phase of the project and utilizing change management resources to optimize systems roll-out using PMI Methodology and MS Project resulting in 100% deadlines achievements for every objective
- Coordinated all necessary EDI and API interface requirements between the different vendors to ensure smooth workflow processes between technology integrations
- Represented the company during trade events, sales events, and customer presentations, created and conducted over 100 presentations to groups of over 1,000 attendees
- Analyzed, monitored, and drove key performance (KPI's) and accuracy metrics against internal sales and delivery goals

Service Quality / Field Service Manager **2016 to 2017**
Allied Horizontal Wireline Services

- Supported 24-hour field operations for clients and field personnel as a subject matter expert by offering solutions to quickly resolve issues encountered, consulting with client operations team on solutions for more complex with efficiency and safety as priorities

Technical Skills

- Quality Assurance
- Quality Control
- Customer Support
- Project Management
- Training

Business Skills

- Leadership
- Time Management
- Results Orientation
- Discipline
- Adaptability

- Evaluated operational incidents through root cause analysis and reporting in order to drive development and documentation for procedural improvements and authoring corrective action plans which resulted in 97.9% Operating Efficiency in the high volume Eagleford, Permian and Woodford shale formations
- Field testing and implementation of new products, assigned Project Management Lead for testing and implementation of Camesa EcoSeal Greaseless cable and authoring corporate training and operations manual
- Conducted quarterly Service Quality reviews with each one of the customers outlining service performances, addressing service quality and safety incidents and provide sustainable changes and plan of implementation

Field Engineer Cased Hole

2014 to 2016

Allied Horizontal Wireline Services

- Planned, prepared, managed, and supervised assigned personnel and equipment for Wireline Field operations boasting a 99% operations performance efficiency and 100% safety efficiency with zero safety incidents
- Consulted and coordinated with all necessary third-party service providers to ensure safe and efficient operations. Verified all perforations and well survey procedures and communicated with operator company consultant all necessary changes
- Communicated daily reports to management provided feedback to Service Quality Department on methods of improving field operations and ideas for creating efficiencies

Regional Office Recruiting Manager

2010 to 2011

U.S. Navy

- Hand selected to solely establish a new regional office both administratively and operationally while still meeting assigned monthly recruiting goals
- Managed canvass recruiters and Navy future sailors as they prepared for their transition into the United States Navy.
- Efficiently utilized Professional Coaching Skills as taught by Achieve Global to guide, train and evaluate canvass recruiters to become successful
- Managing minor property valued at over \$30,000 and three government vehicles with assigned government gas credit cards and travel budgets through the Defense Travel System
- Ensured production goals were met on a consistent basis to facilitate the attainment of monthly quotas creating a pool of qualified applicants to fill all positions within the Navy by utilizing and managing marketing review systems to analyze trends to maximize prospecting efforts
- Managed all recruiting station administrative programs to inspection ready status

Recruiter/Canvasser

2008 to 2010

U.S. Navy

- Initiated, developed, and maintained professional relationships with faculty and staff of assigned schools to include college, trade, and high school levels
- Prepared and conducted presentations in front of crowds, auditoriums and classrooms of prospects, parents, faculty, counselors, and teachers/instructors
- Gathered all documentation required for processing and maintained updates on every step of the process using an applicant/prospect tracking software
- Worked as a team member in conducting training meetings and other sessions to develop junior recruiters and recruits preparing for their transition into the Navy

Work Center Supervisor

2007 to 2008

U.S. Navy

- Managed 11 work center personnel covering 3 shifts and completed all necessary training and evaluations as leader of the Emergency Reclamation Team and worked concurrently with the Quality Assurance Division to perform readiness drills
- Analyzed maintenance procedures and all factors contributing to work center assignments
- Planned and managed all Scheduled Maintenance and Periodic Maintenance schedules, ensuring all parts and equipment were available for required maintenance and maintained a 100% aircraft Ready for Flight status ashore and onboard aircraft carriers during deployment

Aviation Maintenance Technician

2004 to 2007

U.S. Navy

- Worked as an active team member to meet all maintenance requirements for mission accomplishment ashore on land or afloat out at sea on Naval Vessel.
- Participated and dedicated over 100 overtime hours in emergency maintenance actions to ensure aircraft readiness to assist in Katrina Relief Efforts in New Orleans, La.
- Successfully maintained high standards in both the Safety and Training programs.

Elye Sackmary

President and Chief Executive Officer, Municipal Services Bureau

Summary of Qualifications

As President and CEO of Operations, Elye is responsible for the success of operations within the Payment Processing division. One aspect of his role is to oversee resources allocated and assigned to all client projects. This helps ensure the successful implementation and client satisfaction throughout the duration of the contract. Elye is also a direct point of contact when the assigned Senior Manager is not available.

Additional responsibilities include managing:

- State surcharge contracts
- Toll road ARM operations
- Back-office payment processing
- Lockbox functions
- MSB Contact Centers

Elye has significantly contributed to growing MSB by more than 300% since joining the team in early 2004. He received a bachelor's degree from Texas State University and is currently pursuing a Master of Science in Accounting and Information Technology. Elye graduated with 'great distinction' from BAI Graduate School of Retail Banking and was recognized as a Certified Public Manager by former Texas Governor Rick Perry.

Elye is active in the business community as a professional life member and sponsor for the Future Business Leaders of America, is a member of the American Society for Public Administration and is a life member of the American Academy of Certified Public Managers.

Primary Areas of Responsibility

- Advocate, coach, and blockade buster that builds the teams to ensure Municipal Services Bureau's continued growth and profitability
 - Teams are responsible for implementation, administration, and operation of the Municipal Services Bureau payment and contact center operations
- Oversaw the growth of standalone payment services from zero in annual processing Municipal Services Bureau er 50% since 2016
- Guided company through the gauntlet to attain Payment Facilitator certification, MSP bank sponsorship, and terminal hardware EMV chip card certs
- Managed administrative and operational functions for various departments including mailing over 30 million bills and e-bills, processing more than 12 million customer payments, over 9 million telephone contacts through the CSC, and processing the response to more than 175,000 written inquiries from customers
- Jointly lead company through two acquisition cycles including a private equity buyout and an exit sale to Navient five years later
- Assembled and developed sales team to drive new client acquisition with results of more than 100% growth year-over-year each year since 2016
- Facilitated transition with corporate partners to roll up of various support functions to Navient following 2015 acquisition including information technology, finance functions, human resources, risk management/compliance, and application development

Education

Associate of Arts (A.A), English

Santa Rosa Junior College

BAAS, Applied Arts and Sciences

Texas State University

Graduate School of Retail Banking

Bank Administration Institute (BAI)

Professional Memberships

- Future Business Leaders of America
- American Society for Public Administration
- American Academy of Certified Public Managers

Certifications

- Certified Public Manager

Technical Skills

- Client Relations
- Implementation
- Development

Business Skills

- Collaboration
- Teamwork
- Negotiation

Professional Experience

President and Chief Executive Officer Municipal Services Bureau

2004 to Present

- Oversaw the growth of standalone payment services from zero in annual processing dollars to hundreds of millions per year and a company payments client growth by more than 100% year-over-year
- Shepherded the company to attain Payment Facilitator certification, MSP bank sponsorship, and credit card terminal hardware EMV chip card certifications

Manager, New Technologies AT&T Wireless

2001 to 2003

- Responsible to pilot technical support services for trial market participants in the U.S. who purchased the newer GSM mobile telephony standard hardware from European markets
- Built teams as a hybrid of internal and external hiring, and then developed and coached these telephony teams
- Developed and implemented balance scorecard initiative which leveraged a metrics based individual incentive program
 - This drove team performance and allowed for a 15% reduction in call handling/resolution time within three months of implementation
 - The scorecard was eventually utilized companywide
- Managed a focus group initiative to the 2.5G technology to gauge customer feedback against desired expectations from the corporate marketing and sales teams
- Granted the team unparalleled autonomy in their approach with customers as a trial, allowing team members to inject their own styles into conversations versus adhering to pre-written / canned scripts in 100% of the interactions
 - Our service team was recognized as #1 in the region based on customer service survey results for 5 months; also ranked #1 nationally in operational effectiveness and service quality for two months
- Drafted procedures and scripts for agents when interacting with customers
 - The script was fluid allowing for flexibility as technology advanced
- Coordinated technical work groups to deliver customer experience enhancements to AT&T web presence specific to the GSM/GPRS transition

Average tenure of team members was 80% less than company average

Summary of Qualifications

Ken is a result driven sales and business development executive who has a proven track record of growth, profitability, and visibility for companies in software, telecommunication, revenue, and government sectors. He has over 21 years of experience creating strategic sales plans that effectively position brands, products, services, and public issues.

Primary Areas of Responsibility

Ken capitalizes on compelling communication and presentation skills to cultivate strong partner relationships. Core competencies include Strategic Marketing, Brand Management and Positioning, Government Sales, Product Introductions, Communication Skills, Business Development, and Territory Development.

Professional Experience

Senior Account Executive **2012 to Present**
Municipal Services Bureau

- Awarded three contracts, with revenue potential of \$2 million, in the first nine months on the job, including one of the division’s top 10 contracts by revenue potential
- Tripled client base in territory in 2014
- Worked to identify new territories for government collection, including Department of Labor and Louisiana Courts and Kentucky Revenue Offices
- Developed strategic partnerships with key groups and personnel
- Designed marketing campaign plan inside territory, including mailings, electronic, continuing education learning, and conference
- Managed the legislative process, including the lobby team, to change legislation regarding collection fees in Tennessee
- Managed RFP process for all territory-based bids, including preparation of sample bid specifications
- Helped implement capture plan strategy for large prospects
- Assisted in Federal Grant development for a State Department of Labor project

Investigator **2011 to 2012**
Tennessee Secretary of State, Nashville, Tennessee

- Managed investigation process from initial complaint through the hearing and/or settlement
- Investigations led to \$1 million in civil penalties and new registration of 35 charitable organizations with the division

Area Sales Manager **2008 to 2010**
Harrison Corporation, Nashville, Tennessee

- Provided territorial management for Tennessee public safety and professional communications
- Developed and implemented sales plan for an untapped market for company’s product offering
- Increased opportunity pipeline, 6 times (\$30 million to \$179 million)
- Manage and develop indirect sales force for the Tennessee market
- Managed multiple contract lobby teams during various phases of business development process

Education

Bachelor of Arts, Economics
University of Kentucky

Technical Skills

- Development
- Client Relations
- Strategic Analysis

Business Skills

- Teamwork
- Leadership
- Communication

- Managed all aspects of the RFP/proposal process, including the coordination of company resources, 3rd party resources and support staff

Regional Sales Manager and Director of Unclaimed Property Business Development Revenue Discovery Systems, Nashville, Tennessee **2005 to 2008**

- Served as a key member of the team tasked with rapidly growing unclaimed property audit market
- Formulated strategic plans and presented solutions to multiple state government agencies
- Designated team member to approach new markets and territories, including government relations team hiring process
- Managed association partnerships and territory lobby teams
- Developed and implemented a sales plan for the Kentucky market as an untapped market, including working with the Kentucky League of Cities, Kentucky Association of Counties, and Kentucky Occupational License Association regarding issues in Tax Administration
- Developed State Unclaimed Property Audit service, which netted multiple state contracts for RDS and tripling the number of contracts within the first year
- Identified and assisted in the negotiation of partnership agreement with companies and associations which offer service synergies
- Proficient in the use of Salesforce CRM software

Regional Sales Manager and Director of Instrument & Technical Systems, Oak Ridge, Tennessee **1995 to 2005**

- Representative liaison to manufacturing companies such as Honeywell, Square D, ITT, Neo-Dyn, National Instruments, and others
- Developed and supported client base in Middle and West Tennessee, including TVA, Murray, Sharp Manufacturing, and RTS Wright Industries
- Served as office manager for Louisville, KY office (1996-1997), to include inside sales, stock management, and customer service management
- Oversaw stocking partnership with ITS and Ashland Petroleum

Summary of Qualifications

Andrew holds an Applied Arts degree from Texas State University and is PMP certified. He has multiple years of experience with client, customer support, and product management. Andrew previously worked in the digital banking vertical implementing money movement features. Andrew brings an array of experience in product management, business operations, and client relations.

Andrew assists with the management of payment processing products. He helps drive project implementations for new and existing clients needing customized solutions. He is also responsible for the discovery, analysis, and facilitation of new product features and enhancements.

Primary Areas of Responsibility

- Obtaining, reviewing, and facilitating business requirements for projects
- Conducting scrum, sprint planning, and retrospective sessions
- Creating user stories and manage project backlog using TFS
- Preparing project documentation including implementation plans, communication plans, and product workflows
- Coordinating projects across all lines of business and assigning resources as needed

Professional Experience

Senior Project Coordinator 2016 to Present Municipal Services Bureau

- Manages payment processing projects for municipalities (city and county) across the United States
- Interdepartmental liaison for all payment processing projects and escalations
- Assists software developers to implement payment processing software solutions
- Provides merchant reporting, reconciliation, and payment support to government clients

Contract Support Specialist 2015 to 2016 Microsoft Corporation

- Supported Microsoft Premier Services Sales members by providing contractual support and processing of executed work orders for large scale companies located in the West United States region
- Processed contracts, purchase orders, and service agreements for customers. He regularly worked with Microsoft legal department to ensure proper contracts and agreements were in place
- Researched customer contracts for verbiage, exhibits, and descriptions of Microsoft services

Operations Coordinator 2014 to 2015 Protect America, Inc.

- Promoted to Operations Coordinator and focused on supporting internal departments
- Integral part of establishing processes and procedures
- Created operational processes and audited affiliate leads for dispositions which led to \$2,000 weekly savings

Education

Bachelor of Science
Texas State University, San Marcos,
Texas

Certifications

- Project Management Professional (PMP)

Technical Skills

- Project Management
- Development
- Systems Analysis
- Microsoft Office

Business Skills

- Teamwork
- Communication
- Problem Solving

- Business Development for onboarding of affiliates and partners
- With affiliate campaign details and contract verbiage
- Leadership team with report creation and data mining

System Assembly Supervisor
Protect America, Inc.

2012 to 2014

- Day-to-day operations for the assembly team including work schedules, hiring, one-on-ones, creating training tools/guidelines for new team members, and leading by example
- Maintained above 90% quality score throughout tenure by establishing new quality measures
- Helped design and coordinate Kazein mapping for assembly process
- Maintained shipped product KPI above 95% throughout tenure
- Involved in creating quality inspections and reports for department

Summary of Qualifications

Lori began her career with us as an Account Manager and quickly advanced to Director of Client Operations. As the Director for Client Operations Lori manages the Texas Driver Responsibility Program, oversees program operations, client relationship management, payment processing, project management, and implementation of technological enhancements and updates. Since managing this program, Lori implemented the 20121 legislatively required changes that included, extended installment plans, continuous installment plan re-entry, reduction of minimum payment amounts, and the military deferral program. Lori also gathered requirements and worked on cross-functional teams to project manage and implement the indigency/incentive Reduction Program through online and IVR services, updating core internal systems to accept and process new code without service interruption.

In addition to managing the Texas Driver Responsibility Program Lori conducts monthly management audits of the payment processing, call center, training, and operational functions. Lori also oversees and manages the time-sensitive, mission critical Houston initiative that required the reclassification of accounts and monies while working with the Department of Public Safety and the Houston Municipal Court system to ensure timely delivery of reporting and account reconciliation.

Primary Areas of Responsibility

Lori manages client operations and business relationships. She is the point of contact for production issues. She also is responsible for maintaining client operational excellence and delivering outstanding client service. Lori holds a bachelor’s degree and has more than 21 years of experience in relationship management exclusively with government clients.

Lori has managed the migration of over 400 state, county, and local governments’ online payment applications and interfaced to a new enterprise payment processing solution on schedule and within budget.

Professional Experience

Director, Client Operations **2012 to Present**
Municipal Services Bureau

Program Manager **2011 to 2012**
Dell

- Managed projects from initiation through delivery; coordinating cross-functional teams through meetings and progress measurement activity to bring projects to completion on time and within budget.
- responsible for defining, supporting, and/or driving process improvements
- provided creative solutions and drove profitable results by managing global teams in a fast-paced environment while maintaining balance and organization
- integrated CTI with the CRM system (Salesforce) over a global platform with quarterly savings of \$4 million throughout the enterprise; developed standardized operating processes for the Sale force integration, working closely with Sales and Marketing teams to document issues and gaps in process flows; and managed the integration project within constraints of scope, schedule, and budget
- coordinated with technical teams to deliver customer experience Salesforce enhancements to sales teams, providing more efficient and effective options

Education

Bachelor of Arts
St. Edwards University

Technical Skills

- Client Relations
- Project Management
- Implementation
- Training

Business Skills

- Collaboration
- Teamwork
- Leadership

for account reviews and management; and worked directly with Country/Segment operations to ensure thorough and efficient usage and adoption of best practice sales processes on the new integration initiative

Project/Account Manager
Bearing Point/Texas NICUSA

2004-2010

- Involved in the various tasks and project of the Partner Relations department
- Responsible for overseeing key areas that included, maintaining operations excellence for project and production support issues, delivering outstanding customer service, and providing sound business management for all TexasOnline/Texas.gov applications and services with primary focus on the Texas Department of Public Safety
- Ensured internal and external customers were fully versed on their specific business environment
- Effectively communicated with all levels of management, partners, and government officials, serving as subject matter expert (SME) on over 800+ services and applications
- Provided simultaneous, high-profile client support of multiple TexasOnline/Texas.gov Partners that included the Texas Department of Public Safety, Comptroller of Public Accounts, and the Department of Information Resources
- Coordinated with Change Control Board (CCB) on the migration of software code through the change management process including requirements gathering, use-case development, cost/time estimation, development, testing, staging, user acceptance testing, and production release
- Managed the migration of over 400 state, county, and local governments' online payment applications and interfaces to a new enterprise payment processing solution on schedule and within budget
- Provided direction and support in the managing of the TexasOnline/Texas.gov CallCenter vendor and customer base notification process with efficiency and quality

Summary of Qualifications

Elizabeth has 39 years of experience in banking and payment processing. She has been instrumental in implementing multiple new client contracts and projects ensuring accuracy and timely implementation for all our clients. Elizabeth’s extensive background in the financial industry has sharpened her skills in implementing sound internal controls over payment processing.

Elizabeth handles the set-up of all payment specifications. She is responsible for daily payment postings and plays a key role in assisting internal and external audits. She is also responsible for daily payment processing activities for state and federal government contracts.

Primary Areas of Responsibility

- Handle the set-up of all payment processing specifications for client contracts
- Oversee and manage daily payment postings to clients as well as client-required lockbox remittances
- Ensure the accuracy, timeliness, and reconciliation of payments received from debtors
- Assist in internal and external audits

Professional Experience

Director, Payment Processing **2012 to Present**
Navient

- Responsible for payment processing staff and functions for all collection contracts, including three public sector federal government clients

Manager, Payment Processing **2002 to 2012**
Navient

- Responsible for payment processing staff and functions for all collection contracts, including three public sector federal government clients.

Manager, Payment Processing **2000 to 2002**
Trans America Title Company

- Management and oversight of payment processing staff and all department functions

Customer Service Representative **1999 to 2001**
Citizens Bank

- Handled daily banking and loan processing customer service functions

Manager, Electronic Banking Department **1991 to 1998**
First National Bank of Anchorage

- Managed daily direct deposit, ACH Originations, lockbox functions for corporate bank customers

Technical Skills

- Implementation
- Client Relations
- Quality Assurance

Business Skills

- Leadership
- Time Management

Recent Awards and Recognition

- Customer Appreciate Award
- Presidential Excellence Award

Summary of Qualifications

Archana has over 10 years of experience in Software Development and over 8 years of experience in Web Development using .NET technologies (C#). She has experience in both delivering Customer facing websites and using Agile methodologies. Archana is a Full Stack developer which includes web design, development, and database set up. She has experience working with customers directly to gather requirements and has the ability to ramp up quickly on new technologies that contribute to the project. Archana works extremely well both independently and in a collaborative work environment.

Primary Areas of Responsibility

Archana's primary focus is payment processing development. Her role involves gathering requirements, architecting, and developing websites for clients to process payments and create a reporting tool for payments with various metrics and other dimensions. Along with the UI development, payment processing development also includes creating a payment engine for processing payments and providing other functionalities such as reversal, authorization, refund.

Professional Experience

Senior Software Engineer **2015 to Present**
Municipal Services Bureau

- Primary focus is payment processing development
- Gathering requirements, architecting, and developing websites for clients to process payments
- Create a reporting tool for payments with various metrics and other dimensions
- Creating a payment engine for processing payments and providing other functionalities such as reversal, authorization, refund
- Environment: ASP.NET 2015, SQL Server 2014, C# 6.0, JQuery, WEB API, Entity Framework, AngularJs, Restful API, XML, Web forms, MVC, Agile methodology, HTML

Software Developer **2007 to 2012**
Dell, Austin TX

Programmer Analyst **2006 to 2007**
Infosys, Greater New York City Area

Software Engineer **2004 to 2006**
Bangalore, India

Education

**Bachelor of Engineering,
Computer Science**
Visvesvaraya Technological
University

Technical Skills

- Development
- Technology
- Customer Support

Business Skills

- Decision Making
- Collaboration

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

	Page
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm	F-4
Consolidated Balance Sheets	F-7
Consolidated Statements of Income	F-8
Consolidated Statements of Comprehensive Income	F-9
Consolidated Statements of Changes in Stockholders' Equity	F-10
Consolidated Statements of Cash Flows	F-13
Notes to Consolidated Financial Statements	F-14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Navient Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Navient Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 27, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(signed) KPMG LLP

McLean, Virginia
February 27, 2020

To the Stockholders and Board of Directors
Navient Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Navient Corporation and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the allowance for loan losses on private education loans and the measurement of the receivable for partially charged-off loans

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company's allowance for loan losses on private education loans (ALL) was \$1,048 million as of December 31, 2019 and the Company's receivable for partially charged-off loans was \$588 million as of December 31, 2019. The Company estimated the ALL by calculating the estimated probable credit losses incurred, net of expected recoveries. For non-troubled debt restructuring loans, which are collectively evaluated on an aggregate basis, the key assumptions are historical default rates and expected future recoveries. Troubled debt restructuring loans are evaluated on an individual basis and the key assumptions are the life of loan default rates and expected future recoveries. The ALL model output may be adjusted for certain qualitative factors, including items such as current environmental factors, unemployment rates, and collection performance factors. For private

education loans that are 212 or more days past due, the Company estimates the expected future recovery rate and partially charges off the defaulted loan. The remaining loan balance is referred to as receivable for partially charged-off loans.

We identified the assessment of the ALL and the measurement of the receivable for partially charged-off loans as a critical audit matter because it involved significant measurement uncertainty requiring complex auditor judgment, and knowledge and experience in the industry. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained. The assessment of the ALL encompassed the evaluation of the ALL methodology including methodologies used to estimate (1) default rates and expected future recoveries both at the individual loan level and in the aggregate depending on the type of loan and (2) the qualitative adjustments made to the model-calculated estimate. The assessment of the expected future recoveries rate for the receivable for partially charged-off loans required the use of significant judgment as well as industry knowledge experience as minor changes to those assumptions can have a significant effect on the measurement of the receivable. The assessment also included an evaluation of the mathematical accuracy of the ALL and expected future recoveries rate calculations.

The following are the primary procedures we performed to address this critical audit matter. We tested certain internal controls over the (1) development and approval of the ALL methodology and the methodology and key policies over the receivable for partially charged-off loans, (2) determination of the key factors and assumptions used to estimate the default rates, expected future recoveries, and qualitative factors, (3) calculations of the ALL estimate and expected future recoveries rate, and (4) analysis of the ALL results, trends, and backtesting. We evaluated the Company's process to develop the ALL estimate by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. We compared (1) the ALL as of December 31, 2018 to credit losses incurred in the current year to assess the Company's ability to estimate the allowance and (2) the receivable for partially charged off loans as of December 31, 2018 to recoveries received in the current year to assess the Company's ability to estimate expected recoveries. In addition, we involved credit risk professionals with industry knowledge and experience who assisted in:

- evaluating the Company's methodologies for compliance with U.S. generally accepted accounting principles,
- evaluating the methodology used to develop the resulting qualitative factors and the effect of those factors on the ALL compared with relevant credit risk factors and consistency with credit trends,
- evaluating the default rates and qualitative adjustments and data used to develop those assumptions,
- evaluating the expected future recoveries rate and data used to develop those assumptions,
- testing the mathematical accuracy of the ALL and expected future recoveries rate calculations.

We evaluated the collective results of the procedures performed to assess the sufficiency of the audit evidence obtained related to the Company's ALL and receivable for partially charged-off loans.

Assessment of the disclosure of the expected transition effect from the adoption of ASC Topic 326

As discussed in Note 2 to the consolidated financial statements, the Company disclosed the expected transition effect of the adoption of ASU No. 2016-13, *Financial Instruments— Credit Losses (ASC Topic 326)* (commonly known as CECL). ASC Topic 326 will be adopted by the Company on January 1, 2020 through a cumulative-effect adjustment to retained earnings (net of tax). ASC Topic 326 replaces the current incurred loss model. Upon adoption, the Company expects the total allowance for credit losses will increase by approximately \$800 million over the amount recorded as of December 31, 2019 under the current incurred loss model. This would have a corresponding reduction to equity of approximately \$615 million. Such increase excludes the impact of the balance sheet reclassification related to the expected future recoveries for charged-off loans of \$588 million and purchased credit impaired portfolio of \$70 million. For the CECL estimate, the model used to project lifetime expected losses will utilize key credit quality indicators of the loan portfolio and predict how those attributes are expected to perform in connection with the forecasted economic conditions.

We identified the assessment of the disclosure of the Company's expected transition effect to the allowance for credit losses from the adoption of ASC Topic 326 (the CECL transition effect disclosure) as a critical audit matter. A high level of audit effort, including knowledge and experience in the industry, and subjective and complex auditor judgment was involved in the evaluation of the CECL transition effect disclosure due to the significant measurement uncertainty. This assessment included an evaluation of the methodology, the development and configuration of the model and the model's key factors and assumptions related to: (1) historical loss period (2) the forecasted economic conditions, (3) the reasonable and supportable period assumption, (4) the reversion period assumption, (5) the estimated prepayments, and (6) the estimated recoveries on defaults.

The following are the primary procedures we performed to address this critical audit matter. We tested certain internal controls over the Company's CECL transition effect disclosure process, including controls related to the (1) development of the CECL estimate methodology, (2) model development and validation, and (3) determination of key factors and assumptions. We assessed the Company's key factors and assumptions regarding the expected effect of the adoption of ASC Topic 326 by testing certain sources of data, factors and assumptions that the Company used and considered their relevance and reliability. In addition, we involved credit risk professionals with specialized industry knowledge and experience who assisted in:

- evaluating the Company's measurement methodology for compliance with U.S. generally accepted accounting principles,
- evaluating the judgments made by the Company relative to the model development and validation, and the key factors and assumptions used by the Company, and
- testing the design and configuration of the models used in determining the CECL transition effect disclosure.

(signed) KPMG LLP

We have served as the Company's auditor since 2012.

McLean, Virginia
February 27, 2020

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Assets		
FFELP Loans (net of allowance for losses of \$64 and \$76, respectively)	\$ 64,575	\$ 72,253
Private Education Loans (net of allowance for losses of \$1,048 and \$1,201, respectively)	22,245	22,245
Investments		
Held-to-maturity	19	—
Other	192	226
Total investments	211	226
Cash and cash equivalents	1,233	1,286
Restricted cash and cash equivalents	2,548	3,976
Goodwill and acquired intangible assets, net	757	786
Other assets	3,334	3,404
Total assets	<u>\$ 94,903</u>	<u>\$ 104,176</u>
Liabilities		
Short-term borrowings	\$ 8,483	\$ 5,422
Long-term borrowings	81,715	93,519
Other liabilities	1,356	1,688
Total liabilities	<u>91,554</u>	<u>100,629</u>
Commitments and contingencies		
Equity		
Common stock, par value \$0.01 per share; 1.125 billion shares authorized: 451 million and 445 million shares issued, respectively	4	4
Additional paid-in capital	3,198	3,145
Accumulated other comprehensive income (net of tax (benefit) expense of \$(30) and \$35, respectively)	(91)	113
Retained earnings	3,664	3,218
Total Navient Corporation stockholders' equity before treasury stock	6,775	6,480
Less: Common stock held in treasury at cost: 236 million and 198 million shares, respectively	(3,439)	(2,961)
Total Navient Corporation stockholders' equity	3,336	3,519
Noncontrolling interest	13	28
Total equity	3,349	3,547
Total liabilities and equity	<u>\$ 94,903</u>	<u>\$ 104,176</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
FFELP Loans	\$ 64,255	\$ 71,921
Private Education Loans	19,609	19,698
Restricted cash	2,506	3,928
Other assets, net	1,089	956
Short-term borrowings	7,089	4,341
Long-term borrowings	72,856	82,738
Net assets of consolidated variable interest entities	<u>\$ 7,514</u>	<u>\$ 9,424</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Years Ended December 31,		
	2019	2018	2017
Interest income:			
FFELP Loans	\$ 2,847	\$ 3,027	\$ 2,693
Private Education Loans	1,731	1,778	1,634
Other loans	2	6	13
Cash and investments	93	97	43
Total interest income	4,673	4,908	4,383
Total interest expense	3,488	3,668	2,971
Net interest income	1,185	1,240	1,412
Less: provisions for loan losses	258	370	426
Net interest income after provisions for loan losses	927	870	986
Other income (loss):			
Servicing revenue	240	274	290
Asset recovery and business processing revenue	488	430	475
Other income	45	17	9
Gains on sales of loans	16	—	3
Gains (losses) on debt repurchases	45	19	(3)
Gains (losses) on derivative and hedging activities, net	22	(38)	22
Total other income	856	702	796
Expenses:			
Salaries and benefits	488	507	519
Other operating expenses	496	477	447
Total operating expenses	984	984	966
Goodwill and acquired intangible asset impairment and amortization expense	30	47	23
Restructuring/other reorganization expenses	6	13	29
Total expenses	1,020	1,044	1,018
Income before income tax expense	763	528	764
Income tax expense	166	133	472
Net income	<u>\$ 597</u>	<u>\$ 395</u>	<u>\$ 292</u>
Basic earnings per common share	<u>\$ 2.59</u>	<u>\$ 1.52</u>	<u>\$ 1.06</u>
Average common shares outstanding	230	260	275
Diluted earnings per common share	<u>\$ 2.56</u>	<u>\$ 1.49</u>	<u>\$ 1.04</u>
Average common and common equivalent shares outstanding	233	264	281
Dividends per common share	<u>\$.64</u>	<u>\$.64</u>	<u>\$.64</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended December 31,		
	2019	2018	2017
Net income	\$ 597	\$ 395	\$ 292
Net changes in cash flow hedges, net of taxes ⁽¹⁾	(204)	39	55
Total comprehensive income	<u>\$ 393</u>	<u>\$ 434</u>	<u>\$ 347</u>

(1) See "Note 7 – Derivative Financial Instruments."

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
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	—	—	—	—	—	—	292	—	292	—	292
Other comprehensive income, net of tax	—	—	—	—	—	55	—	—	55	—	55
Total comprehensive income	—	—	—	—	—	—	—	—	347	—	347
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(176)	—	(176)	—	(176)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	3,680,479	—	3,680,479	—	20	—	—	—	20	—	20
Stock-based compensation expense	—	—	—	—	35	—	—	—	35	—	35
Common stock repurchased	—	(29,646,374)	(29,646,374)	—	—	—	—	(440)	(440)	—	(440)
Shares repurchased related to employee stock-based compensation plans	—	(1,847,651)	(1,847,651)	—	—	—	—	(29)	(29)	—	(29)
Noncontrolling interest in Earnest upon acquisition	—	—	—	—	—	—	—	—	—	7	7
Balance at December 31, 2017	<u>439,718,145</u>	<u>(176,667,573)</u>	<u>263,050,572</u>	<u>\$ 4</u>	<u>\$ 3,077</u>	<u>\$ 61</u>	<u>\$ 3,004</u>	<u>\$ (2,692)</u>	<u>\$ 3,454</u>	<u>\$ 31</u>	<u>\$ 3,485</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2017	439,718,145	(176,667,573)	263,050,572	\$ 4	\$ 3,077	\$ 61	\$ 3,004	\$ (2,692)	\$ 3,454	\$ 31	\$ 3,485
Comprehensive income:											
Net income	—	—	—	—	—	—	395	—	395	—	395
Other comprehensive income (loss), net of tax	—	—	—	—	—	39	—	—	39	—	39
Total comprehensive income	—	—	—	—	—	—	—	—	434	—	434
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(166)	—	(166)	—	(166)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	5,659,681	—	5,659,681	—	43	—	—	—	43	—	43
Stock-based compensation expense	—	—	—	—	25	—	—	—	25	—	25
Repurchase of common stock:											
Common stock repurchased	—	(13,131,159)	(13,131,159)	—	—	—	—	(160)	(160)	—	(160)
Derivative contract settlement:											
Settlement cost, cash	—	(4,312,192)	(4,312,192)	—	—	—	—	(60)	(60)	—	(60)
(Gain)/loss on settlement	—	—	—	—	—	—	—	4	4	—	4
Shares repurchased related to employee stock-based compensation plans	—	(3,829,629)	(3,829,629)	—	—	—	—	(53)	(53)	—	(53)
Purchase of noncontrolling interest	—	—	—	—	—	—	—	—	—	(3)	(3)
Reclassification from adoption of ASU No. 2018-02	—	—	—	—	—	13	(13)	—	—	—	—
Balance at December 31, 2018	<u>445,377,826</u>	<u>(197,940,553)</u>	<u>247,437,273</u>	<u>\$ 4</u>	<u>\$ 3,145</u>	<u>\$ 113</u>	<u>\$ 3,218</u>	<u>\$ (2,961)</u>	<u>\$ 3,519</u>	<u>\$ 28</u>	<u>\$ 3,547</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2018	445,377,826	(197,940,553)	247,437,273	\$ 4	\$ 3,145	\$ 113	\$ 3,218	\$ (2,961)	3,519	\$ 28	3,547
Comprehensive income:											
Net income	—	—	—	—	—	—	597	—	597	—	597
Other comprehensive income (loss), net of tax	—	—	—	—	—	(204)	—	—	(204)	—	(204)
Total comprehensive income	—	—	—	—	—	—	—	—	393	—	393
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(147)	—	(147)	—	(147)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(4)	—	(4)	—	(4)
Issuance of common shares	5,717,053	—	5,717,053	—	28	—	—	—	28	—	28
Stock-based compensation expense	—	—	—	—	25	—	—	—	25	—	25
Common stock repurchased	—	(34,491,342)	(34,491,342)	—	—	—	—	(440)	(440)	—	(440)
Shares repurchased related to employee stock-based compensation plans	—	(3,226,301)	(3,226,301)	—	—	—	—	(38)	(38)	—	(38)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2019	<u>451,094,879</u>	<u>(235,658,196)</u>	<u>215,436,683</u>	<u>\$ 4</u>	<u>\$ 3,198</u>	<u>\$ (91)</u>	<u>\$ 3,664</u>	<u>\$ (3,439)</u>	<u>\$ 3,336</u>	<u>\$ 13</u>	<u>\$ 3,349</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended December 31,		
	2019	2018	2017
Operating activities			
Net income	\$ 597	\$ 395	\$ 292
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gains) on sale of education loans	(16)	—	—
(Gains) losses on debt repurchases	(45)	(19)	3
Goodwill and acquired intangible asset impairment and amortization expense	30	47	23
Stock-based compensation expense	25	25	35
Mark-to-market (gains)/losses on derivative and hedging activities, net	130	37	(83)
Provisions for loan losses	258	370	426
Decrease (increase) in accrued interest receivable	78	(125)	(29)
(Decrease) increase in accrued interest payable	(96)	58	11
Decrease in other assets	191	321	485
(Decrease) increase in other liabilities	(133)	31	(5)
Total adjustments	422	745	866
Total net cash provided by operating activities	1,019	1,140	1,158
Investing activities			
Education loans acquired	(5,411)	(3,652)	(7,371)
Principal payments on education loans	12,472	13,973	14,738
Proceeds from sales of education loans	408	—	—
Other investing activities, net	9	(76)	(88)
Proceeds from sales and maturities of other securities	7	115	23
Purchase of subsidiaries, net of cash and restricted cash acquired	—	—	(184)
Total net cash provided by investing activities	7,485	10,360	7,118
Financing activities			
Borrowings collateralized by loans in trust - issued	7,919	9,006	8,440
Borrowings collateralized by loans in trust - repaid	(14,271)	(14,057)	(13,919)
Asset-backed commercial paper conduits, net	(907)	(2,833)	(2,363)
Long-term notes issued	—	495	1,613
Long-term notes repaid	(1,950)	(2,947)	(1,464)
Other financing activities, net	(189)	(162)	(33)
Common stock repurchased	(440)	(220)	(440)
Common dividends paid	(147)	(166)	(176)
Total net cash used in financing activities	(9,985)	(10,884)	(8,342)
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(1,481)	616	(66)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	5,262	4,646	4,712
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 3,781	\$ 5,262	\$ 4,646
Cash disbursements made (refunds received) for:			
Interest	\$ 3,479	\$ 3,460	\$ 2,872
Income taxes paid	\$ 93	\$ 57	\$ 157
Income taxes received	\$ (4)	\$ (6)	\$ (1)
Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:			
Cash and cash equivalents	\$ 1,233	\$ 1,286	\$ 1,518
Restricted cash and restricted cash equivalents	2,548	3,976	3,128
Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 3,781	\$ 5,262	\$ 4,646
Supplemental cash flow information:			
Non-cash activities			
Investing activity - Education loans	\$ —	\$ —	\$ 1,746
Investing activity - Held-to-maturity asset backed securities retained related to sales of education loans	22	—	—
Operating activity - Other assets acquired and other liabilities assumed, net	—	—	137
Operating activity - Servicing assets recognized upon sales of education loans	3	—	—
Financing activity - Borrowings assumed in acquisition of education loans	—	—	1,883

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Navient's Business

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

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

- owns \$86.8 billion of education loans;
- originates Private Education Loans;
- services and performs asset recovery activities on its own portfolio of education loans, as well as education loans owned by other institutions including the United States Department of Education ("ED"); and
- provides revenue cycle management and business processing services to federal, state and municipal clients, public authorities and healthcare organizations.

2. Significant Accounting Policies

Use of Estimates

Our financial reporting and accounting policies conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Uncertain and volatile market and economic conditions increase the risk and complexity of the judgments in these estimates and actual results could differ from estimates. Accounting policies that include the most significant judgments, estimates and assumptions include the allowance for loan losses, the amortization of loan premiums and discounts using the effective interest rate method, goodwill and intangible asset impairment assessment and fair value measurement.

Consolidation

The consolidated financial statements include the accounts of Navient Corporation 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.

We consolidate any VIEs where we have determined we are the primary beneficiary. A VIE is a legal entity that does not have sufficient equity at risk to finance its own operations, or whose equity holders do not have the power to direct the activities that most significantly affect the economic performance of the entity, or whose equity holders do not share proportionately in the losses or benefits of the entity. The primary beneficiary of the VIE is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. As it relates to our securitizations and other secured borrowing facilities that are VIEs as of December 31, 2019 that we consolidate, we are the primary beneficiary as we are the servicer of the related education loan assets and own the Residual Interest of the securitization trusts and secured borrowing facilities.

2. Significant Accounting Policies (Continued)

Fair Value Measurement

We use estimates of fair value in applying various accounting standards for our financial statements. Fair value measurements are used in one of four ways:

- In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;
- In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders' equity;
- In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and
- In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, our policy in estimating fair value is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads, relying first on observable data from active markets. Depending on current market conditions, additional adjustments to fair value may be based on factors such as liquidity and credit spreads. Transaction costs are not included in the determination of fair value. When possible, we seek to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

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. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.
- Level 2 — Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.
- Level 3 — Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available. However, significant judgment is required by us in developing the inputs.

Loans

Loans, consisting primarily of federally insured education loans and Private Education Loans, that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment and are carried at amortized cost. Amortized cost includes the unamortized premiums, discounts, and capitalized origination costs and fees, all of which are amortized to interest income as further discussed below. Loans which are held-for-investment also have an allowance for loan loss as needed. Any loans we have not classified as held-for-investment are classified as held-for-sale and carried at the lower of cost or fair value. Loans are classified as held-for-sale when we have the intent and ability to sell such loans. Loans which are held-for-sale do not have the associated premium, discount, and capitalized origination costs and fees amortized into interest income. In addition, once a loan is classified as held-for-sale, there is no further adjustment to the loan's allowance for loan losses that existed immediately prior to the reclassification to held-for-sale.

2. Significant Accounting Policies (Continued)

Allowance for Loan Losses

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 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. Loans classified as PCI do not have charge-offs reported nor are they reported as Trouble Debt Restructuring ("TDR") loans.

Based on the credit attributes discussed above, we determined that \$261 million principal amount of Private Education Loans acquired in 2017 are accounted for as PCI loans with a fair value and resulting carry 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 accretible yield (income expected to be recognized in future periods) of \$108 million. As of December 31, 2019, the carrying amount was \$70 million with no valuation allowance recorded.

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 would be established if 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 2017, we acquired Private Education Loans with an unpaid principal balance of \$2.8 billion at a discount of \$424 million and FFELP Loans with an 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 December 31, 2019, as the remaining purchased discount associated with the Private Education Loans of \$268 million and FFELP Loans of \$33 million as of December 31, 2019 remains greater than the incurred losses.

Allowance for Private Education Loan Losses

We consider a loan to be impaired when, based on current information, a loss has been incurred and it is probable that we will not receive all contractual amounts due. When making our assessment as to whether a loan is impaired, we also take into account more than insignificant delays in payment. We generally evaluate impaired loans on an aggregate basis by grouping similar loans. Impaired loans also include those loans which are individually assessed for impairment at a loan level, such as in a troubled debt restructuring ("TDR"). We maintain an allowance for loan losses at an amount sufficient to absorb losses incurred in our portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio.

2. Significant Accounting Policies (Continued)

Our Private Education Loan portfolio contains TDR and non-TDR loans. For customers experiencing financial difficulty, certain Private Education Loans for which we have granted a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. The allowance requirements are different based on these designations. In determining the allowance for loan losses on our non-TDR portfolio, we estimate the principal amount of loans that will default over the next two years (two years being the expected period between a loss event and default) and how much we expect to recover over time related to the defaulted amount. Expected defaults less our expected recoveries equal the allowance related to this portfolio. Our historical experience indicates that, on average, the time between the date that a customer experiences a default causing event (i.e., the loss trigger event) and the date that we charge off the unrecoverable portion of that loan is two years. Separately, for our TDR portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan's original effective interest rate. Our TDR portfolio is comprised mostly of loans with forbearance usage greater than three months and interest rate reductions. The separate allowance estimates for our TDR and non-TDR portfolios are combined into our total allowance for Private Education Loan losses.

In estimating both the non-TDR and TDR allowance amounts, we start with historical experience of customer default behavior. We make judgments about which historical period to start with and then make further judgments about whether that historical experience is representative of future expectations and whether additional adjustments may be needed to those historical default rates. We also take the economic environment into consideration when calculating the allowance for loan losses. We analyze key economic statistics and the effect we expect them to have on future defaults. Key economic statistics analyzed as part of the allowance for loan losses are primarily unemployment rates. Our allowance for loan losses is estimated using an analysis of delinquent and current accounts. Our model is used to estimate the likelihood that a loan may progress through the various delinquency stages and ultimately charge off. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. The estimate for the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement.

We determine the collectability of our Private Education Loan portfolio by evaluating certain risk characteristics. We consider school type, credit score (FICO), existence of a cosigner, loan status and loan seasoning as the key credit quality indicators because they have the most significant effect on our determination of the adequacy of our allowance for loan losses. The type of school customers attend can have an impact on their graduation rate and job prospects after graduation and therefore affects their ability to make payments. Credit scores are an indicator of the credit worthiness of a customer and the higher the credit score the more likely it is the customer will be able to make all of their contractual payments. Loan status affects the credit risk because a past due loan is more likely to result in a credit loss than an up-to-date loan. Additionally, loans in a deferred payment status have different credit risk profiles compared with those in current payment status. Of the portfolio in repayment, loan seasoning is an important factor. It affects credit risk because a loan with a history of making payments generally has a lower incidence of default than a loan with a history of making infrequent or no payments. The existence of a cosigner lowers the likelihood of default. We monitor and update these credit quality indicators in the analysis of the adequacy of our allowance for loan losses on a quarterly basis.

To estimate the probable credit losses incurred in the loan portfolio at the reporting date, we use historical experience of customer payment behavior in connection with the key credit quality indicators and incorporate management expectations regarding macroeconomic and collection performance factors. Our model is based upon the most recent twelve months of actual collection experience as the starting point for the non-TDR portfolio and the most recent approximate 15 years for the TDR portfolio and applies expected macroeconomic changes and collection procedure changes to estimate expected losses caused by loss events incurred as of the balance sheet date. Our model for the non-TDR portfolio places a greater emphasis on the more recent default experience rather than the default experience for older historical periods, as we believe the more recent default experience is more indicative of the probable losses incurred in the loan portfolio today that will default over the next two years. The TDR portfolio uses a longer historical default experience since we are projecting life of loan remaining losses. Similar to estimating defaults, we use historical customer payment behavior to estimate the timing and amount of future recoveries on charged-off loans. We use judgment in determining whether historical performance is

2. Significant Accounting Policies (Continued)

representative of what we expect to collect in the future. We then apply the default and collection rate projections to each category of loans. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. Additionally, we consider changes in laws and regulations that could potentially impact the allowance for loan losses.

Our collection policies allow for periods of nonpayment for customers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered in our allowance for loan losses. The loss confirmation period is in alignment with our typical collection cycle and takes into account these periods of nonpayment.

Our allowance for Private Education Loan losses also provides for possible additional future charge-offs as they occur related to the receivable for partially charged-off Private Education Loans. At the end of each month, for loans that are 212 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.

Allowance for FFELP Loan Losses

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98% reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97% reimbursement. For loans disbursed prior to October 1, 1993, we receive 100% reimbursement.

Similar to the allowance for Private Education Loan losses, the allowance for FFELP Loan losses uses historical experience of customer default behavior and a two-year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. For FFELP Loans that have lost their government insurance and have been charged off, any subsequent cash recoveries benefit the allowance for loan losses when received.

Investments

Our available-for-sale investment portfolio consists of investments that are carried at fair value, with the temporary changes in fair value carried as a separate component of stockholders' equity, net of taxes. The amortized cost of debt securities in this category is adjusted for the amortization of related premiums and discounts, which are amortized using the effective interest rate method. Other-than-temporary impairment is evaluated by considering several factors, including the length of time and extent to which the fair value has been less than the amortized cost basis, the financial condition and near-term prospects of the security (considering factors such as adverse conditions specific to the security and ratings agency actions), and the intent and ability to retain the investment to allow for an anticipated recovery in fair value. The entire fair value loss on a security that is other-than-temporary impairment is recorded in earnings if we intend to sell the security or if it is more likely than not that we will be required to sell the security before the expected recovery of the loss. However, if the impairment is other-than-temporary, and those two conditions do not exist, the portion of the impairment related to credit losses is recorded in earnings and the impairment related to other factors is recorded in other comprehensive income. Securities classified as trading are accounted for at fair value with unrealized gains and losses included in investment income. Securities that we have the intent and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost unless the security is determined to have an other-than-temporary impairment. In this case it is accounted for in the same manner described above.

2. Significant Accounting Policies (Continued)

We also have other investments, primarily a receivable for cash collateral posted to derivative counterparties.

Cash and Cash Equivalents

Cash and cash equivalents can include term federal funds, Eurodollar deposits, commercial paper, asset-backed commercial paper ("ABCP"), CDs, treasuries and money market funds with original terms to maturity of less than three months.

Restricted Cash and Investments

Restricted cash primarily includes amounts held in education loan securitization trusts and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

Securities pledged as collateral related to our derivative portfolio, where the counterparty has rights to replace the securities, are classified as restricted. When the counterparty does not have these rights, the security is recorded in investments and disclosed as pledged collateral in the notes. Additionally, certain counterparties require cash collateral pledged to us to be segregated and held in restricted cash accounts.

Goodwill and Acquired Intangible Assets

Goodwill is not amortized but is tested periodically for impairment. We test goodwill for impairment annually as of October 1 at the reporting unit level, which is the same as or one level below a business segment. Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

We complete a goodwill impairment analysis which may be a qualitative or a quantitative two-step analysis depending on the facts and circumstances associated with the reporting unit. In conjunction with a qualitative impairment analysis, we assess relevant qualitative factors to determine whether it is "more-likely-than-not" that the fair value of a reporting unit is less than its carrying amount. The "more-likely-than-not" threshold is defined as having a likelihood of more than 50%. In conjunction with a quantitative impairment analysis, we complete Step 1 of the goodwill impairment analysis. Step 1 consists of a comparison of the fair value of the reporting unit to the reporting unit's carrying value, including goodwill. If the carrying value of the reporting unit exceeds the fair value, Step 2 in the goodwill impairment analysis is performed to measure the amount of impairment loss, if any. Step 2 of the goodwill impairment analysis compares the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in a manner consistent with determining goodwill in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess. If, based on first assessing impairment utilizing a qualitative approach, we determine it is "more-likely-than-not" that the fair value of the reporting unit is less than its carrying amount, we will also complete a quantitative impairment analysis.

Acquired intangible assets include, but are not limited to, trade names, customer and other relationships, and non-compete agreements. Acquired intangible assets with finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. If the carrying amount of the asset or asset groups exceeds the undiscounted cash flows, the fair value of the asset or asset group is determined using an acceptable valuation technique. An impairment loss would be recognized if the carrying amount of the asset (or asset group) exceeds the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value.

2. Significant Accounting Policies (Continued)

Securitization Accounting

Our securitizations use a two-step structure with a special purpose entity that legally isolates the transferred assets from us, even in the event of bankruptcy. Transactions receiving sale treatment are also structured to ensure that the holders of the beneficial interests issued are not constrained from pledging or exchanging their interests, and that we do not maintain effective control over the transferred assets. If these criteria are not met, then the transaction is accounted for as an on-balance sheet secured borrowing. In all cases, irrespective of whether they qualify as accounting sales our securitizations are legally structured to be sales of assets that isolate the transferred assets from us. If a securitization qualifies as a sale, we then assess whether we are the primary beneficiary of the securitization trust (VIE) and are required to consolidate such trust. If we are the primary beneficiary, then no gain or loss is recognized. See "Consolidation" of this Note 2 for additional information regarding the accounting rules for consolidation when we are the primary beneficiary of these trusts.

Irrespective of whether a securitization receives sale or on-balance sheet treatment, our continuing involvement with our securitization trusts is generally limited to:

- Owning equity certificates or other certificates of certain trusts and, in certain cases, securities retained for the purpose of complying with risk retention requirements under securities laws.
- Lending to certain trusts, under a revolving credit, amounts necessary to cover temporary cash flow needs of the trust. These amounts are repaid to us on subordinated basis with interest at a market rate.
- The servicing of the education loan assets within the securitization trusts, on both a pre- and post-default basis.
- Our acting as administrator for the securitization transactions we sponsored, which includes remarketing certain bonds at future dates.
- Our responsibilities relative to representation and warranty violations.
- Temporarily advancing to the trust certain borrower benefits afforded the borrowers of education loans that have been securitized. These advances subsequently are returned to us in the next quarter.
- Certain back-to-back derivatives entered into by us contemporaneously with the execution of derivatives by certain Private Education Loan securitization trusts.
- The option held by us to buy certain delinquent loans from certain Private Education Loan securitization trusts.
- The option to exercise the clean-up call and purchase the education loans from the trust when the asset balance is 10% or less of the original loan balance.
- The option, on some trusts, to purchase education loans aggregating up to 10% of the trust's initial pool balance.
- The option (in certain trusts) to call rate reset notes in instances where the remarketing process has failed.

The investors of the securitization trusts have no recourse to our other assets should there be a failure of the trusts to pay when due. Generally, the only arrangements under which we have to provide financial support to the trusts are representation and warranty violations requiring the buyback of loans.

Under the terms of the transaction documents of certain trusts, we have, from time to time, exercised our options to purchase delinquent loans from Private Education Loan trusts, to purchase the remaining loans from trusts once the loan balance falls below 10% of the original amount, to purchase education loans up to 10% of the trust's initial balance, or to call rate reset notes. Certain trusts maintain financial arrangements with third parties also typical of securitization transactions, such as derivative contracts (swaps) and bond insurance policies that, in the case of a counterparty failure, could adversely impact the value of any Residual Interest.

2. Significant Accounting Policies (Continued)

We do not record servicing assets or servicing liabilities when our securitization trusts are consolidated. As of December 31, 2019, we have \$18 million of servicing assets on our balance sheet, recorded in connection with asset sales where we retained the servicing.

Education Loan Interest Income

For loans classified as held-for-investment, we recognize education loan interest income as earned, adjusted for the amortization of premiums (which includes purchased premiums and capitalized direct origination costs), discounts and Repayment Borrower Benefits. These adjustments result in income being recognized based upon the expected yield of the loan over its life after giving effect to expected prepayments. We amortize premium and discount on education loans using a Constant Prepayment Rate ("CPR") which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. In determining the CPR, we only consider payments made in excess of contractually required payments. This would include loan refinancing and consolidations and other early payoff activity. For Repayment Borrower Benefits, the estimates of their effect on education loan yield are based on analyses of historical payment behavior of customers who are eligible for the incentives and its effect on the ultimate qualification rate for these incentives. We regularly evaluate the assumptions used to estimate the prepayment speeds and the qualification rates used for Repayment Borrower Benefits. In instances where there are changes to the assumptions, amortization is adjusted on a cumulative basis to reflect the change since the acquisition of the loan. Additionally, interest earned on education loans reflects potential non-payment adjustments in accordance with our uncollectible interest recognition policy. We do not amortize any premiums, discounts or other adjustments to the basis of education loans when they are classified as held-for-sale. See "Allowance for Loan Losses – Purchased Credit Impaired ('PCI') Loans" and "–Purchased Non-Credit Impaired Loans" of this Note 2 for discussion of the interest income methodology related to those portfolios.

Interest Expense

Interest expense is based upon contractual interest rates adjusted for the amortization of debt issuance costs, premiums and discounts. Our interest expense may also be adjusted for net payments/receipts related to interest rate and foreign currency swap agreements that qualify and are designated as hedges, as well as the mark-to-market impact of derivatives and debt in fair value hedge relationships with the adoption of ASU No. 2017-12 in 2019. Interest expense also includes the amortization of deferred gains and losses on closed hedge transactions that qualified as hedges. Amortization of debt issuance costs, premiums, discounts and terminated hedge-basis adjustments are recognized using the effective interest rate method.

Servicing Revenue

We perform loan servicing functions for third-parties in return for a servicing fee. Our compensation is typically based on a per-unit fee arrangement or a percentage of the loans outstanding. We recognize servicing revenues associated with these activities based upon the contractual arrangements as the services are rendered. We recognize late fees on third-party serviced loans as well as on loans in our portfolio according to the contractual provisions of the promissory notes, as well as our expectation of collectability.

Asset Recovery and Business Processing Revenue

We account for certain asset recovery and business processing contract revenue (herein referred to as revenue from contracts with customers) in accordance with ASC 606, "Revenue from Contracts with Customers." Revenue earned by our Federal Education Loans segment is derived from asset recovery activities related to the collection of delinquent education loans on behalf of ED, Guarantor agencies and other institutions, as well as certain other guarantor activities. Revenue earned by our Business Processing segment is derived from government services, which includes receivables management services and account processing solutions, and healthcare services, which includes revenue cycle management services.

Most of our revenue from contracts with customers is derived from long-term contracts, the duration of which is expected to span more than one year. These contracts are billable monthly, as services are rendered, based on a percentage of the balance collected or the transaction processed, a flat fee per transaction or a stated rate per the service performed. In accordance with ASC 606, the unit of account is a contractual performance obligation, a promise to provide a distinct good or service to a customer. The transaction price is allocated to each distinct performance obligation when or as the good or service is transferred to the customer and the obligation is satisfied. Distinct performance obligations are identified based on the services specified in the contract that are capable of being distinct such that the customer can benefit from the service on its own or together with other resources that are available from the Company or a third party, and are also distinct in the context of the contract such that the transfer of the services is separately identifiable from other services promised in the contract. Most of our contracts include integrated service offerings that include obligations that are not separately identifiable and distinct in the context of our contracts. Accordingly, our contracts generally have a single performance obligation. A limited number of full-service offerings include multiple performance obligations.

2. Significant Accounting Policies (Continued)

Substantially all our revenue is variable revenue which is recognized over time as our customers receive and consume the benefit of our services in an amount consistent with monthly billings. Accordingly, we do not disclose variable consideration associated with the remaining performance obligation as we have recognized revenue in the amount we have the right to invoice for services performed. Our fees correspond to the value the customer has realized from our performance of each increment of the service (for example, an individual transaction processed or collection of a past due balance).

Prior to the third quarter of 2018, we received fees from Guarantor agencies for performing default aversion services on delinquent loans prior to default. The fee was received when the loan was initially placed with us and we were obligated to provide such services for the remaining life of the loan for no additional fee. In the event that the loan defaults, in accordance with certain servicing contracts, we were obligated to rebate a portion of the fee to the Guarantor agency in proportion to the principal and interest outstanding when the loan defaulted. We deferred the fees received, net of an estimate of future rebates owed due to subsequent defaults, and recognized such fees over the service period, which was estimated to be the life of the loan.

In 2017, \$47 million of previously deferred asset recovery revenue, net of a reserve, was recognized as revenue related to loans for which the Company performed these default aversion services. In 2017, the Company was notified that it would no longer perform these services after 2017 due to the termination of the related contract as of December 31, 2017. In accordance with GAAP, we recognized this previously deferred revenue in 2017 to reflect a shortened period over which it was expected to be earned.

Transfer of Financial Assets and Extinguishments of Liabilities

We account for loan sales and debt repurchases in accordance with the applicable accounting guidance. Our securitizations and other secured borrowings are generally accounted for as on-balance sheet secured borrowings. See "Securitization Accounting" of this Note 2 for further discussion on the criteria assessed to determine whether a transfer of financial assets is a sale or a secured borrowing. If a transfer of loans qualifies as a sale, we derecognize the loan and recognize a gain or loss as the difference between the carrying basis of the loan sold and liabilities retained and the compensation received.

We periodically repurchase our outstanding debt in the open market or through public tender offers. We record a gain or loss on the early extinguishment of debt based upon the difference between the carrying cost of the debt and the amount paid to the third party and net of hedging gains and losses when the debt is in a qualifying hedge relationship.

We recognize the results of a transfer of loans and the extinguishment of debt based upon the settlement date of the transaction.

Derivative Accounting

The accounting guidance for our derivative instruments, which primarily include interest rate swaps, cross-currency interest rate swaps and Floor Income Contracts, requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. Derivative positions are recorded as net positions by counterparty based on master netting arrangements exclusive of accrued interest and cash collateral held or pledged.

Many of our derivatives, mainly fixed to variable or variable to fixed interest rate swaps and cross-currency interest rate swaps, qualify as effective hedges. For these derivatives, the relationship between the hedging instrument and the hedged items (including the hedged risk and method for assessing effectiveness), as well as the risk management objective and strategy for undertaking various hedge transactions at the inception of the hedging relationship, is documented. Each derivative is designated to either a specific (or pool of) asset(s) or liability(ies) on the balance sheet or expected future cash flows and designated as either a "fair value" or a "cash flow" hedge. Fair value hedges are designed to hedge our exposure to changes in fair value of a fixed rate or foreign denominated asset or liability, while cash flow hedges are designed to hedge our exposure to variability of either a floating rate asset's or liability's cash flows or an expected fixed rate debt issuance. For effective fair value hedges, both the derivative and the hedged item (for the risk being hedged) are marked-to-market with any difference reflecting ineffectiveness and recorded immediately in the statement of income. For effective cash flow hedges, the change in the fair value of the derivative is recorded in other comprehensive income, net of tax, and recognized in earnings in the same period as the earnings effects of the hedged item. The assessment of the hedge's effectiveness is performed at inception and on an ongoing basis, generally using regression testing. For hedges of a pool of assets or liabilities, tests are performed to demonstrate the similarity of individual instruments of the pool. When it is determined that a derivative is not currently an effective hedge, ineffectiveness is recognized for the full change in value of the derivative with no offsetting mark-to-market of the hedged item for the current period. If it is also determined the hedge will not be effective in the future, we discontinue the hedge accounting prospectively, cease recording changes in the fair value of the hedged item, and begin amortization of any basis adjustments that exist related to the hedged item.

2. Significant Accounting Policies (Continued)

We also have derivatives, primarily Floor Income Contracts and certain basis swaps, that we believe are effective economic hedges but do not qualify for hedge accounting treatment. These derivatives are classified as "trading" and as a result they are marked-to-market through earnings with no consideration for the fair value fluctuation of the economically hedged item.

The "gains (losses) on derivative and hedging activities, net" line item in the consolidated statements of income includes the mark-to-market gains and losses of our derivatives that do not qualify for hedge accounting, as well as the realized changes in fair value related to derivative net settlements and dispositions that do not qualify for hedge accounting. The mark-to-market gains and losses of cash flow hedges are recorded in other comprehensive income, while the mark-to-market gains and losses of fair value hedges are recorded in interest expense. Net settlement income/expense on derivatives that qualify as hedges are included with the income or expense of the hedged item (mainly interest expense).

Accounting for Stock-Based Compensation

We recognize stock-based compensation cost in our consolidated statements of income using the fair value based method. Under this method we determine the fair value of the stock-based compensation at the time of the grant and recognize the resulting compensation expense over the grant's vesting period. We record stock-based compensation expense net of estimated forfeitures and as such, only those stock-based awards that we expect to vest are recorded. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. Ultimately, the total expense recognized over the vesting period will equal the fair value of awards that actually vest.

Restructuring and Other Reorganization Expenses

From time to time we implement plans to restructure our business. In conjunction with these restructuring plans, involuntary benefit arrangements, disposal costs (including contract termination costs and other exit costs), as well as certain other costs that are incremental and incurred as a direct result of our restructuring plans, are classified as restructuring expenses in the consolidated statements of income.

The Company administers the Navient Corporation Employee Severance Plan and the Navient Corporation Executive Severance Plan for Senior Officers (collectively, "the Severance Plan"). The Severance Plan provides severance benefits in the event of termination of the Company's full-time employees and part-time employees who work at least 24 hours per week. The Severance Plan establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon involuntary termination of employment. The benefits payable under the Severance Plan relate to past service, and they accumulate and vest. Accordingly, we recognize severance expenses to be paid pursuant to the Severance Plan when payment of such benefits is probable and can be reasonably estimated in accordance with ASC 712, "Compensation — Nonretirement Postemployment Benefits." Such benefits include severance pay calculated based on the Severance Plan, medical and dental benefits, and outplacement services expenses.

Contract termination costs are expensed at the earlier of (1) the contract termination date or (2) the cease use date under the contract. Other exit costs are expensed as incurred and classified as restructuring expenses if (1) the cost is incremental to and incurred as a direct result of planned restructuring activities and (2) the cost is not associated with or incurred to generate revenues subsequent to our consummation of the related restructuring activities.

Other reorganization expenses include certain internal costs and third-party costs incurred in connection with our cost reduction initiatives.

During 2019 and 2018, the Company incurred \$6 million and \$13 million, respectively, of restructuring/other reorganization expense in connection with an effort that will reduce costs and improve operating efficiency. These charges were due primarily to severance-related costs.

2. Significant Accounting Policies (Continued)

Income Taxes

We account for income taxes under the asset and liability approach which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of our assets and liabilities. To the extent tax laws change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted. See "Note 14 – Income Taxes" for a description of the impact of the "Tax Cuts and Jobs Act" ("TCJA") on the net deferred tax asset as of December 31, 2017.

"Income tax expense/(benefit)" includes (i) deferred tax expense/(benefit), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance and (ii) current tax expense/(benefit), which represents the amount of tax currently payable to or receivable from a tax authority plus amounts accrued for unrecognized tax benefits. Income tax expense/(benefit) excludes the tax effects related to adjustments recorded in equity.

If we have an uncertain tax position, then that tax position is recognized only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of tax benefit recognized in the financial statements is the largest amount of benefit that is more than 50% likely of being sustained upon ultimate settlement of the uncertain tax position. We recognize interest related to unrecognized tax benefits in income tax expense/(benefit) and penalties, if any, in operating expenses.

Earnings (Loss) per Common Share

We compute earnings (loss) per common share ("EPS") by dividing net income allocated to common shareholders by the weighted average common shares outstanding. Net income allocated to common shareholders represents net income applicable to common shareholders. Diluted earnings per common share is computed by dividing income allocated to common shareholders by the weighted average common shares outstanding plus amounts representing the dilutive effect of stock options outstanding, restricted stock, restricted stock units, and the outstanding commitment to issue shares under the Employee Stock Purchase Plan. See "Note 10 — Earnings (Loss) per Common Share" for further discussion.

Reclassifications

Certain reclassifications have been made to the balances as of and for the years ended December 31, 2018 and 2017, to be consistent with classifications adopted for 2019, which had no effect on net income, total assets or total liabilities.

Recently Issued Accounting Pronouncements

Effective in 2019

Leases

In 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, lease arrangements exceeding a twelve-month term must be recognized as assets and liabilities on the balance sheet of the lessee. Under previous GAAP, all operating leases were off-balance sheet, regardless of the term. A right-of-use asset and lease obligation is recorded for all leases with a term exceeding twelve months, whether operating or financing, while the income statement reflects lease expense for operating leases and amortization/interest expense for financing leases. The standard was adopted on January 1, 2019 and resulted in recording a \$28 million asset and liability. There is no change to the Company's income statement as a result of this ASU. The standard was adopted prospectively without adjustment to comparative periods.

2. Significant Accounting Policies (Continued)

Hedging Activities

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging," which is intended to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new standard was adopted on January 1, 2019 and required the mark-to-market gains and losses from qualifying fair value hedge relationships to be recorded in the same line item on the income statement as the item being hedged. As a result, the mark-to-market gains and losses from fair value hedging activity, which were previously recorded in gains (losses) on derivative and hedging activities, net, are recorded in interest expense. This change in presentation is prospective only and resulted in \$21 million of gains being recorded in interest expense in 2019.

Effective in 2020

Allowance for Loan Losses

In 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 the remaining current expected credit losses ("CECL") for financial assets measured at amortized cost held at the reporting date. Our current allowance for loan loss is an incurred loss model. As a result, the new guidance will result in an increase to our allowance for loan losses. The new standard will impact the allowance for loan losses related to our Private Education Loans and FFELP Loans.

The standard will be applied through a cumulative-effect adjustment to retained earnings (net of tax) as of January 1, 2020, the effective date, for the education loans on our balance sheet as of that date (except for the \$70 million purchased credit impaired portfolio where such allowance is recorded as an increase to the basis of the loans). Subsequently, changes in the estimated remaining current expected credit losses, including estimated losses on newly originated education loans, will be recorded through provision (net income). This standard represents a significant change from existing GAAP and will result in material changes to the Company's accounting for the allowance for loan losses.

Related to the new CECL standard:

- We have determined that, for modeling current expected credit losses, we can reasonably estimate expected losses that incorporate current and forecasted economic conditions over a three- year period. After this "reasonable and supportable" period there is a two-year reversion period to Navient's actual long-term historical loss experience over a full economic life cycle. The model used to project losses utilizes key credit quality indicators of the loan portfolio and predicts how those attributes are expected to perform in connection with the forecasted economic conditions. These losses are calculated on an undiscounted basis. We project losses at the loan level and make estimates regarding prepayments, recoveries on defaults and reasonably expected new Troubled Debt Restructurings ("TDRs").
- Separately, as it relates to interest rate concessions granted as part of our private education loan modification program, a discounted cash flow model is used to calculate the amount of interest forgiven for loans currently in the program. The present value of this interest rate concession is included in our CECL allowance for loan loss.
- Charge-offs will include the discount or premium related to such defaulted loan.
- CECL requires our expected future recoveries for charged-off loans to be presented within the allowance for loan loss whereas today, we account for our receivable for partially charged-off loans (\$588 million as of December 31, 2019) as part of our Private Education Loan portfolio. This change is only a change in classification on the balance sheet and does not impact retained earnings at adoption of CECL or provision and net income post adoption.

2. Significant Accounting Policies (Continued)

We are currently finalizing our evaluation of the impact of adopting this accounting standard on our consolidated financial statements. We currently estimate that our total allowance for loan losses will increase by approximately \$800 million upon adoption on January 1, 2020 (excluding the impact of the balance sheet reclassifications related to the expected future recoveries and purchased credit impaired portfolio discussed above). This would have a corresponding reduction to equity of approximately \$615 million. Although we have completed the development of the credit loss models used for CECL this estimated impact is not final as it is dependent upon continuing review and refinement of models, methodology, policies, controls and judgments through the end of the first quarter of 2020. As a result, this estimated impact is subject to change.

Goodwill

In 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment," which eliminates the requirement to perform step two of the goodwill impairment test, which requires completing a hypothetical purchase price allocation, when step one indicates impairment has occurred. The new standard simplifies the goodwill impairment test by comparing the fair value of a reporting unit to its carrying value. Impairment will be recognized for the amount by which the carrying value exceeds the reporting unit fair value, not to exceed the total allocated reporting unit goodwill. The standard, which will be applied prospectively, is effective for the Company as of January 1, 2020.

3. Education Loans

Education loans consist of FFELP and Private Education Loans.

There are three principal categories of FFELP Loans: Stafford, PLUS, and FFELP Consolidation Loans. Generally, Stafford and PLUS Loans have repayment periods of between 5 and 10 years. FFELP Consolidation Loans have repayment periods of 12 to 30 years. FFELP Loans do not require repayment, or have modified repayment plans, while the customer is in-school and during the grace period immediately upon leaving school. The customer may also be granted a deferment or forbearance for a period of time based on need, during which time the customer is not considered to be in repayment. Interest continues to accrue on loans in the in-school, deferment and forbearance period. FFELP Loans obligate the customer to pay interest at a stated fixed rate or a variable rate reset annually (subject to a cap) on July 1 of each year depending on when the loan was originated and the loan type. FFELP Loans disbursed before April 1, 2006 earn interest at the greater of the borrower's rate or a floating rate based on the Special Allowance Payment ("SAP") formula, with the interest earned on the floating rate that exceeds the interest earned from the customer being paid directly by ED. For loans disbursed after April 1, 2006, FFELP Loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) is required to be rebated to ED.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed after October 1, 1993 and before July 1, 2006, we receive 98% reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97% reimbursement.

Private Education Loans bear the full credit risk of the customer. Private Education Refinance Loans generally have a fixed interest rate with the remaining Private Education Loans generally at a variable rate indexed to LIBOR or Prime indices. The majority of non-refinance loans in our portfolio are cosigned. Similar to FFELP loans, Private Education Loans are generally non-dischargeable in bankruptcy. Most loans have repayment terms of 10 to 15 years or more, and for loans made prior to 2009, payments are typically deferred until after graduation. However, since 2009 we began to encourage interest-only or fixed payment options while the customer is enrolled in school.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Education Loans (Continued)

The estimated weighted average life of education loans in our portfolio was approximately 6 years at December 31, 2019 and 2018. The following table reflects the distribution of our education loan portfolio by program.

	<u>December 31, 2019</u>		<u>Year Ended December 31, 2019</u>	
	<u>Ending</u>	<u>% of</u>	<u>Average</u>	<u>Average</u>
(Dollars in millions)	Balance	Balance	Balance	Effective
				Interest
				Rate
FFELP Stafford and Other Education Loans, net(1)	\$ 21,723	25%	\$ 23,198	4.24%
FFELP Consolidation Loans, net	42,852	49	45,073	4.13
Private Education Loans, net	22,245	26	22,512	7.69
Total education loans, net	<u>\$ 86,820</u>	<u>100%</u>	<u>\$ 90,783</u>	<u>5.04%</u>

	<u>December 31, 2018</u>		<u>Year Ended December 31, 2018</u>	
	<u>Ending</u>	<u>% of</u>	<u>Average</u>	<u>Average</u>
(Dollars in millions)	Balance	Balance	Balance	Effective
				Interest
				Rate
FFELP Stafford and Other Education Loans, net(1)	\$ 24,641	26%	\$ 26,612	3.98%
FFELP Consolidation Loans, net	47,612	50	50,359	3.91
Private Education Loans, net	22,245	24	23,281	7.64
Total education loans, net	<u>\$ 94,498</u>	<u>100%</u>	<u>\$ 100,252</u>	<u>4.79%</u>

(1) Primarily Stafford Loans, but also includes federally guaranteed PLUS and HEAL Loans.

As of December 31, 2019 and 2018, 87% and 86%, respectively, of our education loan portfolio was in repayment.

4. 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 segregate our Private Education Loan portfolio in two classes of loans in monitoring and assessing credit risk — Troubled Debt Restructurings ("TDRs") and Non-TDRs. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Allowance for Loan Losses Metrics

(Dollars in millions)	Year Ended December 31, 2019			
	FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	\$ 76	\$ 1,201	\$ 9	\$ 1,286
Total provision	30	226	1	258
Net adjustment resulting from the change in the charge-off rate ⁽¹⁾	—	(21)	—	(21)
Net charge-offs remaining ⁽²⁾	(42)	(364)	(2)	(408)
Total net charge-offs	(42)	(385)	(2)	(429)
Reclassification of interest reserve ⁽³⁾	—	7	—	7
Loan sales	—	(1)	(8)	(9)
Ending balance	\$ 64	\$ 1,048	\$ —	\$ 1,112
Allowance Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 941	\$ —	\$ 941
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	64	107	—	171
Purchased Non-Credit Impaired Loans acquired at a discount ⁽⁴⁾	—	—	—	—
Purchased Credit Impaired Loans ⁽⁴⁾	—	—	—	—
Ending total allowance	\$ 64	\$ 1,048	\$ —	\$ 1,112
Loans Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 9,617	\$ —	\$ 9,617
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	61,589	12,286	9	73,884
Purchased Non-Credit Impaired Loans acquired at a discount ⁽⁴⁾	2,505	1,806	—	4,311
Purchased Credit Impaired Loans ⁽⁴⁾	—	201	—	201
Ending total loans ⁽⁵⁾	\$ 64,094	\$ 23,910	\$ 9	\$ 88,013
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate ⁽¹⁾	.07%	1.67%	—%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment ⁽¹⁾	—%	.10%	—%	
Allowance coverage of charge-offs	1.5	2.7	—	
Allowance as a percentage of the ending total loan balance	.10%	4.38%	—%	
Allowance as a percentage of the ending loans in repayment	.12%	4.74%	—%	
Ending total loans ⁽⁵⁾	\$ 64,094	\$ 23,910	\$ 9	
Average loans in repayment	\$ 55,978	\$ 21,859	\$ 29	
Ending loans in repayment	\$ 53,538	\$ 22,089	\$ 9	

- (1) In third-quarter 2019, the portion of the loan amount charged off at default on Private Education Loans increased from 80.5% to 81%. This charge resulted in a \$21 million reduction to the balance of the receivable for partially charged-off loan balance.
- (2) 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.
- (3) 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.
- (4) 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 December 31, 2019. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of \$33 million and \$268 million, respectively, as of December 31, 2019 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of December 31, 2019.
- (5) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

	Year Ended December 31, 2018			
	FFELP Loans	Private Education Loans	Other Loans	Total
(Dollars in millions)				
Allowance for Loan Losses				
Beginning balance	\$ 60	\$ 1,297	\$ 10	\$ 1,367
Total provision	70	299	1	370
Net adjustment resulting from the change in the charge-off rate(1)	—	(32)	—	(32)
Net charge-offs remaining(2)	(54)	(371)	(2)	(427)
Total net charge-offs	(54)	(403)	(2)	(459)
Reclassification of interest reserve(3)	—	8	—	8
Ending balance	<u>\$ 76</u>	<u>\$ 1,201</u>	<u>\$ 9</u>	<u>\$ 1,286</u>
Allowance Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 1,100	\$ 8	\$ 1,108
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	76	101	1	178
Purchased Non-Credit Impaired Loans acquired at a discount(4)	—	—	—	—
Purchased Credit Impaired Loans(4)	—	—	—	—
Ending total allowance	<u>\$ 76</u>	<u>\$ 1,201</u>	<u>\$ 9</u>	<u>\$ 1,286</u>
Loans Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 10,336	\$ 28	\$ 10,364
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	68,880	11,464	51	80,395
Purchased Non-Credit Impaired Loans acquired at a discount(4)	2,850	2,180	—	5,030
Purchased Credit Impaired Loans(4)	—	225	—	225
Ending total loans(5)	<u>\$ 71,730</u>	<u>\$ 24,205</u>	<u>\$ 79</u>	<u>\$ 96,014</u>
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate(1)	.09%	1.66%	—%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment(1)	—%	.14%	—%	
Allowance coverage of charge-offs	1.4	3.0	—	
Allowance as a percentage of the ending total loan balance	.11%	4.96%	11.52%	
Allowance as a percentage of the ending loans in repayment	.13%	5.45%	11.52%	
Ending total loans(5)	\$ 71,730	\$ 24,205	\$ 79	
Average loans in repayment	\$ 62,927	\$ 22,312	\$ 75	
Ending loans in repayment	\$ 59,551	\$ 22,037	\$ 79	

- (1) In third-quarter 2018, the portion of the loan amount charged off at default on Private Education Loans increased from 79% to 80.5%. This charge resulted in a \$32 million reduction to the balance of the receivable for partially charged-off loan balance.
- (2) 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.
- (3) 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.
- (4) 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 December 31, 2018. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of \$37 million and \$326 million respectively, as of December 31, 2018 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of December 31, 2018.
- (5) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Year Ended December 31, 2017			
	FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	\$ 67	\$ 1,351	\$ 15	\$ 1,433
Total provision	42	382	2	426
Charge-offs(1)	(49)	(443)	(7)	(499)
Reclassification of interest reserve(2)	—	7	—	7
Ending balance	<u>\$ 60</u>	<u>\$ 1,297</u>	<u>\$ 10</u>	<u>\$ 1,367</u>
Allowance Ending Balance:				
Individually evaluated for impairment - TDR	\$ —	\$ 1,171	\$ 9	\$ 1,180
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	60	126	1	187
Purchased Non-Credit Impaired Loans acquired at a discount(3)	—	—	—	—
Purchased Credit Impaired Loans(3)	—	—	—	—
Ending total allowance	<u>\$ 60</u>	<u>\$ 1,297</u>	<u>\$ 10</u>	<u>\$ 1,367</u>
Loans Ending Balance:				
Individually evaluated for impairment - TDR	\$ —	\$ 10,921	\$ 30	\$ 10,951
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	77,860	11,861	40	89,761
Purchased Non-Credit Impaired Loans acquired at a discount(3)	3,237	2,610	—	5,847
Purchased Credit Impaired Loans(3)	—	248	—	248
Ending total loans(4)	<u>\$ 81,097</u>	<u>\$ 25,640</u>	<u>\$ 70</u>	<u>\$ 106,807</u>
Charge-offs as a percentage of average loans in repayment	.07%	1.98%	5.39%	
Allowance coverage of charge-offs	1.2	2.9	1.5	
Allowance as a percentage of the ending total loan balance	.07%	5.06%	14.32%	
Allowance as a percentage of the ending loans in repayment	.09%	5.66%	14.32%	
Ending total loans(4)	\$ 81,097	\$ 25,640	\$ 70	
Average loans in repayment	\$ 68,318	\$ 22,342	\$ 130	
Ending loans in repayment	\$ 67,853	\$ 22,924	\$ 70	

- (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) 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 December 31, 2017. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of \$43 million and \$392 million, respectively, as of December 31, 2017 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of December 31, 2017.
- (4) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. 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. 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.

(Dollars in millions)	FFELP Loan Delinquencies					
	December 31, 2019		December 31, 2018		December 31, 2017	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 3,114		\$ 3,793		\$ 4,711	
Loans in forbearance ⁽²⁾	7,442		8,386		8,533	
Loans in repayment and percentage of each status:						
Loans current	47,255	88.3%	53,500	89.8%	59,264	87.3%
Loans delinquent 31-60 days ⁽³⁾	2,094	3.9	1,964	3.4	2,638	3.9
Loans delinquent 61-90 days ⁽³⁾	1,082	2.0	910	1.5	1,763	2.6
Loans delinquent greater than 90 days ⁽³⁾	3,107	5.8	3,177	5.3	4,188	6.2
Total FFELP Loans in repayment	53,538	100%	59,551	100%	67,853	100%
Total FFELP Loans, gross	64,094		71,730		81,097	
FFELP Loan unamortized premium	545		599		666	
Total FFELP Loans	64,639		72,329		81,763	
FFELP Loan allowance for losses	(64)		(76)		(60)	
FFELP Loans, net	\$ 64,575		\$ 72,253		\$ 81,703	
Percentage of FFELP Loans in repayment		83.5%		83.0%		83.7%
Delinquencies as a percentage of FFELP Loans in repayment		11.7%		10.2%		12.7%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		12.2%		12.3%		11.2%

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

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

(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 (Continued)

4. Allowance for Loan Losses (Continued)

For Private Education Loans, the key credit quality indicators are FICO scores, school type, the existence of a cosigner, the loan status and loan seasoning. The FICO scores and school type are assessed at origination. 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.

(Dollars in millions)	Private Education Loans Credit Quality Indicators			
	TDRs			
	December 31, 2019		December 31, 2018	
	Balance(3)	% of Balance	Balance(3)	% of Balance
Credit Quality Indicators				
Original Winning FICO Scores:				
FICO 640 and above	\$ 8,493	92%	\$ 9,133	92%
FICO below 640	777	8	836	8
Total	<u>\$ 9,270</u>	<u>100%</u>	<u>\$ 9,969</u>	<u>100%</u>
School Type:				
Not-for-profit	\$ 7,387	80%	\$ 7,888	79%
For-profit	1,883	20	2,081	21
Total	<u>\$ 9,270</u>	<u>100%</u>	<u>\$ 9,969</u>	<u>100%</u>
Cosigners:				
With cosigner(1)	\$ 5,792	62%	\$ 6,172	62%
Without cosigner	3,478	38	3,797	38
Total	<u>\$ 9,270</u>	<u>100%</u>	<u>\$ 9,969</u>	<u>100%</u>
Seasoning(2):				
1-12 payments	\$ 224	3%	\$ 335	3%
13-24 payments	301	3	436	4
25-36 payments	472	5	660	7
37-48 payments	662	7	934	10
More than 48 payments	7,262	78	7,178	72
Not yet in repayment	349	4	426	4
Total	<u>\$ 9,270</u>	<u>100%</u>	<u>\$ 9,969</u>	<u>100%</u>

(1) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 63% and 62% at December 31, 2019 and 2018, respectively.

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

(3) Balance equals the gross Private Education Loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Private Education Loans Credit Quality Indicators			
	Non-TDRs			
	December 31, 2019		December 31, 2018	
	Balance(3)	% of Balance	Balance(3)	% of Balance
Credit Quality Indicators				
Original Winning FICO Scores:				
FICO 640 and above	\$ 13,687	97%	\$ 13,087	96%
FICO below 640	365	3	475	4
Total	<u>\$ 14,052</u>	<u>100%</u>	<u>\$ 13,562</u>	<u>100%</u>
School Type:				
Not-for-profit	\$ 12,614	90%	\$ 11,953	88%
For-profit	1,438	10	1,609	12
Total	<u>\$ 14,052</u>	<u>100%</u>	<u>\$ 13,562</u>	<u>100%</u>
Cosigners:				
With cosigner(1)	\$ 5,184	37%	\$ 6,961	51%
Without cosigner	8,868	63	6,601	49
Total	<u>\$ 14,052</u>	<u>100%</u>	<u>\$ 13,562</u>	<u>100%</u>
Seasoning(2):				
1-12 payments	\$ 4,673	33%	\$ 3,353	25%
13-24 payments	1,570	11	486	3
25-36 payments	603	4	322	2
37-48 payments	251	2	383	3
More than 48 payments	6,675	48	8,626	64
Not yet in repayment	280	2	392	3
Total	<u>\$ 14,052</u>	<u>100%</u>	<u>\$ 13,562</u>	<u>100%</u>

(1) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 67% at December 31, 2019 and 2018.

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

(3) Balance equals the gross Private Education Loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Private Education Loan Delinquencies					
	TDRs					
	December 31, 2019		December 31, 2018		December 31, 2017	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 349		\$ 426		\$ 477	
Loans in forbearance ⁽²⁾	479		518		681	
Loans in repayment and percentage of each status:						
Loans current	7,557	89.5%	7,890	87.4%	8,333	88.9%
Loans delinquent 31-60 days ⁽³⁾	296	3.5	344	3.8	351	3.7
Loans delinquent 61-90 days ⁽³⁾	191	2.3	235	2.6	207	2.2
Loans delinquent greater than 90 days ⁽³⁾	398	4.7	556	6.2	487	5.2
Total TDR loans in repayment	8,442	100%	9,025	100%	9,378	100%
Total TDR loans, gross	9,270		9,969		10,536	
TDR loans unamortized discount	(203)		(212)		(225)	
Total TDR loans	9,067		9,757		10,311	
TDR loans receivable for partially charged-off loans	347		367		385	
TDR loans allowance for losses	(941)		(1,100)		(1,171)	
TDR loans, net	\$ 8,473		\$ 9,024		\$ 9,525	
Percentage of TDR loans in repayment		91.1%		90.5%		89.0%
Delinquencies as a percentage of TDR loans in repayment		10.5%		12.6%		11.1%
Loans in forbearance as a percentage of TDR loans in repayment and forbearance		5.4%		5.4%		6.8%

- (1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
- (2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, 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 (Continued)

4. Allowance for Loan Losses (Continued)

	Private Education Loan Delinquencies					
	Non-TDRs					
	December 31, 2019		December 31, 2018		December 31, 2017	
	Balance	%	Balance	%	Balance	%
(Dollars in millions)						
Loans in-school/grace/deferment ⁽¹⁾	\$ 280		\$ 392		\$ 584	
Loans in forbearance ⁽²⁾	125		158		214	
Loans in repayment and percentage of each status:						
Loans current	13,526	99.1%	12,851	98.8%	13,257	97.9%
Loans delinquent 31-60 days ⁽³⁾	53	.4	71	.5	120	.9
Loans delinquent 61-90 days ⁽³⁾	27	.2	32	.3	59	.4
Loans delinquent greater than 90 days ⁽³⁾	41	.3	58	.4	110	.8
Total non-TDR loans in repayment	13,647	100%	13,012	100%	13,546	100%
Total non-TDR loans, gross	14,052		13,562		14,344	
Non-TDR loans unamortized discount	(414)		(547)		(699)	
Total non-TDR loans	13,638		13,015		13,645	
Non-TDR loans receivable for partially charged-off loans	241		307		375	
Non-TDR loans allowance for losses	(107)		(101)		(126)	
Non-TDR loans, net	\$ 13,772		\$ 13,221		\$ 13,894	
Percentage of non-TDR loans in repayment		97.1%		95.9%		94.4%
Delinquencies as a percentage of non-TDR loans in repayment		.9%		1.2%		2.1%
Loans in forbearance as a percentage of non-TDR loans in repayment and forbearance		.9%		1.2%		1.6%

- (1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
- (2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, 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 (Continued)

4. Allowance for Loan Losses (Continued)

The following table summarizes the activity in the receivable for partially charged-off loans.

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Receivable at beginning of period	\$ 674	\$ 760	\$ 815
Expected future recoveries of current period defaults ⁽¹⁾	74	89	110
Recoveries ⁽²⁾	(126)	(139)	(155)
Charge-offs ⁽³⁾	(34)	(36)	(10)
Receivable at end of period	<u>\$ 588</u>	<u>\$ 674</u>	<u>\$ 760</u>

(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. Additionally, in third-quarters of 2019 and 2018, the portion of the loan amount charged off at default increased from 80.5% to 81% and from 79% to 80.5%, respectively. This change resulted in a \$21 million and \$32 million reduction to the balance of the receivable for partially charged-off loans in 2019 and 2018, respectively. 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 customers experiencing financial difficulty. Where we have granted either a forbearance of greater than three months, an interest rate reduction or an extended repayment plan, these are classified as TDRs. Approximately 69% and 65% of the loans granted forbearance have qualified as a TDR loan at December 31, 2019 and 2018, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction plan as of December 31, 2019 and 2018 was \$1.7 billion and \$1.8 billion, respectively.

At December 31, 2019 and 2018, 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.

(Dollars in millions)	TDRs	
	December 31, 2019	December 31, 2018
Recorded investment ⁽¹⁾	\$ 9,594	\$ 10,326
Total ending loans ⁽²⁾	\$ 9,617	\$ 10,336
Related allowance	\$ 941	\$ 1,100

(1) Recorded investment is equal to the unpaid principal balance (which includes the receivable for partially charged-off loans), accrued interest and unamortized discount.

(2) Total ending loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

The following table provides the average recorded investment and interest income recognized for our TDR loans.

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Average recorded investment	\$ 9,965	\$ 10,637	\$ 10,989
Interest income recognized	\$ 770	\$ 764	\$ 708

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.

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Modified loans ⁽¹⁾	\$ 475	\$ 596	\$ 816
Charge-offs ⁽²⁾	\$ 324	\$ 343	\$ 346
Payment-default	\$ 109	\$ 142	\$ 181

(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)	Total	Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
December 31, 2019			
TDR	\$ 182	\$ 18	\$ 18
Non-TDR	115	2	4
Total	<u>\$ 297</u>	<u>\$ 20</u>	<u>\$ 22</u>
December 31, 2018			
TDR	\$ 205	\$ 26	\$ 23
Non-TDR	149	3	4
Total	<u>\$ 354</u>	<u>\$ 29</u>	<u>\$ 27</u>
December 31, 2017			
TDR	\$ 196	\$ 20	\$ 20
Non-TDR	187	4	6
Total	<u>\$ 383</u>	<u>\$ 24</u>	<u>\$ 26</u>

5. Business Combinations, Goodwill and Acquired Intangible Assets

Business Combinations

Acquisitions are accounted for under the acquisition method of accounting as defined in ASC 805, "Business Combinations." The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser.

Acquisition of Earnest

In November 2017, Navient acquired a 95% majority controlling interest in Earnest for approximately \$149 million in cash. Earnest is a leading financial technology and education finance company that originates Private Education Refinance Loans. We engaged an independent appraiser to assist in the valuation of the assets acquired and liabilities assumed including identifiable intangible assets and the determination of the fair value of the non-controlling interest. In November 2018, the Company finalized its purchase price allocation for Earnest, which resulted in an excess purchase price over fair value of net assets acquired, or goodwill, of \$77 million. The results of operations of Earnest have been included in Navient's consolidated financial statements since the acquisition date and are reflected in Navient's Consumer Lending segment and its Private Education Refinance Loans reporting unit. Navient has not disclosed the pro forma impact of this acquisition to the results of operations for the year ended December 31, 2017, as the pro forma impact was deemed immaterial.

Identifiable intangible assets at the acquisition date included definite life intangible assets with an aggregate fair value of approximately \$20 million primarily including the Earnest trade name and developed technology. The intangible assets are being amortized over a period of 5 to 10 years based on the estimated economic benefit derived from each of the underlying assets.

Acquisition of Duncan Solutions

In July 2017, Navient acquired a 100% controlling interest in Duncan Solutions for approximately \$86 million in cash. Duncan Solutions is a leading transportation revenue management company serving municipalities and toll authorities, offering a range of technology-enabled products and services to support its clients' parking and tolling operations. We engaged an independent appraiser to assist in the valuation of the assets acquired and liabilities assumed including identifiable intangible assets. In July 2018, the Company finalized its purchase price allocation for Duncan Solutions, which resulted in an excess purchase price over the fair value of net assets acquired, or goodwill, of \$39 million. The results of operations of Duncan Solutions have been included in Navient's consolidated financial statements since the acquisition date and are reflected in Navient's Business Processing segment and its Government Services reporting unit. Navient has not disclosed the pro forma impact of this acquisition to the results of operations for the year ended December 31, 2017, as the pro forma impact was deemed immaterial.

Identifiable intangible assets at the acquisition date include definite life intangible assets with an aggregate fair value of approximately \$33 million primarily including customer relationships, developed technology and the Duncan Solutions trade name. The intangible assets are being amortized over a period of 2 to 10 years based on the estimated economic benefit derived from each of the underlying assets.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Business Combinations, Goodwill and Acquired Intangible Assets (Continued)

Goodwill

The following table summarizes our goodwill for our reporting units and reportable segments as of December 31, 2019 and 2018.

(Dollars in millions)	Goodwill
Federal Education Loans reportable segment:	
FFELP Loans	\$ 227
Federal Education Loan Servicing	13
Total Federal Education Loans reportable segment	240
Consumer Lending reportable segment:	
Private Education Loans	106
Private Education Refinance Loans	77
Total Consumer Lending reportable segment	183
Business Processing reportable segment:	
Government Services	136
Healthcare Services	106
Total Business Processing reportable segment	242
Total	\$ 665

Annual Goodwill Impairment Testing – October 1, 2019

We perform our goodwill impairment testing annually in the fourth quarter as of October 1. As part of the 2019 annual impairment testing, we retained a third-party appraisal firm to assist in the valuations required to perform Step 1 impairment testing of goodwill associated with our FFELP Loans, Federal Education Loan Servicing, Private Education Loans, Private Education Refinance Loans, Government Services, and Healthcare Services reporting units as of October 1, 2019. No goodwill was deemed impaired in conjunction with these reporting units as a result of Step 1 impairment testing as the fair values of the reporting units were substantially greater than their respective carry values.

The income approach was the primary approach used to estimate the fair value of each reporting unit. The income approach measures the value of each reporting unit's future economic benefit determined by its discounted cash flows derived from our projections plus an assumed terminal growth rate consistent with what we believe a market participant would assume in an acquisition. These projections are generally five-year projections that reflect the anticipated cash flow fluctuations of the respective reporting units. If a component of a reporting unit is winding down or is assumed to wind down, the projections extend through the anticipated wind-down period and no residual value is ascribed.

Under our guidance, the third-party appraisal firm developed the discount rate for each reporting unit incorporating such factors as the risk free rate, a market rate of return, a measure of volatility (Beta) and a company-specific and capital markets risk premium, as appropriate, to adjust for volatility and uncertainty in the economy and to capture specific risk related to the respective reporting units. We considered whether an asset sale or an equity sale would be the most likely sale structure for each reporting unit and valued each reporting unit based on the more likely hypothetical scenario. The discount rates reflect market-based estimates of capital costs and are adjusted for our assessment of a market participant's view with respect to execution, source concentration and other risks associated with the projected cash flows of individual reporting units. We reviewed and approved the discount rates provided by the third-party appraiser including the factors incorporated to develop the discount rates for each reporting unit.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Business Combinations, Goodwill and Acquired Intangible Assets (Continued)

We and the third-party appraisal firm also considered a market approach for the Government Services and Healthcare Services reporting units. Market-based multiples related primarily to revenue and EBITDA for comparable publicly traded companies and similar transactions were evaluated as an indicator of the value of the reporting units to assess the reasonableness of the estimated fair value derived from the income approach.

We also considered the current regulatory and legislative environment, the current economic environment, our 2019 earnings, 2020 expected earnings, market expectations regarding our stock price, and our market capitalization in relation to book equity. Although our market capitalization was less than our book equity during 2019, it was concluded that our market capitalization in relation to our book equity does not indicate impairment of our reporting units' respective goodwill at December 31, 2019.

Acquired Intangible Assets

Acquired intangible assets include the following:

(Dollars in millions)	As of December 31, 2019			As of December 31, 2018		
	Cost Basis ⁽¹⁾	Accumulated Impairment and Amortization ⁽¹⁾	Net	Cost Basis ⁽¹⁾	Accumulated Impairment and Amortization ⁽¹⁾	Net
Customer, services and lending relationships	\$ 262	\$ (220)	\$ 42	\$ 284	\$ (226)	\$ 58
Favorable lease	1	(1)	—	1	—	1
Non-competes	3	(3)	—	3	(3)	—
Software and technology	114	(96)	18	115	(90)	25
Trade names and trademarks	52	(20)	32	61	(24)	37
Total acquired intangible assets	<u>\$ 432</u>	<u>\$ (340)</u>	<u>\$ 92</u>	<u>\$ 464</u>	<u>\$ (343)</u>	<u>\$ 121</u>

⁽¹⁾ Accumulated impairment and amortization include impairment amounts only if the acquired intangible asset has been deemed partially impaired. When an acquired intangible asset is considered fully impaired and no longer in use, the cost basis and any accumulated amortization related to the asset is written off.

We recorded amortization of acquired intangible assets from continuing operations totaling \$25 million, \$31 million and \$23 million in 2019, 2018 and 2017, respectively. We will continue to amortize our intangible assets with definite useful lives over their remaining estimated useful lives. We estimate amortization expense associated with these intangible assets will be \$21 million, \$19 million, \$15 million, \$13 million and \$23 million in 2020, 2021, 2022, 2023 and after 2023, respectively.

In our Government Services reporting unit, we wrote off a \$16 million toll services relationship acquired intangible asset in 2018 due to the termination of a significant toll services contract.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings

Borrowings consist of secured borrowings issued through our securitization program, borrowings through secured facilities, unsecured notes issued by us, and other interest-bearing liabilities related primarily to obligations to return cash collateral held.

The following table summarizes our borrowings.

(Dollars in millions)	December 31, 2019			December 31, 2018		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Unsecured borrowings:						
Senior unsecured debt ⁽¹⁾	\$ 1,052	\$ 8,461	\$ 9,513	\$ 817	\$ 10,674	\$ 11,491
Total unsecured borrowings	1,052	8,461	9,513	817	10,674	11,491
Secured borrowings:						
FFELP Loan securitizations ⁽²⁾	72	59,735	59,807	—	66,318	66,318
Private Education Loan securitizations ⁽³⁾	2,120	11,430	13,550	300	12,985	13,285
FFELP Loan ABCP facilities	2,783	617	3,400	2,927	2,625	5,552
Private Education Loan ABCP facilities	2,114	1,513	3,627	1,114	1,266	2,380
Other ⁽⁴⁾	338	—	338	267	—	267
Total secured borrowings	7,427	73,295	80,722	4,608	83,194	87,802
Total before hedge accounting adjustments	8,479	81,756	90,235	5,425	93,868	99,293
Hedge accounting adjustments	4	(41)	(37)	(3)	(349)	(352)
Total	\$ 8,483	\$ 81,715	\$ 90,198	\$ 5,422	\$ 93,519	\$ 98,941

- (1) Includes principal amount of \$1.1 billion and \$817 million of short-term debt as of December 31, 2019 and 2018, respectively. Includes principal amount of \$8.5 billion and \$10.8 billion of long-term debt as of December 31, 2019 and 2018, respectively.
- (2) Includes \$72 million and \$0 of short-term debt related to the FFELP Loan ABS repurchase facilities ("FFELP Loan Repurchase Facilities") as of December 31, 2019 and 2018, respectively. Includes \$231 million and \$244 million of long-term debt related to the FFELP Loan Repurchase Facilities as of December 31, 2019 and 2018, respectively.
- (3) Includes \$2.1 billion and \$300 million of short-term debt related to the Private Education Loan ABS repurchase facilities ("Private Education Loan Repurchase Facilities") as of December 31, 2019 and 2018, respectively. Includes \$194 million and \$2.0 billion of long-term debt related to the Private Education Loan Repurchase Facilities as of December 31, 2019 and 2018, respectively.
- (4) "Other" primarily includes the obligation to return cash collateral held related to derivative exposures.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings (Continued)

Short-term Borrowings

Short-term borrowings have a remaining term to maturity of one year or less. The following tables summarize outstanding short-term borrowings (secured and unsecured), the weighted average interest rates at the end of each period, and the related average balances and weighted average interest rates during the periods.

	December 31, 2019		Year Ended December 31, 2019	
	Ending Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
(Dollars in millions)				
FFELP Loan securitizations	\$ 72	3.16%	\$ 49	3.18%
Private Education Loan securitizations	2,120	4.14	1,672	4.57
FFELP Loan ABCP facilities	2,783	2.46	2,371	3.11
Private Education Loan ABCP facilities	2,114	2.76	1,053	3.20
Senior unsecured debt	1,056	6.42	1,492	7.05
Other interest-bearing liabilities	338	1.55	307	2.16
Total short-term borrowings	<u>\$ 8,483</u>	<u>3.42%</u>	<u>\$ 6,944</u>	<u>4.28%</u>
Maximum outstanding at any month end	<u>\$ 8,564</u>			

	December 31, 2018		Year Ended December 31, 2018	
	Ending Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
(Dollars in millions)				
Private Education Loan securitizations	\$ 300	5.23%	\$ 536	4.72%
FFELP Loan ABCP facilities	2,927	3.10	1,137	2.79
Private Education Loan ABCP facilities	1,114	3.63	847	3.40
Senior unsecured debt	814	4.92	2,021	5.90
Other interest-bearing liabilities	267	2.39	292	1.73
Total short-term borrowings	<u>\$ 5,422</u>	<u>3.56%</u>	<u>\$ 4,833</u>	<u>4.35%</u>
Maximum outstanding at any month end	<u>\$ 6,363</u>			

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings (Continued)

Long-term Borrowings

The following tables summarize outstanding long-term borrowings, the weighted average interest rates at the end of the periods, and the related average balances during the periods.

	December 31, 2019		Year Ended December 31, 2019
(Dollars in millions)	Ending Balance ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾	Average Balance
Floating rate notes:			
U.S. dollar-denominated:			
Interest bearing, due 2021-2083	\$ 63,731	2.66%	\$ 68,664
Non-U.S. dollar-denominated:			
Interest bearing, due 2023-2040	3,577	.61	4,262
Total floating rate notes	67,308	2.55	72,926
Fixed rate notes:			
U.S. dollar-denominated:			
Interest bearing, due 2021-2068	14,407	4.88	13,941
Non-U.S.-dollar denominated:	—	—	57
Total fixed rate notes	14,407	4.88	13,998
Total long-term borrowings	\$ 81,715	2.96%	\$ 86,924

	December 31, 2018		Year Ended December 31, 2018
(Dollars in millions)	Ending Balance ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾	Average Balance
Floating rate notes:			
U.S. dollar-denominated:			
Interest bearing, due 2019-2083	\$ 74,842	3.38%	\$ 80,189
Non-U.S. dollar-denominated:			
Interest bearing, due 2023-2040	4,064	.66	4,919
Total floating rate notes	78,906	3.24	85,108
Fixed rate notes:			
U.S. dollar-denominated:			
Interest bearing, due 2020-2059	14,431	5.57	13,814
Non-U.S.-dollar denominated:			
Interest bearing, due 2034	182	2.49	273
Total fixed rate notes	14,613	5.53	14,087
Total long-term borrowings	\$ 93,519	3.60%	\$ 99,195

(1) Ending balance is expressed in U.S. dollars using the spot currency exchange rate. Includes fair value adjustments under hedge accounting for notes designated as the hedged item in a fair value hedge.

(2) Weighted average interest rate is stated rate relative to currency denomination of debt.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings (Continued)

As of December 31, 2019, the expected maturities of our long-term borrowings are shown in the following table.

(Dollars in millions)	Expected Maturity		
	Senior Unsecured Debt	Secured Borrowings ⁽¹⁾	Total ⁽²⁾
Year of Maturity			
2020	\$ —	\$ 6,768	\$ 6,768
2021	1,439	8,719	10,158
2022	1,741	6,212	7,953
2023	1,501	6,014	7,515
2024	1,352	5,859	7,211
2025-2043	2,428	39,723	42,151
	8,461	73,295	81,756
Hedge accounting adjustments	398	(439)	(41)
Total	\$ 8,859	\$ 72,856	\$ 81,715

(1) We view our securitization trust debt as long-term based on the contractual maturity dates which range from 2021 to 2083. However, we have projected the expected principal paydowns based on our current estimates regarding the securitized loans' prepayment speeds for purposes of this disclosure to better reflect how we expect this debt to be paid down over time. The projected principal paydowns in year 2020 include \$6.8 billion related to the securitization trust debt.

(2) The aggregate principal amount of debt that matures in each period is \$6.8 billion in 2020, \$10.2 billion in 2021, \$8.0 billion in 2022, \$7.6 billion in 2023, \$7.3 billion in 2024 and \$42.5 billion in 2025-2043.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings (Continued)

Variable Interest Entities

We consolidate the following financing VIEs as of December 31, 2019 and 2018, as we are the primary beneficiary. As a result, these VIEs are accounted for as secured borrowings.

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

(Dollars in millions)	December 31, 2018						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets, Net	Total
Secured Borrowings — VIEs:							
FFELP Loan securitizations	\$ —	\$ 66,318	\$ 66,318	\$ 66,266	\$ 3,181	\$ 1,211	\$ 70,658
Private Education Loan securitizations	300	12,985	13,285	16,336	536	198	17,070
FFELP Loan ABCP facilities	2,927	2,625	5,552	5,656	132	162	5,950
Private Education Loan ABCP facilities	1,114	1,266	2,380	3,361	79	27	3,467
Total before hedge accounting adjustments	4,341	83,194	87,535	91,619	3,928	1,598	97,145
Hedge accounting adjustments	—	(456)	(456)	—	—	(642)	(642)
Total	<u>\$ 4,341</u>	<u>\$ 82,738</u>	<u>\$ 87,079</u>	<u>\$ 91,619</u>	<u>\$ 3,928</u>	<u>\$ 956</u>	<u>\$ 96,503</u>

6. Borrowings (Continued)

Secured Facilities and Unsecured Debt

FFELP Loan ABCP Facilities

We have various ABCP borrowing facilities that we use to finance our FFELP Loans. Liquidity is available under these secured credit facilities to the extent we have eligible collateral and available capacity. The maximum borrowing capacity under these facilities will vary and is subject to each agreement's borrowing conditions. These include but are not limited to the facility's size, current usage and the availability and fair value of qualifying unencumbered FFELP Loan collateral. Our borrowings under these facilities are non-recourse. The maturity dates on these facilities range from November 2020 to April 2021. The interest rate on certain facilities can increase under certain circumstances. The facilities are subject to termination under certain circumstances. As of December 31, 2019, there was approximately \$3.4 billion outstanding under these facilities, with approximately \$3.6 billion of assets securing these facilities. As of December 31, 2019, the maximum unused capacity under these facilities was \$867 million. As of December 31, 2019, we had \$319 million of unencumbered FFELP Loans.

FFELP Loan Repurchase Facilities

In 2018, we closed a \$0.9 billion FFELP Loan Repurchase Facility that provides liquidity for the acquisition of certain Navient-sponsored auction rate securities. Borrowings under the facility are secured by the auction rate securities. The lenders also have unsecured recourse to Navient Corporation as guarantor for any shortfall in amounts payable. Because the facility is secured by Navient-sponsored instruments issued in previous securitizations, we show the debt as part of FFELP Loan securitizations in the various borrowing tables above. As of December 31, 2019, there was approximately \$0.3 billion outstanding under this facility.

Private Education Loan ABCP Facilities

We have various ABCP borrowing facilities that we use to finance our Private Education Loans. Liquidity is available under these secured credit facilities to the extent we have eligible collateral and available capacity. The maximum borrowing capacity under these facilities will vary and is subject to each agreement's borrowing conditions. These include but are not limited to the facility's size, current usage and the availability and fair value of qualifying unencumbered Private Education Loan collateral. Our borrowings under these facilities are non-recourse. The maturity dates on these facilities range from June 2020 to December 2021. The interest rate on certain facilities can increase under certain circumstances. The facilities are subject to termination under certain circumstances. As of December 31, 2019, there was approximately \$3.6 billion outstanding under these facilities, with approximately \$4.3 billion of assets securing these facilities. As of December 31, 2019, the maximum unused capacity under these facilities was \$384 million. As of December 31, 2019, we had \$2.6 billion of unencumbered Private Education Loans.

Private Education Loan Repurchase Facilities

Since the fourth quarter of 2015, we have closed on \$4.2 billion of Private Education Loan Repurchase Facilities. These repurchase facilities are collateralized by Residual Interests in previously issued Private Education Loan ABS trusts. The lenders also have unsecured recourse to Navient Corporation as guarantor for any shortfall in amounts payable. Because these facilities are secured by the Residual Interests in previous securitizations, we show the debt as part of Private Education Loan securitizations in the various borrowing tables above. As of December 31, 2019, there was approximately \$2.3 billion outstanding under these facilities.

Senior Unsecured Debt

We issued \$0, \$500 million and \$1.6 billion of unsecured debt in 2019, 2018 and 2017, respectively.

Debt Repurchases

The following table summarizes activity related to our senior unsecured debt and ABS repurchases. "Gains (losses) on debt repurchases" is shown net of hedging-related gains and losses.

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Debt principal repurchased	\$ 1,184	\$ 2,809	\$ 513
Gains (losses) on debt repurchases	\$ 45	\$ 19	\$ (3)

7. Derivative Financial Instruments

Risk Management Strategy

We maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate changes. Our goal is to manage interest rate sensitivity by modifying the repricing frequency and underlying index characteristics of certain balance sheet assets and liabilities so the net interest margin is not, on a material basis, adversely affected by movements in interest rates. We do not use derivative instruments to hedge credit risk. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. Income or loss on the derivative instruments that are linked to the hedged assets and liabilities will generally offset the effect of this unrealized appreciation or depreciation for the period the item is being hedged. We view this strategy as a prudent management of interest rate sensitivity. In addition, we utilize derivative contracts to minimize the economic impact of changes in foreign currency exchange rates on certain debt obligations that are denominated in foreign currencies. As foreign currency exchange rates fluctuate, these liabilities will appreciate and depreciate in value. These fluctuations, to the extent the hedge relationship is effective, are offset by changes in the value of the cross-currency interest rate swaps executed to hedge these instruments. Management believes certain derivative transactions entered into as hedges, primarily Floor Income Contracts and basis swaps, are economically effective; however, those transactions generally do not qualify for hedge accounting under GAAP (as discussed below) and thus may adversely impact earnings.

Although we use derivatives to minimize the risk of interest rate and foreign currency changes, the use of derivatives does expose us to both market and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates, foreign exchange rates and market liquidity. Credit risk is the risk that a counterparty will not perform its obligations under a contract and it is limited to the loss of the fair value gain in a derivative that the counterparty owes us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no credit risk exposure to the counterparty; however, the counterparty has exposure to us. We minimize the credit risk in derivative instruments by entering into transactions with highly rated counterparties that are reviewed regularly by our Credit Department. We also maintain a policy of requiring that all derivative contracts be governed by an International Swaps and Derivative Association Master Agreement. Depending on the nature of the derivative transaction, bilateral collateral arrangements related to Navient Corporation contracts generally are required as well. When we have more than one outstanding derivative transaction with the counterparty, and there exists legally enforceable netting provisions with the counterparty (i.e., a legal right to offset receivable and payable derivative contracts), the "net" mark-to-market exposure, less collateral the counterparty has posted to us, represents exposure with the counterparty. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At December 31, 2019 and 2018, we had a net positive exposure (derivative gain positions to us less collateral which has been posted by counterparties to us) related to Navient Corporation derivatives of \$12 million and \$19 million, respectively.

Our on-balance sheet securitization trusts have \$4.0 billion of Euro and British Pound Sterling denominated bonds outstanding as of December 31, 2019. To convert these non-U.S. dollar denominated bonds into U.S. dollar liabilities, the trusts have entered into foreign-currency swaps with highly-rated counterparties. In addition, the trusts have entered into \$3.7 billion notional of interest rates swaps which are primarily used to convert Prime received on securitized education loans to LIBOR paid on the bonds. 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. At December 31, 2019 and 2018, the net positive exposure on swaps in securitization trusts was \$0 and \$7 million, respectively.

Accounting for Derivative Instruments

Derivative instruments that are used as part of our interest rate and foreign currency risk management strategy include interest rate swaps, cross-currency interest rate swaps, and interest rate floor contracts with indices that relate to the pricing of specific balance sheet assets and liabilities. The accounting for derivative instruments requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded on the balance sheet as either an asset or liability measured at its fair value. As more fully described below, if certain criteria are met, derivative instruments are classified and accounted for by us as either fair value or cash flow hedges. If these criteria are not met, the derivative financial instruments are accounted for as trading.

7. Derivative Financial Instruments (Continued)

Fair Value Hedges

Fair value hedges are generally used by us to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. We enter into interest rate swaps to economically convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. We also enter into cross-currency interest rate swaps to economically convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. For fair value hedges, we generally consider all components of the derivative's gain and/or loss when assessing hedge effectiveness and generally hedge changes in fair values due to interest rates or interest rates and foreign currency exchange rates.

Cash Flow Hedges

We use cash flow hedges to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on qualifying hedges are recorded in accumulated other comprehensive income. In the case of a forecasted debt issuance, gains and losses are reclassified to earnings over the period which the stated hedged transaction affects earnings. If we determine it is not probable that the anticipated transaction will occur, gains and losses are reclassified immediately to earnings. In assessing hedge effectiveness, generally all components of each derivative's gains or losses are included in the assessment. We generally hedge exposure to changes in cash flows due to changes in interest rates or total changes in cash flow.

Trading Activities

When derivative instruments do not qualify as hedges, they are accounted for as trading instruments where all changes in fair value are recorded through earnings. We sell interest rate floors (Floor Income Contracts) to hedge the embedded Floor Income options in education loan assets. The Floor Income Contracts are written options which have a more stringent hedge effectiveness hurdle to meet. 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 Contracts can be different from that of the education loans. Therefore, Floor Income Contracts do not qualify for hedge accounting treatment and are recorded as trading instruments. Regardless of the accounting treatment, we consider these contracts to be economic hedges for risk management purposes. We use this strategy to minimize our exposure to changes in interest rates.

We use basis swaps to minimize earnings variability caused by having different reset characteristics on our interest-earning assets and interest-bearing liabilities. The specific terms and notional amounts of the swaps are determined based on a review of our asset/liability structure, our assessment of future interest rate relationships, and on other factors such as short-term strategic initiatives. Hedge accounting 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 criterion because the index of the swap does not exactly match the index of the hedged assets. 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, these swaps are recorded at fair value with changes in fair value reflected currently in the statement of income.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at December 31, 2019 and 2018, and their impact on other comprehensive income and earnings for 2019, 2018 and 2017.

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow		Fair Value(4)		Trading		Total		
		Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	
Fair Values(1)										
Derivative Assets:										
Interest rate swaps	Interest rate	\$ —	\$ —	\$ 226	\$ 170	\$ 4	\$ 3	\$ 230	\$ 173	
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	—	6	—	—	—	6	
Total derivative assets(2)		—	—	226	176	4	3	230	179	
Derivative Liabilities:										
Interest rate swaps	Interest rate	—	—	—	(34)	(20)	(45)	(20)	(79)	
Floor Income Contracts	Interest rate	—	—	—	—	(68)	(53)	(68)	(53)	
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	(575)	(639)	—	(26)	(575)	(665)	
Other(3)	Interest rate	—	—	—	—	(1)	(4)	(1)	(4)	
Total derivative liabilities(2)		—	—	(575)	(673)	(89)	(128)	(664)	(801)	
Net total derivatives		\$ —	\$ —	\$ (349)	\$ (497)	\$ (85)	\$ (125)	\$ (434)	\$ (622)	

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

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

(Dollar in millions)	Other Assets		Other Liabilities	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Gross position	\$ 230	\$ 179	\$ (664)	\$ (801)
Impact of master netting agreements	(18)	(22)	18	22
Derivative values with impact of master netting agreements (as carried on balance sheet)	212	157	(646)	(779)
Cash collateral (held) pledged	(337)	(266)	155	188
Net position	\$ (125)	\$ (109)	\$ (491)	\$ (591)

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

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

(Dollar in millions)	As of December 31, 2019		As of December 31, 2018	
	Carrying Value	Hedge Basis Adjustments	Carrying Value	Hedge Basis Adjustments
Short-term borrowings	\$ 1,001	\$ 4	\$ 664	\$ (3)
Long-term borrowings	\$ 11,488	\$ (58)	\$ 13,657	\$ (368)

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

The above fair values include adjustments when necessary for counterparty credit risk for both when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the asset position at December 31, 2019 and December 31, 2018 by \$11 million and \$26 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at December 31, 2019 and December 31, 2018 by \$12 million and \$19 million, respectively.

	Cash Flow		Fair Value		Trading		Total	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
(Dollars in billions)								
Notional Values:								
Interest rate swaps	\$ 19.1	\$ 21.4	\$ 8.6	\$ 10.3	\$ 51.5	\$ 66.9	\$ 79.2	\$ 98.6
Floor Income Contracts	—	—	—	—	21.2	27.9	21.2	27.9
Cross-currency interest rate swaps	—	—	4.0	4.5	—	.2	4.0	4.7
Other ⁽¹⁾	—	—	—	—	—	.2	—	.2
Total derivatives	\$ 19.1	\$ 21.4	\$ 12.6	\$ 14.8	\$ 72.7	\$ 95.2	\$ 104.4	\$ 131.4

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

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

	Total Gains (Losses)		
	Years Ended December 31,		
(Dollars in millions)	2019	2018	2017
Fair Value Hedges⁽²⁾:			
Interest Rate Swaps			
Gains (losses) recognized in net income on derivatives	\$ 281	\$ (137)	\$ (214)
Gains (losses) recognized in net income on hedged items	(299)	162	193
Net fair value hedge ineffectiveness gains (losses)	(18)	25	(21)
Cross currency interest rate swaps			
Gains (losses) recognized in net income on derivatives	57	(311)	921
Gains (losses) recognized in net income on hedged items	(18)	210	(954)
Net fair value hedge ineffectiveness gains (losses)	39	(101)	(33)
Total fair value hedges ⁽¹⁾⁽²⁾	21	(76)	(54)
Cash Flow Hedges:			
Total cash flow hedges ⁽²⁾	—	—	—
Trading			
Interest rate swaps	44	22	8
Floor income contracts	(22)	15	81
Cross currency interest rate swaps	(2)	(3)	2
Other	2	4	(15)
Total trading derivatives ⁽³⁾	22	38	76
Mark-to-market gains (losses) recognized	\$ 43	\$ (38)	\$ 22

(1) Recorded in interest expense in the consolidated statements of income for 2019 with the adoption of ASU No. 2017-12. Recorded in "gains (losses) on derivatives and hedging activities, net" in the consolidated statements of income for 2018 and 2017.

(2) The accrued interest income (expense) on fair value hedges and cash flow hedges is recorded in interest expense and is excluded from this table.

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

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

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Total gains (losses) on cash flow hedges	\$ (165)	\$ 50	\$ 25
Reclassification adjustments for derivative (gains) losses included in net income (interest expense)(1)(2)	(39)	(11)	30
Total change in stockholders' equity for unrealized gains (losses) on derivatives	<u>\$ (204)</u>	<u>\$ 39</u>	<u>\$ 55</u>

(1) Includes net settlement income/expense.

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

Collateral

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

(Dollars in millions)	December 31, 2019	December 31, 2018
Collateral held:		
Cash (obligation to return cash collateral is recorded in short-term borrowings)	\$ 337	\$ 266
Securities at fair value — corporate derivatives (not recorded in financial statements)(1)	—	—
Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements)(2)	69	90
Total collateral held	<u>\$ 406</u>	<u>\$ 356</u>
Derivative asset at fair value including accrued interest	<u>\$ 282</u>	<u>\$ 210</u>
Collateral pledged to others:		
Cash (right to receive return of cash collateral is recorded in investments)	\$ 155	\$ 188
Total collateral pledged	<u>\$ 155</u>	<u>\$ 188</u>
Derivative liability at fair value including accrued interest and premium receivable	<u>\$ 658</u>	<u>\$ 752</u>

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

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

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of \$53 million with our counterparties. Downgrades in our unsecured credit rating would not result in any additional collateral requirements. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Other Assets

The following table provides the detail of our other assets.

(Dollars in millions)	December 31, 2019	December 31, 2018
Accrued interest receivable	\$ 1,952	\$ 1,999
Benefit and insurance-related investments	459	470
Income tax asset, net (current and deferred)	258	271
Derivatives at fair value	212	157
Fixed assets, net	135	136
Accounts receivable	119	95
Other	199	276
Total	<u>\$ 3,334</u>	<u>\$ 3,404</u>

9. Stockholders' Equity

Common Stock

Our shareholders have authorized the issuance of 1.125 billion shares of common stock. The par value of Navient common stock is \$0.01 per share. At December 31, 2019, 215 million shares were issued and outstanding and 24 million shares were unissued but encumbered for outstanding stock options, restricted stock units, performance stock units and dividend equivalent units for employee compensation and remaining authority for stock-based compensation plans. The stock-based compensation plans are described in "Note 11 — Stock-Based Compensation Plans and Arrangements."

Dividend and Share Repurchase Program

In 2019, 2018 and 2017, we paid \$147 million (\$0.64 per share), \$166 million (0.64 per share) and \$176 million (\$0.64 per share), respectively, of common stock dividends.

In 2019, 2018 and 2017, we repurchased 34.5 million, 17.4 million and 29.6 million shares of common stock, respectively, for \$440 million, \$220 million and \$440 million, respectively. Our board of directors authorized a \$500 million share repurchase program in September 2018 which was fully utilized in 2019. In October 2019, our board of directors approved an additional \$1 billion multi-year share repurchase program. As of December 31, 2019, the remaining common share repurchase authority was \$1 billion.

The following table summarizes our common share repurchases and issuances.

	Years Ended December 31,		
	2019	2018	2017
Common stock repurchased(1)	34,491,342	17,443,351	29,646,374
Average purchase price per share	\$ 12.76	\$ 12.64	\$ 14.85
Shares repurchased related to employee stock-based compensation plans(2)	3,226,301	3,829,629	1,847,651
Average purchase price per share	\$ 11.62	\$ 13.71	\$ 15.40
Common shares issued(3)	5,717,053	5,659,681	3,680,479

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

(2) Comprises shares withheld from stock option exercises and vesting of restricted stock for employees' tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

(3) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on December 31, 2019 was \$13.68.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Earnings (Loss) per Common Share

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

(In millions, except per share data)	Years Ended December 31,		
	2019	2018	2017
Numerator:			
Net income	\$ 597	\$ 395	\$ 292
Denominator:			
Weighted average shares used to compute basic EPS	230	260	275
Effect of dilutive securities:			
Dilutive effect of stock options, restricted stock, restricted stock units, performance stock units and Employee Stock Purchase Plan ("ESPP")(1)	3	4	6
Dilutive potential common shares(2)	3	4	6
Weighted average shares used to compute diluted EPS	233	264	281
Basic earnings per common share	\$ 2.59	\$ 1.52	\$ 1.06
Diluted earnings per common share	\$ 2.56	\$ 1.49	\$ 1.04

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

(2) For the years ended December 31, 2019, 2018 and 2017, securities covering approximately 4 million, 6 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

11. Stock-Based Compensation Plans and Arrangements

We have one active stock-based incentive plan that provides for grants of equity awards to our employees and non-employee directors in various forms including stock options, restricted stock awards, restricted stock units and performance stock units. We also maintain an ESPP. Shares issued under these plans may be either shares reacquired by us or shares that are authorized but unissued. Our Navient Corporation 2014 Omnibus Incentive Plan became effective on April 7, 2014, and 55 million shares are authorized to be issued from this plan as of December 31, 2019. Our Navient Corporation ESPP became effective on May 1, 2014, and 3 million shares are authorized to be issued from this plan as of December 31, 2019.

For most awards, expense generally is recognized ratably over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For employee awards that meet retirement eligibility criteria, we record the expense generally upon grant and for employees that become retirement eligible during the vesting period, we recognize expense from the grant date to the date on which the employee becomes retirement eligible. The total stock-based compensation cost recognized in 2019, 2018 and 2017 was \$25 million, \$25 million and \$35 million, respectively. As of December 31, 2019, there was \$11 million of total unrecognized compensation expense related to unvested stock awards, which is expected to be recognized over a weighted average period of 1.8 years.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Stock-Based Compensation Plans and Arrangements (Continued)

Stock Options

The exercise price of stock options equals the fair market value of our common stock on the date of grant. The maximum contractual term for stock options is 5 years for grants made since 2012, and 10 years for grants made prior to 2012. Most stock options are time-vested, with one-third vesting per year beginning with the first anniversary of the grant date.

There were no stock options granted in 2019. The fair values of the options granted in 2018 and 2017 were estimated as of the grant date using a Black-Scholes option pricing model with the following weighted average assumptions:

	Years Ended December 31,	
	2018	2017
Expected life of the option	3.2 years	3.0 years
Expected volatility	36%	34%
Risk-free interest rate	2.27%	1.44%
Expected dividend rate	4.70%	4.13%
Weighted average fair value of options granted	\$ 2.59	\$ 2.69

The expected life is based in general on observed historical exercise patterns of Navient's employees. The expected volatility is based in general on implied volatility from publicly-traded options on our stock at the grant date and historical volatility of our stock consistent with the expected life of the option. The risk-free interest rate is based on the U.S. Treasury spot rate at the grant date consistent with the expected life of the option. The dividend yield is based on the projected annual dividend payment per share based on the dividend amount at the grant date, divided by the stock price at the grant date.

The following table summarizes Navient's stock option activity in 2019.

(Dollars in millions, except per share data)	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ⁽¹⁾
Outstanding at December 31, 2018	11,174,890	\$ 12.97		
Granted	—	—		
Exercised ⁽²⁾	(2,826,673)	7.79		
Canceled	(2,046,287)	18.15		
Outstanding at December 31, 2019 ⁽³⁾	6,301,930	\$ 13.61	1.6 yrs.	\$ 12
Exercisable at December 31, 2019	4,887,506	\$ 13.44	1.2 yrs.	\$ 12

(1) The aggregate intrinsic value represents the total intrinsic value (the aggregate difference between our closing stock price on December 31, 2019 and the exercise price of in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2019.

(2) The total intrinsic value of Navient stock options exercised was \$11 million, \$12 million and \$9 million for 2019, 2018 and 2017, respectively.

(3) As of December 31, 2019, there was \$.3 million of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted average period of 1.1 years.

11. Stock-Based Compensation Plans and Arrangements (Continued)

Restricted Stock

Restricted stock awards generally are granted to non-employee directors and generally vest upon the director's election to the board. Outstanding restricted stock is entitled to dividend equivalent units that vest subject to the same vesting requirements or lapse of transfer restrictions, as applicable, as the underlying restricted stock award. The fair value of restricted stock awards is based on our stock price at the grant date.

The following table summarizes Navient's restricted stock activity in 2019.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2018	—	\$ —
Granted	78,835	11.72
Vested ⁽¹⁾	(78,835)	11.72
Canceled	—	—
Non-vested at December 31, 2019 ⁽²⁾	—	\$ —

(1) The total fair value of Navient shares that vested was \$1 million, \$1 million and \$1 million for 2019, 2018 and 2017, respectively.

(2) As of December 31, 2019, there was no unrecognized compensation cost related to restricted stock.

Restricted Stock Units and Performance Stock Units

Restricted stock units ("RSUs") and performance stock units ("PSUs") are equity awards granted to employees that entitle the holder to shares of our common stock when the award vests. RSUs generally are time-vested, with one-third vesting per year beginning with the first anniversary of the grant date, while PSUs vest based on achieving certain corporate performance goals over a three-year performance period. Outstanding RSUs and PSUs are entitled to dividend equivalent units that vest subject to the same vesting requirements as the underlying award. The fair value of RSUs and PSUs is based on our stock price at the grant date.

The following table summarizes Navient's RSU and PSU activity in 2019.

	Number of RSUs/PSUs	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2018	4,259,771	\$ 12.55
Granted	2,096,830	10.95
Vested and converted to common stock ⁽¹⁾	(2,336,927)	11.14
Canceled	(80,053)	12.96
Outstanding at December 31, 2019 ⁽²⁾	3,939,621	\$ 12.52

(1) The total fair value of Navient RSUs and PSUs that vested and converted to common stock was \$26 million, \$22 million and \$23 million for 2019, 2018 and 2017, respectively.

(2) As of December 31, 2019, there was \$10 million of unrecognized compensation cost related to RSUs and PSUs, which is expected to be recognized over a weighted average period of 1.8 years.

12. Fair Value Measurements

We use estimates of fair value in applying various accounting standards for 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.

Education Loans

Our FFELP Loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. Fair values were determined by modeling loan cash flows using stated terms of the assets and internally developed assumptions.

FFELP Loans

The significant assumptions used to determine fair value of our FFELP Loans are prepayment speeds, default rates, cost of funds, discount rate, capital levels and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable in active markets. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

Private Education Loans

The significant assumptions used to determine fair value of our Private Education Loans are prepayment speeds, default rates, recovery rates, cost of funds, discount rate and capital levels. A number of significant inputs into the models are internally derived and not observable in active markets. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

Cash and Investments (Including "Restricted Cash and Investments")

Cash and cash equivalents are carried at cost. Carrying value approximates fair value. The fair value of investments in commercial paper, ABCP, or demand deposits that have a remaining term of less than 90 days when purchased are estimated to equal their cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. No additional adjustments were deemed necessary. These are level 2 valuations.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate (which for us is LIBOR) and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Foreign currency-denominated borrowings are re-measured at current spot rates in the financial statements. The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Fair value adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets. As such, these are level 3 valuations.

12. Fair Value Measurements (Continued)

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair value of a majority of derivative financial instruments was determined by standard derivative pricing and option models using the stated terms of the contracts and observable market inputs. In some cases, we utilized internally developed inputs that are not observable in the market, and as such, classified these instruments as level 3 fair values. Complex structured derivatives or derivatives that trade in less liquid markets require significant estimates and judgment in determining fair value that cannot be corroborated with market transactions.

When determining the fair value of derivatives, we take into account counterparty credit risk for positions where there is exposure to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty, including spreads from credit default swaps. When the counterparty has exposure to us under derivatives with us, we fully collateralize the exposure, minimizing the adjustment necessary to the derivative valuations for our credit risk. While trusts that contain derivatives are not required to post collateral, when the counterparty is exposed to the trust the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty's exposure to the trusts. The net credit risk adjustment (adjustments for our exposure to counterparties net of adjustments for the counterparties' exposure to us) decreased the valuations at December 31, 2019 by \$11 million.

Inputs specific to each class of derivatives disclosed in the table below are as follows:

- Interest rate swaps — Derivatives are valued using standard derivative cash flow models. Derivatives that swap fixed interest payments for LIBOR interest payments (or vice versa) and derivatives swapping quarterly reset LIBOR for daily reset LIBOR or one-month LIBOR were valued using the LIBOR swap yield curve which is an observable input from an active market. These derivatives are level 2 fair value estimates in the hierarchy. Other derivatives swapping LIBOR interest payments for another variable interest payment (primarily Prime) are valued using the LIBOR swap yield curve and observable market spreads for the specified index. The markets for these swaps are generally illiquid as indicated by a wide bid/ask spread. The adjustment made for liquidity decreased the valuations by \$12 million at December 31, 2019. These derivatives are level 3 fair value estimates.
- Cross-currency interest rate swaps — Derivatives are valued using standard derivative cash flow models. Derivatives hedging foreign-denominated bonds are valued using the LIBOR swap yield curve (for both USD and the foreign-denominated currency), cross-currency basis spreads and forward foreign currency exchange rates. These inputs are observable inputs from active markets. Therefore, the resulting valuation is a level 2 fair value estimate. Amortizing notional derivatives (derivatives whose notional amounts change based on changes in the balance of, or pool of, assets or debt) hedging trust debt use internally derived assumptions for the trust assets' prepayment speeds and default rates to model the notional amortization. Management makes assumptions concerning the extension features of derivatives hedging rate-reset notes denominated in a foreign currency. These inputs are not market observable; therefore, these derivatives are level 3 fair value estimates.
- Floor Income Contracts — Derivatives are valued using an option pricing model. Inputs to the model include the LIBOR swap yield curve and LIBOR interest rate volatilities. The inputs are observable inputs in active markets and these derivatives are level 2 fair value estimates.

The carrying value of borrowings designated as the hedged item in a fair value hedge is adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates and volatilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fair Value Measurements (Continued)

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis. During 2019 and 2018, there were no significant transfers of financial instruments between levels.

(Dollars in millions)	Fair Value Measurements on a Recurring Basis							
	December 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivative instruments:(1)								
Interest rate swaps	—	227	3	230	—	171	2	173
Cross-currency interest rate swaps	—	—	—	—	—	—	6	6
Total derivative assets(2)	—	227	3	230	—	171	8	179
Total	\$ —	\$ 227	\$ 3	\$ 230	\$ —	\$ 171	\$ 8	\$ 179
Liabilities(3)								
Derivative instruments(1)								
Interest rate swaps	\$ —	\$ —	\$ (20)	\$ (20)	\$ —	\$ (50)	\$ (29)	\$ (79)
Floor Income Contracts	—	(68)	—	(68)	—	(53)	—	(53)
Cross-currency interest rate swaps	—	—	(575)	(575)	—	(26)	(639)	(665)
Other	—	—	(1)	(1)	—	—	(4)	(4)
Total derivative liabilities(2)	—	(68)	(596)	(664)	—	(129)	(672)	(801)
Total	\$ —	\$ (68)	\$ (596)	\$ (664)	\$ —	\$ (129)	\$ (672)	\$ (801)

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

(2) See "Note 7 — 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. 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.

	Year Ended December 31, 2019			
	Derivative Instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
(Dollars in millions)				
Balance, beginning of period	\$ (27)	\$ (633)	\$ (4)	\$ (664)
Total gains/(losses):				
Included in earnings ⁽¹⁾	8	(60)	2	(50)
Included in other comprehensive income	—	—	—	—
Settlements	2	118	1	121
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (17)</u>	<u>\$ (575)</u>	<u>\$ (1)</u>	<u>\$ (593)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date ⁽²⁾	<u>\$ 9</u>	<u>\$ 58</u>	<u>\$ 3</u>	<u>\$ 70</u>

	Year Ended December 31, 2018			
	Derivative Instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
(Dollars in millions)				
Balance, beginning of period	\$ (41)	\$ (322)	\$ (18)	\$ (381)
Total gains/(losses):				
Included in earnings ⁽¹⁾	11	(433)	8	(414)
Included in other comprehensive income	—	—	—	—
Settlements	3	122	6	131
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (27)</u>	<u>\$ (633)</u>	<u>\$ (4)</u>	<u>\$ (664)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date ⁽²⁾	<u>\$ 13</u>	<u>\$ (284)</u>	<u>\$ 14</u>	<u>\$ (257)</u>

	Year Ended December 31, 2017			
	Derivative Instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
(Dollars in millions)				
Balance, beginning of period	\$ (46)	\$ (1,243)	\$ (13)	\$ (1,302)
Total gains/(losses):				
Included in earnings ⁽¹⁾	—	803	(15)	788
Included in other comprehensive income	—	—	—	—
Settlements	5	118	10	133
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (41)</u>	<u>\$ (322)</u>	<u>\$ (18)</u>	<u>\$ (381)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date ⁽²⁾	<u>\$ 5</u>	<u>\$ 795</u>	<u>\$ (5)</u>	<u>\$ 795</u>

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

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Gains (losses) on derivative and hedging activities, net	\$ 10	\$ (292)	\$ 906
Interest expense	(60)	(122)	(118)
Total	<u>\$ (50)</u>	<u>\$ (414)</u>	<u>\$ 788</u>

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fair Value Measurements (Continued)

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

(Dollars in millions)	Fair Value at December 31, 2019	Valuation Technique	Input	Range
Derivatives				
Prime/LIBOR basis swaps	\$ (17)	Discounted cash flow	Constant Prepayment Rate Bid/ask adjustment to discount rate	8% .08%
Cross-currency interest rate swaps	(575)	Discounted cash flow	Constant Prepayment Rate	4%
Other	(1)			
Total	<u>\$ (593)</u>			

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

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

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

(Dollars in millions)	December 31, 2019			December 31, 2018		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
FFELP Loans	\$ 64,478	\$ 64,575	\$ (97)	\$ 72,074	\$ 72,253	\$ (179)
Private Education Loans	22,984	22,245	739	22,958	22,245	713
Cash and investments	3,992	3,992	—	5,488	5,488	—
Total earning assets	<u>91,454</u>	<u>90,812</u>	<u>642</u>	<u>100,520</u>	<u>99,986</u>	<u>534</u>
Interest-bearing liabilities						
Short-term borrowings	8,498	8,483	(15)	5,418	5,422	4
Long-term borrowings	81,317	81,715	398	92,173	93,519	1,346
Total interest-bearing liabilities	<u>89,815</u>	<u>90,198</u>	<u>383</u>	<u>97,591</u>	<u>98,941</u>	<u>1,350</u>
Derivative financial instruments						
Floor Income Contracts	(68)	(68)	—	(53)	(53)	—
Interest rate swaps	210	210	—	94	94	—
Cross-currency interest rate swaps	(575)	(575)	—	(659)	(659)	—
Other	(1)	(1)	—	(4)	(4)	—
Excess of net asset fair value over carrying value			<u>\$ 1,025</u>			<u>\$ 1,884</u>

13. Commitments, Contingencies and Guarantees

Legal Proceedings

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

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

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

Regulatory Matters

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

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

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

13. Commitments, Contingencies and Guarantees (Continued)

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

Under the terms of the Separation and Distribution Agreement between the Company and SLM BankCo, Navient has agreed to indemnify SLM BankCo for all claims, actions, damages, losses or expenses that may arise from the conduct of activities of pre-Spin-Off SLM BankCo occurring prior to the Spin-Off other than those specifically excluded in the Separation and Distribution Agreement. As a result, subject to the terms, conditions and limitations set forth in 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. Navient has asserted various claims for indemnification against Sallie Mae and Sallie Mae Bank for these specifically excluded items arising out of the CFPB and the State Attorneys General lawsuits if and to the extent any indemnified liabilities exist now or in the future. We expect these various indemnification claims to be resolved at a future date as the cases move toward conclusion. Navient has no reserves related to indemnification matters with SLM BankCo as of December 31, 2019.

OIG Audit

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

Contingencies

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

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

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

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Commitments, Contingencies and Guarantees (Continued)

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

As of June 30, 2018, we concluded that a contingency loss was no longer probable of occurring. Accordingly, the related \$40 million contingency reserve was released as a reduction of operating expenses in the second quarter of 2018.

14. Income Taxes

Reconciliations of the statutory U.S. federal income tax rates to our effective tax rate for continuing operations follow:

	Years Ended December 31,		
	2019	2018	2017
Statutory rate	21.0%	21.0%	35.0%
DTA Remeasurement Loss ⁽¹⁾	—	—	27.2
State tax, net of federal benefit	1.4	3.9	.7
Other, net	(.5)	.3	(1.1)
Effective tax rate	21.9%	25.2%	61.8%

(1) The TCJA, enacted on December 22, 2017, made significant changes to all aspects of income taxation, including a reduction to the corporate federal statutory tax rate. GAAP requires the effects of the TCJA to be recognized in the period the law is enacted, even though the effective date of the law for most provisions is January 1, 2018. The primary impact to us is the reduction to the corporate federal statutory tax rate from 35% to 21% as of January 1, 2018. This rate reduction required us to remeasure our deferred tax asset at December 31, 2017, at the 21% corporate federal statutory tax rate and resulted in a DTA Remeasurement Loss of \$208 million for GAAP, which is reflected as incremental income tax expense in the fourth quarter of 2017.

Income tax expense consists of:

(Dollars in millions)	December 31,		
	2019	2018	2017
Current provision/(benefit):			
Federal	\$ 78	\$ 71	\$ 77
State	11	13	(3)
Foreign	—	3	3
Total current provision/(benefit)	89	87	77
Deferred provision/(benefit):			
Federal	73	33	385
State	3	13	11
Foreign	1	—	(1)
Total deferred provision/(benefit)	77	46	395
Provision for income tax expense/(benefit)	\$ 166	\$ 133	\$ 472

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Income Taxes (Continued)

The tax effect of temporary differences that give rise to deferred tax assets and liabilities include the following:

(Dollars in millions)	December 31,	
	2019	2018
Deferred tax assets:		
Loan reserves	\$ 257	\$ 292
Education loan premiums and discounts, net	44	48
Accrued expenses not currently deductible	16	14
Operating loss and credit carryovers	17	18
Stock-based compensation plans	10	16
Other	21	18
Total deferred tax assets	365	406
Deferred tax liabilities:		
Market value adjustments on education loans, investments and derivatives	13	46
Acquired intangible assets	17	12
Original issue discount on borrowings	10	7
Other	18	19
Total deferred tax liabilities	58	84
Net deferred tax assets	<u>\$ 307</u>	<u>\$ 322</u>

Included in operating loss and credit carryovers is a valuation allowance of \$60 million and \$43 million as of December 31, 2019 and 2018, respectively, against a portion of the Company's federal and state deferred tax assets. The valuation allowance is primarily attributable to deferred tax assets for federal and state net operating loss carryforwards and state IRC § 163(j) disallowed interest expense carryforwards that management believes it is more likely than not will expire prior to being realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income of the appropriate character (i.e. capital or ordinary) during the period in which the temporary differences become deductible. Factors generally considered by management include (but are not limited to): any changes in economic conditions, the scheduled reversals of deferred tax liabilities, and the history of positive taxable income available for net operating loss carrybacks in evaluating the realizability of the deferred tax assets.

As of December 31, 2019, we have gross federal net operating loss ("NOL") carryforwards of \$66 million (which begin to expire in 2031) and gross state NOL carryforwards of \$556 million (which begin to expire in 2021). Tax-effected NOL amounts of \$14 million (federal) and \$39 million (state) have corresponding valuation allowances of \$0 (federal) and \$36 million (state).

As of December 31, 2019, we have gross state IRC § 163(j) disallowed interest expense carryforwards of \$1,551 million (which is indefinite). State tax-effected IRC § 163(j) disallowed interest expense carryforward amount of \$21 million has a corresponding valuation allowance of \$21 million.

As of December 31, 2019, we have gross federal and state capital loss carryforwards of \$10 million (which begin to expire in 2021). Tax-effected capital loss amount of \$3 million (federal and state) has a corresponding valuation allowance of \$3 million (federal and state).

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Income Taxes (Continued)

Accounting for Uncertainty in Income Taxes

The following table summarizes changes in unrecognized tax benefits:

(Dollars in millions)	December 31,		
	2019	2018	2017
Unrecognized tax benefits at beginning of year	\$ 65.7	\$ 57.4	\$ 73.0
Increases resulting from tax positions taken during a prior period	4.0	8.0	.7
Decreases resulting from tax positions taken during a prior period	(3.8)	(.3)	(1.8)
Increases resulting from tax positions taken during the current period	1.9	3.8	4.4
Decreases related to settlements with taxing authorities	(11.1)	(1.4)	(5.1)
Increases related to settlements with taxing authorities	—	—	—
Reductions related to the lapse of statute of limitations	(3.1)	(1.8)	(13.8)
Unrecognized tax benefits at end of year	<u>\$ 53.6</u>	<u>\$ 65.7</u>	<u>\$ 57.4</u>

As of December 31, 2019, the gross unrecognized tax benefits are \$53.6 million. Included in the \$53.6 million are \$42.4 million of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate.

The Company or one of its subsidiaries files income tax returns at the U.S. federal level, in most U.S. states, and various foreign jurisdictions. All periods prior to 2016 are closed for federal examinations purposes. Various combinations of subsidiaries, tax years, and jurisdictions remain open for review, subject to statute of limitations periods (typically 3 to 4 prior years). We do not expect the resolution of open audits to have a material impact on our unrecognized tax benefits.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Revenue by Service Type

(Dollars in millions)	Years Ended December 31,					
	2019			2018		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal Education Loan asset recovery services	\$ 133	\$ —	\$ 133	\$ 91	\$ —	\$ 91
Government services	—	154	154	—	175	175
Healthcare services	—	104	104	—	93	93
Total	<u>\$ 133</u>	<u>\$ 258</u>	<u>\$ 391</u>	<u>\$ 91</u>	<u>\$ 268</u>	<u>\$ 359</u>

Revenue by Client Type

(Dollars in millions)	Years Ended December 31,					
	2019			2018		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal government	\$ 74	\$ 17	\$ 91	\$ 21	\$ 7	\$ 28
Guarantor agencies	52	—	52	58	—	58
Other institutions	7	—	7	12	—	12
State and local government	—	83	83	—	92	92
Tolling authorities	—	54	54	—	76	76
Hospitals and other healthcare providers	—	104	104	—	93	93
Total	<u>\$ 133</u>	<u>\$ 258</u>	<u>\$ 391</u>	<u>\$ 91</u>	<u>\$ 268</u>	<u>\$ 359</u>

As of December 31, 2019 and 2018, there was \$67 million and \$74 million, respectively, of net accounts receivable related to these contracts. Navient had no material contract assets or contract liabilities.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Reporting

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

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

Federal Education Loans Segment

In this segment, Navient holds and acquires FFELP Loans and performs servicing and asset recovery services on its own loan portfolio, federal education loans owned by ED and other institutions. Although FFELP Loans are no longer originated, we continue to pursue acquisitions of FFELP Loan portfolios as well as servicing and asset recovery services contracts. These acquisitions leverage our servicing scale and generate incremental earnings and cash flow. In this segment, we generate revenue primarily through net interest income on the FFELP Loan portfolio (after provision for loan losses) as well as servicing and asset recovery services revenue. This segment is expected to generate significant amounts of earnings and cash flow over the remaining life of the portfolio.

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

(Dollars in millions)	December 31,	
	2019	2018
FFELP Loans, net	\$ 64,575	\$ 72,253
Cash and investments ⁽¹⁾	2,043	3,368
Other	2,202	2,100
Total assets	<u>\$ 68,820</u>	<u>\$ 77,721</u>

(1) Includes restricted cash and investments.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Reporting (Continued)

Consumer Lending Segment

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

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

Dollars in millions)	December 31,	
	2019	2018
Private Education Loans, net	\$ 22,245	\$ 22,245
Cash and investments ⁽¹⁾	927	732
Other	931	1,076
Total assets	<u>\$ 24,103</u>	<u>\$ 24,053</u>

(1) Includes restricted cash and investments.

Business Processing Segment

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

At December 31, 2019 and 2018, the Business Processing segment had total assets of \$423 million and \$448 million, respectively, on a GAAP basis.

Other Segment

Our Other segment primarily consists of our corporate liquidity portfolio and the repurchase of debt, unallocated expenses of shared services, restructuring/other reorganization expenses, and the deferred tax asset remeasurement loss recognized due to the enactment of the TCJA in the fourth quarter of 2017.

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

At December 31, 2019 and 2018, the Other segment had total assets of \$1.6 billion and \$2.0 billion, respectively, on a GAAP basis.

16. Segment Reporting (Continued)

Measure of Profitability

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

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

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

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

(Dollars in millions)	Year Ended December 31, 2019								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			
						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	Total GAAP
Interest income:									
Education loans	\$ 2,907	\$ 1,731	\$ —	\$ —	\$ 4,638	\$ 8	\$ (68)	\$ (60)	\$ 4,578
Other loans	1	1	—	—	2	—	—	—	2
Cash and investments	50	16	—	27	93	—	—	—	93
Total interest income	2,958	1,748	—	27	4,733	8	(68)	(60)	4,673
Total interest expense	2,376	980	—	161	3,517	6	(35)	(29)	3,488
Net interest income (loss)	582	768	—	(134)	1,216	2	(33)	(31)	1,185
Less: provisions for loan losses	30	228	—	—	258	—	—	—	258
Net interest income (loss) after provisions for loan losses	552	540	—	(134)	958	2	(33)	(31)	927
Other income (loss):									
Servicing revenue	229	11	—	—	240	—	—	—	240
Asset recovery and business processing revenue	230	—	258	—	488	—	—	—	488
Other income (loss)	28	1	—	14	43	(41)	65	24	67
Gains on sales of loans	—	16	—	—	16	—	—	—	16
Gains on debt repurchases	—	—	—	33	33	39	(27)	12	45
Total other income (loss)	487	28	258	47	820	(2)	38	36	856
Expenses:									
Direct operating expenses	359	156	215	—	730	—	—	—	730
Unallocated shared services expenses	—	—	—	254	254	—	—	—	254
Operating expenses	359	156	215	254	984	—	—	—	984
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	30	30	30
Restructuring/other reorganization expenses	—	—	—	6	6	—	—	—	6
Total expenses	359	156	215	260	990	—	30	30	1,020
Income (loss) before income tax expense (benefit)	680	412	43	(347)	788	—	(25)	(25)	763
Income tax expense (benefit) ⁽²⁾	155	96	10	(80)	181	—	(15)	(15)	166
Net income (loss)	\$ 525	\$ 316	\$ 33	\$ (267)	\$ 607	\$ —	\$ (10)	\$ (10)	\$ 597

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2019		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ (31)	\$ —	\$ (31)
Total other income (loss)	36	—	36
Goodwill and acquired intangible asset impairment and amortization	—	30	30
Total Core Earnings adjustments to GAAP	\$ 5	\$ (30)	(25)
Income tax expense (benefit)			(15)
Net income (loss)			\$ (10)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Reporting (Continued)

(Dollars in millions)	Year Ended December 31, 2018								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			
						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	Total GAAP
Interest income:									
Education loans	\$ 3,080	\$ 1,778	\$ —	\$ —	\$ 4,858	\$ 17	\$ (70)	\$ (53)	\$ 4,805
Other loans	4	2	—	—	6	—	—	—	6
Cash and investments	46	13	—	38	97	—	—	—	97
Total interest income	3,130	1,793	—	38	4,961	17	(70)	(53)	4,908
Total interest expense	2,467	1,013	—	192	3,672	8	(12)	(4)	3,668
Net interest income (loss)	663	780	—	(154)	1,289	9	(58)	(49)	1,240
Less: provisions for loan losses	70	300	—	—	370	—	—	—	370
Net interest income (loss) after provisions for loan losses	593	480	—	(154)	919	9	(58)	(49)	870
Other income (loss):									
Servicing revenue	262	12	—	—	274	—	—	—	274
Asset recovery and business processing revenue	163	—	267	—	430	—	—	—	430
Other income (loss)	24	—	—	6	30	(22)	(29)	(51)	(21)
Gains on debt repurchases	—	—	—	9	9	13	(3)	10	19
Total other income (loss)	449	12	267	15	743	(9)	(32)	(41)	702
Expenses:									
Direct operating expenses	298	169	229	—	696	—	—	—	696
Unallocated shared services expenses	—	—	—	288	288	—	—	—	288
Operating expenses	298	169	229	288	984	—	—	—	984
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	47	47	47
Restructuring/other reorganization expenses	—	—	—	13	13	—	—	—	13
Total expenses	298	169	229	301	997	—	47	47	1,044
Income (loss) before income tax expense (benefit)	744	323	38	(440)	665	—	(137)	(137)	528
Income tax expense (benefit) ⁽²⁾	164	71	8	(97)	146	—	(13)	(13)	133
Net income (loss)	\$ 580	\$ 252	\$ 30	\$ (343)	\$ 519	\$ —	\$ (124)	\$ (124)	\$ 395

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2018		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ (49)	\$ —	\$ (49)
Total other income (loss)	(41)	—	(41)
Goodwill and acquired intangible asset impairment and amortization	—	47	47
Total Core Earnings adjustments to GAAP	\$ (90)	\$ (47)	(137)
Income tax expense (benefit)			(13)
Net income (loss)			\$ (124)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Reporting (Continued)

(Dollars in millions)	Year Ended December 31, 2017								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			
						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	Total GAAP
Interest income:									
Education loans	\$ 2,679	\$ 1,634	\$ —	\$ —	\$ 4,313	\$ 69	\$ (55)	\$ 14	\$ 4,327
Other loans	13	—	—	—	13	—	—	—	13
Cash and investments	29	5	—	9	43	—	—	—	43
Total interest income	2,721	1,639	—	9	4,369	69	(55)	14	4,383
Total interest expense	2,022	825	—	143	2,990	(8)	(11)	(19)	2,971
Net interest income (loss)	699	814	—	(134)	1,379	77	(44)	33	1,412
Less: provisions for loan losses	44	382	—	—	426	—	—	—	426
Net interest income (loss) after provisions for loan losses	655	432	—	(134)	953	77	(44)	33	986
Other income (loss):									
Servicing revenue	280	10	—	—	290	—	—	—	290
Asset recovery and business processing revenue	263	—	212	—	475	—	—	—	475
Other income (loss)	3	—	—	16	19	(77)	89	12	31
Gains on sales of loans	3	—	—	—	3	—	—	—	3
Losses on debt repurchases	—	—	—	(3)	(3)	—	—	—	(3)
Total other income (loss)	549	10	212	13	784	(77)	89	12	796
Expenses:									
Direct operating expenses	316	156	187	—	659	—	—	—	659
Unallocated shared services expenses	—	—	—	307	307	—	—	—	307
Operating expenses	316	156	187	307	966	—	—	—	966
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	23	23	23
Restructuring/other reorganization expenses	—	—	—	29	29	—	—	—	29
Total expenses	316	156	187	336	995	—	23	23	1,018
Income (loss) before income tax expense (benefit)	888	286	25	(457)	742	—	22	22	764
Income tax expense (benefit) ⁽²⁾	321	103	9	58	491	—	(19)	(19)	472
Net income (loss)	\$ 567	\$ 183	\$ 16	\$ (515)	\$ 251	\$ —	\$ 41	\$ 41	\$ 292

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2017		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 33	\$ —	\$ 33
Total other income (loss)	12	—	12
Goodwill and acquired intangible asset impairment and amortization	—	23	23
Total Core Earnings adjustments to GAAP	\$ 45	\$ (23)	22
Income tax expense (benefit)			(19)
Net income (loss)			\$ 41

(2) Income taxes are based on a percentage of net income before tax for the individual reportable segment with the impact of the DTA Remeasurement Loss included in the Other segment.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

(Dollars in millions)	Years Ended December 31,		
	2019	2018	2017
Core Earnings net income	\$ 607	\$ 519	\$ 251
Core Earnings adjustments to GAAP:			
Net impact of derivative accounting ⁽¹⁾	5	(90)	45
Net impact of goodwill and acquired intangible assets ⁽²⁾	(30)	(47)	(23)
Net income tax effect ⁽³⁾	15	13	19
Total Core Earnings adjustments to GAAP	(10)	(124)	41
GAAP net income	<u>\$ 597</u>	<u>\$ 395</u>	<u>\$ 292</u>

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Quarterly Financial Information (unaudited)

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollars in millions, except per share data)				
Net interest income	\$ 285	\$ 293	\$ 312	\$ 294
Less: provisions for loan losses	76	68	64	50
Net interest income after provisions for loan losses	209	225	248	244
Other income	212	254	192	176
Gains (losses) on derivative and hedging activities, net	7	(32)	4	43
Operating expenses	256	241	251	235
Goodwill and acquired intangible asset impairment and amortization expense	7	11	6	6
Restructuring/other reorganization expenses	1	1	2	2
Income tax expense	36	41	40	49
Net income	\$ 128	\$ 153	\$ 145	\$ 171
Basic earnings per common share	\$.52	\$.65	\$.64	\$.79
Diluted earnings per common share	\$.52	\$.64	\$.63	\$.78

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollars in millions, except per share data)				
Net interest income	\$ 329	\$ 298	\$ 306	\$ 307
Less: provisions for loan losses	87	112	85	85
Net interest income after provisions for loan losses	242	186	221	222
Other income	163	176	203	196
Gains (losses) on derivative and hedging activities, net	48	(40)	2	(48)
Operating expenses	275	201	255	252
Goodwill and acquired intangible asset impairment and amortization expense	9	6	23	8
Restructuring/other reorganization expenses	7	2	1	4
Income tax expense	36	30	33	34
Net income	\$ 126	\$ 83	\$ 114	\$ 72
Basic earnings per common share	\$.48	\$.31	\$.44	\$.28
Diluted earnings per common share	\$.47	\$.31	\$.43	\$.28

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm	F-4
Consolidated Balance Sheets	F-7
Consolidated Statements of Income	F-8
Consolidated Statements of Comprehensive Income	F-9
Consolidated Statements of Changes in Stockholders' Equity	F-10
Consolidated Statements of Cash Flows	F-13
Notes to Consolidated Financial Statements	F-14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Navient Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Navient Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 26, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(signed) KPMG LLP

McLean, Virginia
February 26, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Navient Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Navient Corporation and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for recognition and measurement of credit losses as of January 1, 2020 due to the adoption of Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Accounting Standards Codification Topic 326)*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for credit losses on loans

As discussed in Note 2 to the consolidated financial statements, the Company adopted ASU No. 2016-13, *Financial Instruments— Credit Losses (CECL)* as of January 1, 2020. The total allowance for credit losses as of January 1, 2020 was \$1,369 million, inclusive of the allowance for private education loans totaling \$1,045 million and FFELP loans totaling \$324 million (the January 1, 2020 ALL). As discussed in Notes 2 and 4 to the consolidated financial statements, the Company's total allowance for credit losses as of December 31, 2020 was \$1,377 million, of which \$1,089 million related to the allowance for credit losses on private education loans (the December 31, 2020 private education ALL). The January 1, 2020 ALL and the December 31, 2020 private education ALL includes the measure of expected credit losses on a collective basis for those loans that share similar risk characteristics. The Company estimated the January 1, 2020 ALL and the December 31, 2020 private education ALL using current expected credit losses methodologies which are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the loan balances. For the private education ALL, the expected credit losses are the product of a transition rate model determining the Company's estimates of probability of default and prepayment and applying the loss given default on an undiscounted basis. For the FFELP ALL, the expected credit losses are the product of the model utilizing historical transition rates to determine the Company's estimates of probability of default and prepayment on an undiscounted basis. The models used to project losses utilize key credit quality indicators of the loan portfolio and predict how those attributes are expected to perform at the loan level in connection with the forecasted economic conditions over the contractual term of the loans including any prepayments and extension options within the control of the borrower. The private education ALL incorporates a reasonable and supportable forecast of various macro-economic variables and several forecast scenarios over the remaining life of the loans. The development of the reasonable and supportable forecast incorporates an assumption that each macro-economic variable will revert to a long-term expectation. For the FFELP ALL, after the reasonable and supportable forecast period, there is an immediate reversion to a long-term expectation. The Company makes estimates regarding 1) transition rates including prepayments, 2) recoveries on defaults including expected future recoveries on charged-off loans (expected recoveries) and 3) reasonably expected new Troubled Debt Restructurings ("TDRs"). A portion of the January 1, 2020 ALL and the December 31, 2020 private education ALL is comprised of adjustments to historical loss information for reasonable and supportable forecasts of future economic conditions and asset-specific risk characteristics to the extent that these factors are not reflected in the historical loss information. These adjustments are based on qualitative factors not reflected in the quantitative models but are likely to impact the measurement of estimated credit losses.

We identified the assessment of the January 1, 2020 ALL and the December 31, 2020 private education ALL as a critical audit matter. A high degree of audit effort, including skills and knowledge, and subjective and complex auditor judgment was involved in the assessment. Specifically, the assessment encompassed an evaluation of the ALL methodologies including the methods and models used to estimate the projected losses and their significant assumptions. Such significant assumptions included (1) historical loss period (2) the forecasted economic scenarios, including related weightings (solely as it relates to the private education ALL), (3) the reasonable and supportable forecast periods, (4) the reversion method (solely as it relates to the FFELP ALL), (5) the transition rates including estimated prepayments, (6) the expected recoveries (solely as it relates to the private education ALL), and (7) the qualitative factors. The assessment also included an evaluation of the conceptual soundness and performance of the models. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the ALL estimates including controls over:

- development of the ALL methodologies
- development of the models
- identification and determination of significant assumptions used to estimate credit losses
- development of the qualitative factors
- performance monitoring of the models for the December 31, 2020 private education ALL
- analysis of the December 31, 2020 private education ALL results, trends, and ratios.

We evaluated the Company's process to develop the ALL estimates by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized industry knowledge and experience who assisted in:

- evaluating the Company's January 1, 2020 ALL and December 31, 2020 private education ALL methodologies for compliance with U.S. generally accepted accounting principles
- evaluating the judgments made by the Company relative to the model development and performance testing of models, and the significant assumptions used by the Company by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices
- assessing the conceptual soundness and performance testing of the model by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating the methodology used to develop the qualitative factors and the effect of those factors on the ALL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying quantitative models.

We also assessed the sufficiency of the audit evidence obtained related to the Company's January 1, 2020 ALL and the December 31, 2020 private education ALL by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

(signed) KPMG LLP

We have served as the Company's auditor since 2012.

McLean, Virginia
February 26, 2021

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

	December 31, 2020	December 31, 2019
Assets		
FFELP Loans (net of allowance for losses of \$288 and \$64, respectively)	\$ 58,284	\$ 64,575
Private Education Loans (net of allowance for losses of \$1,089 and \$1,048, respectively)	21,079	22,245
Investments		
Held-to-maturity	15	19
Other	270	192
Total investments	285	211
Cash and cash equivalents	1,183	1,233
Restricted cash and cash equivalents	2,354	2,548
Goodwill and acquired intangible assets, net	735	757
Other assets	3,492	3,334
Total assets	\$ 87,412	\$ 94,903
Liabilities		
Short-term borrowings	\$ 6,613	\$ 8,483
Long-term borrowings	77,332	81,715
Other liabilities	1,020	1,356
Total liabilities	84,965	91,554
Commitments and contingencies		
Equity		
Common stock, par value \$0.01 per share; 1.125 billion shares authorized: 454 million and 451 million shares issued, respectively	4	4
Additional paid-in capital	3,226	3,198
Accumulated other comprehensive loss (net of tax benefit of \$90 and \$30, respectively)	(274)	(91)
Retained earnings	3,331	3,664
Total Navient Corporation stockholders' equity before treasury stock	6,287	6,775
Less: Common stock held in treasury at cost: 267 million and 236 million shares, respectively	(3,854)	(3,439)
Total Navient Corporation stockholders' equity	2,433	3,336
Noncontrolling interest	14	13
Total equity	2,447	3,349
Total liabilities and equity	\$ 87,412	\$ 94,903

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

	December 31, 2020	December 31, 2019
FFELP Loans	\$ 58,068	\$ 64,255
Private Education Loans	18,658	19,609
Restricted cash	2,322	2,506
Other assets, net	1,420	1,089
Short-term borrowings	5,595	7,089
Long-term borrowings	68,900	72,856
Net assets of consolidated variable interest entities	\$ 5,973	\$ 7,514

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Years Ended December 31,		
	2020	2019	2018
Interest income:			
FFELP Loans	\$ 1,837	\$ 2,847	\$ 3,027
Private Education Loans	1,445	1,731	1,778
Other loans	—	2	6
Cash and investments	16	93	97
Total interest income	3,298	4,673	4,908
Total interest expense	2,046	3,488	3,668
Net interest income	1,252	1,185	1,240
Less: provisions for loan losses	155	258	370
Net interest income after provisions for loan losses	1,097	927	870
Other income (loss):			
Servicing revenue	214	240	274
Asset recovery and business processing revenue	458	488	430
Other income	20	45	17
Gains on sales of loans	—	16	—
Gains (losses) on debt repurchases	(6)	45	19
Gains (losses) on derivative and hedging activities, net	(256)	22	(38)
Total other income	430	856	702
Expenses:			
Salaries and benefits	497	488	507
Other operating expenses	467	496	477
Total operating expenses	964	984	984
Goodwill and acquired intangible asset impairment and amortization expense	22	30	47
Restructuring/other reorganization expenses	9	6	13
Total expenses	995	1,020	1,044
Income before income tax expense	532	763	528
Income tax expense	120	166	133
Net income	<u>\$ 412</u>	<u>\$ 597</u>	<u>\$ 395</u>
Basic earnings per common share	<u>\$ 2.14</u>	<u>\$ 2.59</u>	<u>\$ 1.52</u>
Average common shares outstanding	193	230	260
Diluted earnings per common share	<u>\$ 2.12</u>	<u>\$ 2.56</u>	<u>\$ 1.49</u>
Average common and common equivalent shares outstanding	195	233	264
Dividends per common share	<u>\$.64</u>	<u>\$.64</u>	<u>\$.64</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 412	\$ 597	\$ 395
Net changes in cash flow hedges, net of taxes ⁽¹⁾	(183)	(204)	39
Total comprehensive income	\$ 229	\$ 393	\$ 434

(1) See "Note 7 – Derivative Financial Instruments."

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2017	439,718,145	(176,667,573)	263,050,572	\$ 4	\$ 3,077	\$ 61	\$ 3,004	\$ (2,692)	\$ 3,454	\$ 31	\$ 3,485
Comprehensive income:											
Net income	—	—	—	—	—	—	395	—	395	—	395
Other comprehensive income (loss), net of tax	—	—	—	—	—	39	—	—	39	—	39
Total comprehensive income	—	—	—	—	—	—	—	—	434	—	434
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(166)	—	(166)	—	(166)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	5,659,681	—	5,659,681	—	43	—	—	—	43	—	43
Stock-based compensation expense	—	—	—	—	25	—	—	—	25	—	25
Repurchase of common stock:											
Common stock repurchased	—	(13,131,159)	(13,131,159)	—	—	—	—	(160)	(160)	—	(160)
Derivative contract settlement:											
Settlement cost, cash	—	(4,312,192)	(4,312,192)	—	—	—	—	(60)	(60)	—	(60)
(Gain)/loss on settlement	—	—	—	—	—	—	—	4	4	—	4
Shares repurchased related to employee stock-based compensation plans	—	(3,829,629)	(3,829,629)	—	—	—	—	(53)	(53)	—	(53)
Purchase of noncontrolling interest	—	—	—	—	—	—	—	—	—	(3)	(3)
Reclassification from adoption of ASU No. 2018-02	—	—	—	—	—	13	(13)	—	—	—	—
Balance at December 31, 2018	<u>445,377,826</u>	<u>(197,940,553)</u>	<u>247,437,273</u>	<u>\$ 4</u>	<u>\$ 3,145</u>	<u>\$ 113</u>	<u>\$ 3,218</u>	<u>\$ (2,961)</u>	<u>\$ 3,519</u>	<u>\$ 28</u>	<u>\$ 3,547</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2018	445,377,826	(197,940,553)	247,437,273	\$ 4	\$ 3,145	\$ 113	\$ 3,218	\$ (2,961)	3,519	\$ 28	3,547
Comprehensive income:											
Net income	—	—	—	—	—	—	597	—	597	—	597
Other comprehensive income (loss), net of tax	—	—	—	—	—	(204)	—	—	(204)	—	(204)
Total comprehensive income	—	—	—	—	—	—	—	—	393	—	393
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(147)	—	(147)	—	(147)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(4)	—	(4)	—	(4)
Issuance of common shares	5,717,053	—	5,717,053	—	28	—	—	—	28	—	28
Stock-based compensation expense	—	—	—	—	25	—	—	—	25	—	25
Common stock repurchased	—	(34,491,342)	(34,491,342)	—	—	—	—	(440)	(440)	—	(440)
Shares repurchased related to employee stock-based compensation plans	—	(3,226,301)	(3,226,301)	—	—	—	—	(38)	(38)	—	(38)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2019	<u>451,094,879</u>	<u>(235,658,196)</u>	<u>215,436,683</u>	<u>\$ 4</u>	<u>\$ 3,198</u>	<u>\$ (91)</u>	<u>\$ 3,664</u>	<u>\$ (3,439)</u>	<u>\$ 3,336</u>	<u>\$ 13</u>	<u>\$ 3,349</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2019	451,094,879	(235,658,196)	215,436,683	\$ 4	\$ 3,198	\$ (91)	\$ 3,664	\$ (3,439)	3,336	\$ 13	3,349
Cumulative adjustment for the adoption of ASU No. 2016-13	—	—	—	—	—	—	(620)	—	(620)	—	(620)
Comprehensive income:											
Net income	—	—	—	—	—	—	412	—	412	—	412
Other comprehensive income (loss), net of tax	—	—	—	—	—	(183)	—	—	(183)	—	(183)
Total comprehensive income	—	—	—	—	—	—	—	—	229	—	229
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(123)	—	(123)	—	(123)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	2,684,096	—	2,684,096	—	10	—	—	—	10	—	10
Stock-based compensation expense	—	—	—	—	18	—	—	—	18	—	18
Common stock repurchased	—	(30,628,580)	(30,628,580)	—	—	—	—	(400)	(400)	—	(400)
Shares repurchased related to employee stock-based compensation plans	—	(1,189,745)	(1,189,745)	—	—	—	—	(15)	(15)	—	(15)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	1	1
Balance at December 31, 2020	<u>453,778,975</u>	<u>(267,476,521)</u>	<u>186,302,454</u>	<u>\$ 4</u>	<u>\$ 3,226</u>	<u>\$ (274)</u>	<u>\$ 3,331</u>	<u>\$ (3,854)</u>	<u>\$ 2,433</u>	<u>\$ 14</u>	<u>\$ 2,447</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended December 31,		
	2020	2019	2018
Operating activities			
Net income	\$ 412	\$ 597	\$ 395
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gains) on sale of education loans	—	(16)	—
(Gains) losses on debt repurchases	6	(45)	(19)
Goodwill and acquired intangible asset impairment and amortization expense	22	30	47
Stock-based compensation expense	18	25	25
Mark-to-market (gains)/losses on derivative and hedging activities, net	340	130	37
Provisions for loan losses	155	258	370
Decrease (increase) in accrued interest receivable	22	78	(125)
(Decrease) increase in accrued interest payable	(113)	(96)	58
Decrease in other assets	177	191	321
(Decrease) increase in other liabilities	(52)	(133)	31
Total adjustments	575	422	745
Total net cash provided by operating activities	987	1,019	1,140
Investing activities			
Education loans acquired	(4,641)	(5,411)	(3,652)
Principal payments on education loans	11,179	12,472	13,973
Proceeds from sales of education loans	—	408	—
Other investing activities, net	(90)	9	(76)
Proceeds from sales and maturities of other securities	—	7	115
Total net cash provided by investing activities	6,448	7,485	10,360
Financing activities			
Borrowings collateralized by loans in trust - issued	7,959	7,919	9,006
Borrowings collateralized by loans in trust - repaid	(11,858)	(14,271)	(14,057)
Asset-backed commercial paper conduits, net	(1,915)	(907)	(2,833)
Long-term unsecured notes issued	682	—	495
Long-term unsecured notes repaid	(1,832)	(1,950)	(2,947)
Other financing activities, net	(192)	(189)	(162)
Common stock repurchased	(400)	(440)	(220)
Common dividends paid	(123)	(147)	(166)
Total net cash used in financing activities	(7,679)	(9,985)	(10,884)
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(244)	(1,481)	616
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	3,781	5,262	4,646
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 3,537	\$ 3,781	\$ 5,262
Cash disbursements made (refunds received) for:			
Interest	\$ 2,059	\$ 3,479	\$ 3,460
Income taxes paid	\$ 74	\$ 93	\$ 57
Income taxes received	\$ —	\$ (4)	\$ (6)
Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:			
Cash and cash equivalents	\$ 1,183	\$ 1,233	\$ 1,286
Restricted cash and restricted cash equivalents	2,354	2,548	3,976
Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 3,537	\$ 3,781	\$ 5,262
Supplemental cash flow information:			
Non-cash activities			
Investing activity - Held-to-maturity asset backed securities retained related to sales of education loans	\$ —	\$ 22	\$ —
Operating activity - Servicing assets recognized upon sales of education loans	—	3	—

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Navient's Business

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

With a focus on data-driven insights, service, compliance and innovative support, Navient's business consists of:

- **Federal Education Loans**

We own a portfolio of \$58.3 billion of federally guaranteed Federal Family Education Loan Program (FFELP) Loans. We service and provide asset recovery services on this portfolio and for third parties, deploying data-driven approaches to support the success of our customers.

We service federal education loans for approximately 5.6 million customers on behalf of the U.S. Department of Education (ED). Our flexible and scalable infrastructure manages large volumes of complex transactions with continued customer experience and efficiency improvements.

- **Consumer Lending**

We own, service and originate Private Education Loans that enable students to pursue higher education and economic opportunities. Our \$21.1 billion private loan portfolio demonstrates high customer success rates. Our loan origination business assists borrowers in refinancing their education loan debt and supports students and families in financing their higher education. In 2020, we originated \$4.6 billion in Private Education Loans.

- **Business Processing**

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

2. Significant Accounting Policies

Use of Estimates

Our financial reporting and accounting policies conform to generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Uncertain and volatile market and economic conditions increase the risk and complexity of the judgments in these estimates and actual results could differ from estimates. Accounting policies that include the most significant judgments, estimates and assumptions include the allowance for loan losses, goodwill and intangible asset impairment assessment and the amortization of loan premiums and discounts using the effective interest rate method.

Consolidation

The consolidated financial statements include the accounts of Navient Corporation 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.

2. Significant Accounting Policies (Continued)

We consolidate any VIEs where we have determined we are the primary beneficiary. A VIE is a legal entity that does not have sufficient equity at risk to finance its own operations, or whose equity holders do not have the power to direct the activities that most significantly affect the economic performance of the entity, or whose equity holders do not share proportionately in the losses or benefits of the entity. The primary beneficiary of the VIE is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. As it relates to our securitizations and other secured borrowing facilities that are VIEs as of December 31, 2020 that we consolidate, we are the primary beneficiary as we are the servicer of the related education loan assets and own the Residual Interest of the securitization trusts and secured borrowing facilities.

Fair Value Measurement

We use estimates of fair value in applying various accounting standards for our financial statements. Fair value measurements are used in one of four ways:

- In the balance sheet with changes in fair value recorded in the statement of income;
- In the balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the statement of changes in stockholders' equity;
- In the balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the statement of income; and
- In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, our policy in estimating fair value is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads, relying first on observable data from active markets. Depending on current market conditions, additional adjustments to fair value may be based on factors such as liquidity and credit spreads. Transaction costs are not included in the determination of fair value. When possible, we seek to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

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. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.
- Level 2 — Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.
- Level 3 — Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available. However, significant judgment is required by us in developing the inputs.

Loans

Loans, consisting of federally insured education loans and Private Education Loans, that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment and are carried at amortized cost. Amortized cost includes the unamortized premiums, discounts, and capitalized origination costs and fees, all of which are amortized to interest income as further discussed below. Loans which are held-for-investment also have an allowance for loan loss. Any loans we have not classified as held-for-investment are classified as held-for-sale and carried at the lower of cost or fair value. Loans are classified as held-for-sale when we have the intent and ability to sell such loans. Loans which are held-for-sale do not have the associated premium, discount, and capitalized origination costs and fees amortized into interest income. In addition, once a loan is classified as held-for-sale, any allowance for loan losses that existed immediately prior to the reclassification to held-for-sale is reversed through provision.

2. Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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

Related to this new standard:

- We have determined that, for modeling current expected credit losses, we can reasonably estimate expected losses that incorporate current and forecasted economic conditions over a "reasonable and supportable" period. For Private Education Loans, we incorporate a reasonable and supportable forecast of various macro-economic variables over the remaining life of the loans. The development of the reasonable and supportable forecast incorporates an assumption that each macro-economic variable will revert to a long-term expectation starting in years 2-4 of the forecast and largely completing within the first five years of the forecast. For FFELP Loans, after a three-year reasonable and supportable period, there is an immediate reversion to a long-term expectation. The models used to project losses utilize key credit quality indicators of the loan portfolio and predict how those attributes are expected to perform in connection with the forecasted economic conditions. These losses are calculated on an undiscounted basis. For Private Education Loans, we utilize a transition rate model that estimates the probability of prepayment and default and apply the loss given default. For FFELP Loans, we use historical transition rates to determine prepayments and defaults. The forecasted economic conditions used in our modeling of expected losses are provided by a third party. The primary economic metrics we use in the economic forecast are unemployment, GDP, interest rates, consumer loan delinquency rates and consumer income. Several forecast scenarios are provided which represent the baseline economic expectations as well as favorable and adverse scenarios. We analyze and evaluate the alternative scenarios for reasonableness and determine the appropriate weighting of these alternative scenarios based upon the current economic conditions and our view of the likelihood and risks of the alternative scenarios. We project losses at the loan level and make estimates regarding prepayments, recoveries on defaults and reasonably expected new Troubled Debt Restructurings (TDRs).
- Separately, as it relates to interest rate concessions granted as part of our private education loan modification program, a discounted cash flow model is used to calculate the amount of interest forgiven for loans currently in the program. The present value of this interest rate concession is included in our allowance for loan loss.
- Charge-offs include the discount or premium related to such defaulted loan.
- CECL requires our expected future recoveries on charged-off loans to be presented within the allowance for loan loss whereas previously, we accounted for our receivable for partially charged-off loans (\$588 million as of December 31, 2019) as part of our Private Education Loan portfolio. This change is only a change in classification on the balance sheet and did not impact retained earnings at adoption of CECL or provision and net income post-adoption.
- Once our loss model calculations are performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be made. These adjustments may include, but are not limited to, changes in lending and servicing and collection policies and practices, as well as the effect of other external factors such as the economy and changes in legal or regulatory requirements that impact the amount of future credit losses.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

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

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

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

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

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

The \$155 million provision for loan losses in 2020 primarily related to an increase in expected losses due to COVID-19's negative impact on the current and forecasted economic conditions. This increase in expected losses was largely reflected in the allowance for loan losses as of June 30, 2020 as we believe there was not a significant change in the credit quality of the portfolio or in the current and forecasted economic conditions between June 30, 2020 and December 31, 2020. These conclusions and adjustments were based on an evaluation of current and forecasted economic conditions directly taking into consideration the negative impact of COVID-19 on the U.S. economy. We evaluated and considered several forecasted economic scenarios when making these conclusions and adjustments. We also considered the characteristics of our loan portfolio and its expected behavior in the forecasted economic scenarios. The provision for loan losses in 2020 related to COVID-19 is directly related to changes in the following assumptions regarding the current and forecasted economic conditions since January 1, 2020 (when CECL was implemented): an increase in unemployment, a decrease in GDP, a decrease in interest rates, an increase in consumer loan delinquency rates and a decrease in consumer income. If future economic conditions as a result of COVID-19 are significantly worse than what was assumed as a part of this assessment, specifically related to the severity and length of the downturn and subsequent recovery, it could result in additional provision for loan loss being recorded in future periods.

At the end of each month, for Private Education loans that are 212 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 "expected future recoveries on charged-off loans." If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for Private Education Loan losses with an offsetting reduction in the expected future recoveries on charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98% reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97% reimbursement. For loans disbursed prior to October 1, 1993, we receive 100% reimbursement.

2. Significant Accounting Policies (Continued)

Allowance for Loan Losses Prior to the Adoption of CECL

Private Education Loans

We consider a loan to be impaired when, based on current information, a loss has been incurred and it is probable that we will not receive all contractual amounts due. When making our assessment as to whether a loan is impaired, we also take into account more than insignificant delays in payment. We generally evaluate impaired loans on an aggregate basis by grouping similar loans. Impaired loans also include those loans which are individually assessed for impairment at a loan level, such as in a troubled debt restructuring (TDR). We maintain an allowance for loan losses at an amount sufficient to absorb losses incurred in our portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio.

Our Private Education Loan portfolio contains TDR and non-TDR loans. For customers experiencing financial difficulty, certain Private Education Loans for which we have granted a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. The allowance requirements are different based on these designations. In determining the allowance for loan losses on our non-TDR portfolio, we estimate the principal amount of loans that will default over the next two years (two years being the expected period between a loss event and default) and how much we expect to recover over time related to the defaulted amount. Expected defaults less our expected recoveries equal the allowance related to this portfolio. Our historical experience indicates that, on average, the time between the date that a customer experiences a default causing event (i.e., the loss trigger event) and the date that we charge off the unrecoverable portion of that loan is two years. Separately, for our TDR portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan's original effective interest rate. Our TDR portfolio is comprised mostly of loans with forbearance usage greater than three months and interest rate reductions. The separate allowance estimates for our TDR and non-TDR portfolios are combined into our total allowance for Private Education Loan losses.

In estimating both the non-TDR and TDR allowance amounts, we start with historical experience of customer default behavior. We make judgments about which historical period to start with and then make further judgments about whether that historical experience is representative of future expectations and whether additional adjustments may be needed to those historical default rates. We also take the economic environment into consideration when calculating the allowance for loan losses. We analyze key economic statistics and the effect we expect them to have on future defaults. Key economic statistics analyzed as part of the allowance for loan losses are primarily unemployment rates. Our allowance for loan losses is estimated using an analysis of delinquent and current accounts. Our model is used to estimate the likelihood that a loan may progress through the various delinquency stages and ultimately charge off. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. The estimate for the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement.

We determine the collectability of our Private Education Loan portfolio by evaluating certain risk characteristics. We consider credit score (FICO), loan status, loan seasoning, existence of a cosigner and school type as the key credit quality indicators because they have the most significant effect on our determination of the adequacy of our allowance for loan losses.

2. Significant Accounting Policies (Continued)

To estimate the probable credit losses incurred in the loan portfolio at the reporting date, we use historical experience of customer payment behavior in connection with the key credit quality indicators and incorporate management expectations regarding macroeconomic and collection performance factors. Our model is based upon the most recent twelve months of actual collection experience as the starting point for the non-TDR portfolio and the most recent approximate 15 years for the TDR portfolio and applies expected macroeconomic changes and collection procedure changes to estimate expected losses caused by loss events incurred as of the balance sheet date. Our model for the non-TDR portfolio places a greater emphasis on the more recent default experience rather than the default experience for older historical periods, as we believe the more recent default experience is more indicative of the probable losses incurred in the loan portfolio today that will default over the next two years. The TDR portfolio uses a longer historical default experience since we are projecting life of loan remaining losses. Similar to estimating defaults, we use historical customer payment behavior to estimate the timing and amount of future recoveries on charged-off loans. We use judgment in determining whether historical performance is representative of what we expect to collect in the future. We then apply the default and collection rate projections to each category of loans. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. Additionally, we consider changes in laws and regulations that could potentially impact the allowance for loan losses.

FFELP Loans

Similar to the allowance for Private Education Loan losses, the allowance for FFELP Loan losses uses historical experience of customer default behavior and a two-year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. For FFELP Loans that have lost their government insurance and have been charged off, any subsequent cash recoveries benefit the allowance for loan losses when received.

Investments

Other investments are primarily receivables for cash collateral posted to derivative counterparties.

Cash and Cash Equivalents

Cash and cash equivalents can include term federal funds, Eurodollar deposits, commercial paper, asset-backed commercial paper (ABCP), CDs, treasuries and money market funds with original terms to maturity of less than three months.

Restricted Cash and Investments

Restricted cash primarily includes amounts held in education loan securitization trusts and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

Securities pledged as collateral related to our derivative portfolio, where the counterparty has rights to replace the securities, are classified as restricted. When the counterparty does not have these rights, the security is recorded in investments and disclosed as pledged collateral in the notes. Additionally, certain counterparties require cash collateral pledged to us to be segregated and held in restricted cash accounts.

Goodwill and Acquired Intangible Assets

Acquisitions are accounted for under the acquisition method of accounting which results in the Company allocating the purchase price to the fair value of the acquired assets, liabilities and non-controlling interests, if any, with the remaining purchase price allocated to goodwill.

Goodwill is not amortized but is tested periodically for impairment. We test goodwill for impairment annually as of October 1 at the reporting unit level, which is the same as or one level below a business segment. Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

2. Significant Accounting Policies (Continued)

We complete a goodwill impairment analysis which may be a qualitative or a quantitative analysis depending on the facts and circumstances associated with the reporting unit. In conjunction with a qualitative impairment analysis, we assess relevant qualitative factors to determine whether it is “more-likely-than-not” that the fair value of a reporting unit is less than its carrying amount. The “more-likely-than-not” threshold is defined as having a likelihood of more than 50%. If, based on first assessing impairment utilizing a qualitative approach, we determine it is “more-likely-than-not” that the fair value of the reporting unit is less than its carrying amount, we will also complete a quantitative impairment analysis. In conjunction with a quantitative impairment analysis, we compare the fair value of the reporting unit to the reporting unit’s carrying value, including goodwill. If the carrying value of the reporting unit exceeds the fair value, goodwill is impaired in an amount equal to the amount by which the carrying value exceeds the fair value of the reporting unit not to exceed the goodwill amount attributed to the reporting unit.

Acquired intangible assets include, but are not limited to, trade names, customer and other relationships, and non-compete agreements. Acquired intangible assets with finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. If the carrying amount of the asset or asset group exceeds the undiscounted cash flows, the fair value of the asset or asset group is determined using an acceptable valuation technique. An impairment loss would be recognized if the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value.

Securitization Accounting Our securitizations use a two-step structure with a special purpose entity that legally isolates the transferred assets from us, even in the event of bankruptcy. Transactions receiving sale treatment are also structured to ensure that the holders of the beneficial interests issued are not constrained from pledging or exchanging their interests, and that we do not maintain effective control over the transferred assets. If these criteria are not met, then the transaction is accounted for as an on-balance sheet secured borrowing. In all cases, irrespective of whether they qualify as accounting sales our securitizations are legally structured to be sales of assets that isolate the transferred assets from us. If a securitization qualifies as a sale, we then assess whether we are the primary beneficiary of the securitization trust (VIE) and are required to consolidate such trust. If we are the primary beneficiary, then no gain or loss is recognized. See “Consolidation” of this Note 2 for additional information regarding the accounting rules for consolidation when we are the primary beneficiary of these trusts.

Irrespective of whether a securitization receives sale or on-balance sheet treatment, our continuing involvement with our securitization trusts is generally limited to:

- Owning equity certificates or other certificates of certain trusts and, in certain cases, securities retained for the purpose of complying with risk retention requirements under securities laws.
- Lending to certain trusts, under a revolving credit, amounts necessary to cover temporary cash flow needs of the trust. These amounts are repaid to us on subordinated basis with interest at a market rate.
- The servicing of the education loan assets within the securitization trusts, on both a pre- and post-default basis.
- Our acting as administrator for the securitization transactions we sponsored, which includes remarketing certain bonds at future dates.
- Our responsibilities relative to representation and warranty violations.
- Temporarily advancing to the trust certain borrower benefits afforded the borrowers of education loans that have been securitized. These advances subsequently are returned to us in the next quarter.
- Certain back-to-back derivatives entered into by us contemporaneously with the execution of derivatives by certain Private Education Loan securitization trusts.
- The option held by us to buy certain delinquent loans from certain Private Education Loan securitization trusts.
- The option to exercise the clean-up call and purchase the education loans from the trust when the asset balance is 10% or less of the original loan balance.
- The option, on some trusts, to purchase education loans aggregating up to 10% of the trust’s initial pool balance.
- The option (in certain trusts) to call rate reset notes in instances where the remarketing process has failed.

2. Significant Accounting Policies (Continued)

The investors of the securitization trusts have no recourse to our other assets should there be a failure of the trusts to pay when due. Generally, the only arrangements under which we have to provide financial support to the trusts are representation and warranty violations requiring the buyback of loans.

Under the terms of the transaction documents of certain trusts, we have, from time to time, exercised our options to purchase delinquent loans from Private Education Loan trusts, to purchase the remaining loans from trusts once the loan balance falls below 10% of the original amount, to purchase education loans up to 10% of the trust's initial balance, or to call rate reset notes. Certain trusts maintain financial arrangements with third parties also typical of securitization transactions, such as derivative contracts (swaps).

We do not record servicing assets or servicing liabilities when our securitization trusts are consolidated. As of December 31, 2020, we had \$13 million of servicing assets on our balance sheet, recorded in connection with asset sales where we retained the servicing.

Education Loan Interest Income

For loans classified as held-for-investment, we recognize education loan interest income as earned, adjusted for the amortization of premiums (which includes premiums from loan purchases and capitalized direct origination costs), discounts and Repayment Borrower Benefits. These adjustments result in income being recognized based upon the expected yield of the loan over its life after giving effect to expected prepayments. We amortize premium and discount on education loans using a Constant Prepayment Rate (CPR) which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. In determining the CPR, we only consider payments made in excess of contractually required payments. This would include loan refinancing and consolidations and other early payoff activity. For Repayment Borrower Benefits, the estimates of their effect on education loan yield are based on analyses of historical payment behavior of customers who are eligible for the incentives and its effect on the ultimate qualification rate for these incentives. We regularly evaluate the assumptions used to estimate the prepayment speeds and the qualification rates used for Repayment Borrower Benefits. In instances where there are changes to the assumptions, amortization is adjusted on a cumulative basis to reflect the change since the acquisition of the loan. We do not amortize any premiums, discounts or other adjustments to the basis of education loans when they are classified as held-for-sale.

Interest Expense

Interest expense is based upon contractual interest rates adjusted for the amortization of debt issuance costs, premiums and discounts. Our interest expense is also adjusted for net payments/receipts related to interest rate and foreign currency swap agreements that qualify and are designated as hedges, as well as the mark-to-market impact of derivatives and debt in fair value hedge relationships. Interest expense also includes the amortization of deferred gains and losses on closed hedge transactions that qualified as hedges. Amortization of debt issuance costs, premiums, discounts and terminated hedge-basis adjustments are recognized using the effective interest rate method.

Servicing Revenue

We perform loan servicing functions for third parties in return for a servicing fee. Our compensation is typically based on a per-unit fee arrangement or a percentage of the loans outstanding. We recognize servicing revenues associated with these activities based upon the contractual arrangements as the services are rendered. We recognize late fees on third-party serviced loans as well as on loans in our portfolio according to the contractual provisions of the promissory notes, as well as our expectation of collectability.

Asset Recovery and Business Processing Revenue

We account for certain asset recovery and business processing contract revenue (herein referred to as revenue from contracts with customers) in accordance with ASC 606, "Revenue from Contracts with Customers." (All Business Processing segment and the majority of the Federal Education Loan segment asset recovery and business processing revenue is accounted for under ASC 606.) Revenue earned by our Federal Education Loans segment is derived from asset recovery activities related to the collection of delinquent education loans on behalf of ED, Guarantor agencies and other institutions, as well as certain other guarantor activities. Revenue earned by our Business Processing segment is derived from government services, which includes receivables management services and account processing solutions, and healthcare services, which includes revenue cycle management services.

2. Significant Accounting Policies (Continued)

Most of our revenue from contracts with customers is derived from long-term contracts, the duration of which is expected to span more than one year. These contracts are billable monthly, as services are rendered, based on a percentage of the balance collected or the transaction processed, a flat fee per transaction or a stated rate per the service performed. In accordance with ASC 606, the unit of account is a contractual performance obligation, a promise to provide a distinct good or service to a customer. The transaction price is allocated to each distinct performance obligation when or as the good or service is transferred to the customer and the obligation is satisfied.

Distinct performance obligations are identified based on the services specified in the contract that are capable of being distinct such that the customer can benefit from the service on its own or together with other resources that are available from the Company or a third party, and are also distinct in the context of the contract such that the transfer of the services is separately identifiable from other services promised in the contract. Most of our contracts include integrated service offerings that include obligations that are not separately identifiable and distinct in the context of our contracts. Accordingly, our contracts generally have a single performance obligation. A limited number of full-service offerings include multiple performance obligations.

Substantially all our revenue is variable revenue which is recognized over time as our customers receive and consume the benefit of our services in an amount consistent with monthly billings. Accordingly, we do not disclose variable consideration associated with the remaining performance obligation as we have recognized revenue in the amount we have the right to invoice for services performed. Our fees correspond to the value the customer has realized from our performance of each increment of the service (for example, an individual transaction processed or collection of a past due balance).

Transfer of Financial Assets and Extinguishments of Liabilities

Our securitizations and other secured borrowings are generally accounted for as on-balance sheet secured borrowings. See "Securitization Accounting" of this Note 2 for further discussion on the criteria assessed to determine whether a transfer of financial assets is a sale or a secured borrowing. If a transfer of loans qualifies as a sale, we derecognize the loan and recognize a gain or loss as the difference between the carrying basis of the loan sold and liabilities retained and the compensation received.

We periodically repurchase our outstanding debt in the open market or through public tender offers. We record a gain or loss on the early extinguishment of debt based upon the difference between the carrying cost of the debt and the amount paid to the third party and net of hedging gains and losses when the debt is in a qualifying hedge relationship.

We recognize the results of a transfer of loans and the extinguishment of debt based upon the settlement date of the transaction.

Derivative Accounting

Derivative instruments that are used as part of our interest rate and foreign currency risk management strategy include interest rate swaps, cross-currency interest rate swaps, and interest rate floor contracts. The accounting for derivative instruments requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded on the balance sheet as either an asset or liability measured at its fair value. As more fully described below, if certain criteria are met, derivative instruments are classified and accounted for by us as either fair value or cash flow hedges. If these criteria are not met, the derivative financial instruments are accounted for as trading. Derivative positions are recorded as net positions by counterparty based on master netting arrangements exclusive of accrued interest and cash collateral held or pledged. Many of our derivatives, mainly fixed to variable or variable to fixed interest rate swaps and cross-currency interest rate swaps, qualify as effective hedges. For these derivatives, at the inception of the hedge relationship, the following is documented: the relationship between the hedging instrument and the hedged items (including the hedged risk, the method for assessing effectiveness, and the results of the upfront effectiveness testing), and the risk management objective and strategy for undertaking the hedge transaction. Each derivative is designated to either a specific (or pool of) asset(s) or liability(ies) on the balance sheet or expected future cash flows and designated as either a "fair value" or a "cash flow" hedge. The assessment of the hedge's effectiveness is performed at inception and on an ongoing basis, generally using regression testing. For hedges of a pool of assets or liabilities, tests are performed to demonstrate the similarity of individual instruments of the pool. When it is determined that a derivative is not currently an effective hedge, ineffectiveness is recognized for the full change in value of the derivative with no offsetting mark-to-market of the hedged item for the current period. If it is also determined the hedge will not be effective in the future, we discontinue the hedge accounting prospectively, cease recording changes in the fair value of the hedged item, and begin amortization of any basis adjustments that exist related to the hedged item.

2. Significant Accounting Policies (Continued)

Fair Value Hedges

Fair value hedges are generally used by us to hedge the exposure to changes in the fair value of a recognized fixed rate asset or liability. We enter into interest rate swaps to economically convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. We also enter into cross-currency interest rate swaps to economically convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. For fair value hedges, we generally consider all components of the derivative's gain and/or loss when assessing hedge effectiveness and generally hedge changes in fair values due to interest rates or interest rates and foreign currency exchange rates. For fair value hedges, both the derivative and the hedged item (for the risk being hedged) are marked-to-market through net interest income with any difference reflecting ineffectiveness.

Cash Flow Hedges

We use cash flow hedges to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt or assets. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. For cash flow hedges, the change in the fair value of the derivative is recorded in other comprehensive income, net of tax, and recognized in earnings in the same period as the earnings effects of the hedged item. In the case of a forecasted debt issuance, gains and losses are reclassified to earnings over the period which the stated hedged transaction affects earnings. If we determine it is not probable that the anticipated transaction will occur, gains and losses are reclassified immediately to earnings. In assessing hedge effectiveness, generally all components of each derivative's gains or losses are included in the assessment. We generally hedge exposure to changes in cash flows due to changes in interest rates or total changes in cash flow.

Trading Activities

When derivative instruments do not qualify as hedges, they are accounted for as trading instruments where all changes in fair value are recorded through earnings with no consideration for the corresponding change in fair value of the economically hedged item. Some of our derivatives, primarily Floor Income Contracts, basis swaps and at times, certain other LIBOR swaps do not qualify for hedge accounting treatment. Regardless of the accounting treatment, we consider these derivatives to be economic hedges for risk management purposes. We use this strategy to minimize our exposure to changes in interest rates.

The "gains (losses) on derivative and hedging activities, net" line item in the consolidated statements of income includes the mark-to-market gains and losses of our derivatives that do not qualify for hedge accounting, as well as the realized changes in fair value related to derivative net settlements and dispositions that do not qualify for hedge accounting.

Accounting for Stock-Based Compensation

We recognize stock-based compensation cost in our statements of income using the fair value-based method. Under this method we determine the fair value of the stock-based compensation at the time of the grant and recognize the resulting compensation expense over the grant's vesting period. We record stock-based compensation expense net of estimated forfeitures and as such, only those stock-based awards that we expect to vest are recorded. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. Ultimately, the total expense recognized over the vesting period will equal the fair value of awards that actually vest.

2. Significant Accounting Policies (Continued)

Restructuring and Other Reorganization Expenses

From time to time we implement plans to restructure our business. In conjunction with these restructuring plans, involuntary benefit arrangements, disposal costs (including contract termination costs and other exit costs), as well as certain other costs that are incremental and incurred as a direct result of our restructuring plans, are classified as restructuring expenses in the consolidated statements of income.

The Company administers the Navient Corporation Employee Severance Plan and the Navient Corporation Executive Severance Plan for Senior Officers (collectively, the Severance Plan). The Severance Plan provides severance benefits in the event of termination of the Company's full-time employees and part-time employees who work at least 24 hours per week. The Severance Plan establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon involuntary termination of employment. The benefits payable under the Severance Plan relate to past service, and they accumulate and vest. Accordingly, we recognize severance expenses to be paid pursuant to the Severance Plan when payment of such benefits is probable and can be reasonably estimated. Such benefits include severance pay calculated based on the Severance Plan, medical and dental benefits, and outplacement services expenses.

Contract termination costs are expensed at the earlier of (1) the contract termination date or (2) the cease use date under the contract. Other exit costs are expensed as incurred and classified as restructuring expenses if (1) the cost is incremental to and incurred as a direct result of planned restructuring activities and (2) the cost is not associated with or incurred to generate revenues subsequent to our consummation of the related restructuring activities.

Other reorganization expenses include certain internal costs and third-party costs incurred in connection with our cost reduction initiatives.

During 2020 and 2019, the Company incurred \$9 million and \$6 million, respectively, of restructuring/other reorganization expense in connection with an effort that will reduce costs and improve operating efficiency. These charges were primarily related to facility lease terminations and severance-related costs.

Income Taxes

We account for income taxes under the asset and liability approach which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of our assets and liabilities. To the extent tax laws change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted.

"Income tax expense/(benefit)" includes (i) deferred tax expense/(benefit), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance and (ii) current tax expense/(benefit), which represents the amount of tax currently payable to or receivable from a tax authority plus amounts accrued for unrecognized tax benefits. Income tax expense/(benefit) excludes the tax effects related to adjustments recorded in equity.

If we have an uncertain tax position, then that tax position is recognized only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of tax benefit recognized in the financial statements is the largest amount of benefit that is more than 50% likely of being sustained upon ultimate settlement of the uncertain tax position. We recognize interest related to unrecognized tax benefits in income tax expense/(benefit) and penalties, if any, in operating expenses.

Earnings (Loss) per Common Share

We compute earnings (loss) per common share (EPS) by dividing net income allocated to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share is computed by dividing income allocated to common shareholders by the weighted average common shares outstanding plus amounts representing the dilutive effect of stock options outstanding, restricted stock, restricted stock units, and the outstanding commitment to issue shares under the Employee Stock Purchase Plan. See "Note 10 — Earnings (Loss) per Common Share" for further discussion.

2. Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

Effective in 2020

Allowance for Loan Losses

On January 1, 2020, we adopted ASU No. 2016-13, "Financial Instruments — Credit Losses," which requires measurement and recognition of an allowance for loan loss that estimates the remaining current expected credit losses (CECL) for financial assets measured at amortized cost held at the reporting date. See "Allowance for Loan Losses" earlier in this footnote for further discussion.

Goodwill

On January 1, 2020, we adopted ASU No. 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment." The new standard simplifies the goodwill impairment test by eliminating the requirement to perform step two of the goodwill impairment test when the carrying value of a reporting unit exceeds the reporting unit fair value. Impairment is the amount by which the carrying value exceeds the reporting unit fair value, not to exceed the total allocated reporting unit goodwill. Previously, step two required a hypothetical purchase price allocation when step one indicated potential impairment. This new standard had no impact on 2020 results.

Rate Reform

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

3. Education Loans

Education loans consist of FFELP and Private Education Loans.

There are two principal categories of FFELP Loans: Stafford and FFELP Consolidation Loans. Generally, Stafford loans have repayment periods of between 5 and 10 years. FFELP Consolidation Loans have repayment periods of 12 to 30 years. FFELP Loans do not require repayment, or have modified repayment plans, while the customer is in-school and during the grace period immediately upon leaving school. The customer may also be granted a deferment or forbearance for a period of time based on need, during which time the customer is not considered to be in repayment. Interest continues to accrue on loans in the in-school, deferment and forbearance period. FFELP Loans obligate the customer to pay interest at a stated fixed rate or a variable rate reset annually (subject to a cap) on July 1 of each year depending on when the loan was originated and the loan type. FFELP Loans disbursed before April 1, 2006 earn interest at the greater of the borrower's rate or a floating rate based on the Special Allowance Payment (SAP) formula, with the interest earned on the floating rate that exceeds the interest earned from the customer being paid directly by ED. For loans disbursed after April 1, 2006, FFELP Loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) is required to be rebated to ED.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed after October 1, 1993 and before July 1, 2006, we receive 98% reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97% reimbursement.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Education Loans (Continued)

Private Education Loans bear the full credit risk of the customer. Private Education Refinance Loans generally have a fixed interest rate with the non-refinance Private Education Loans generally at a variable rate indexed to LIBOR or Prime indices. The majority of non-refinance loans in our portfolio are cosigned. Similar to FFELP loans, Private Education Loans are generally non-dischargeable in bankruptcy. Most loans have repayment terms of 10 to 15 years or more, and for loans made prior to 2009, payments are typically deferred until after graduation. However, since 2009 we began to encourage interest-only or fixed payment options while the customer is enrolled in school.

The estimated weighted average life of education loans in our portfolio was approximately 6 years at December 31, 2020 and 2019. The following table reflects the distribution of our education loan portfolio by program.

	<u>December 31, 2020</u>		<u>Year Ended December 31, 2020</u>	
	<u>Ending</u>	<u>% of</u>	<u>Average</u>	<u>Average</u>
<u>(Dollars in millions)</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Effective</u>
				<u>Interest</u>
				<u>Rate</u>
FFELP Stafford Loans, net	\$ 19,607	25%	\$ 20,844	2.80%
FFELP Consolidation Loans, net	38,677	49	40,678	3.08
Private Education Loans, net	21,079	26	22,720	6.36
Total education loans, net	<u>\$ 79,363</u>	<u>100%</u>	<u>\$ 84,242</u>	<u>3.90%</u>

	<u>December 31, 2019</u>		<u>Year Ended December 31, 2019</u>	
	<u>Ending</u>	<u>% of</u>	<u>Average</u>	<u>Average</u>
<u>(Dollars in millions)</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Effective</u>
				<u>Interest</u>
				<u>Rate</u>
FFELP Stafford Loans, net	\$ 21,723	25%	\$ 23,198	4.24%
FFELP Consolidation Loans, net	42,852	49	45,073	4.13
Private Education Loans, net	22,245	26	22,512	7.69
Total education loans, net	<u>\$ 86,820</u>	<u>100%</u>	<u>\$ 90,783</u>	<u>5.04%</u>

As of December 31, 2020 and 2019, 85% and 87%, respectively, of our education loan portfolio was in repayment.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses

See “Note 2 – Significant Accounting Policies” for discussion of the adoption of CECL on January 1, 2020.

Allowance for Loan Losses Metrics

	Year Ended December 31, 2020		
	FFELP Loans	Private Education Loans	Total
(Dollars in millions)			
Allowance at beginning of period (after transition adjustment to CECL on January 1, 2020)	\$ 324	\$ 1,045	\$ 1,369
Total provision	13	142	155
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate ⁽¹⁾	—	(23)	(23)
Net charge-offs remaining ⁽²⁾	(49)	(184)	(233)
Total charge-offs ⁽²⁾	(49)	(207)	(256)
Decrease in expected future recoveries on charged-off loans ⁽³⁾	—	109	109
Allowance at end of period	288	1,089	1,377
Plus: expected future recoveries on charged-off loans ⁽³⁾	—	479	479
Allowance at end of period excluding expected future recoveries on charged-off loans ⁽⁴⁾	\$ 288	\$ 1,568	\$ 1,856
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate ⁽¹⁾	.10%	.88%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment ⁽¹⁾	—%	.11%	
Allowance coverage of charge-offs ⁽⁴⁾	5.9	7.6	
Allowance as a percentage of the ending total loan balance ⁽⁴⁾	.5%	7.1%	
Allowance as a percentage of the ending loans in repayment ⁽⁴⁾	.6%	7.5%	
Ending total loans	\$ 58,572	\$ 22,168	
Average loans in repayment	\$ 48,130	\$ 20,790	
Ending loans in repayment	\$ 48,057	\$ 20,841	

- (1) In 2020, the portion of the loan amount charged off at default on Private Education Loans increased from 81% to 81.4%. This charge resulted in a \$23 million reduction to the balance of the receivable for partially charged-off loan balance.
- (2) Charge-offs are reported net of expected recoveries. For Private Education Loans, at the time of charge-off, the expected recovery amount is transferred from the education loan balance to the allowance for loan loss and is referred to as the expected future recoveries on charged-off loans. For FFELP Loans, the recovery is received at the time of charge-off.
- (3) At the end of each month, for Private Education Loans that are 212 or more days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this as the “expected future recoveries on charged-off loans.” If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for Private Education Loan losses with an offsetting reduction in the expected future recoveries for charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. The following table summarizes the activity in the expected future recoveries on charged-off loans:

(Dollars in millions)	Year Ended December 31,	
	2020	
Beginning of period expected recoveries	\$	588
Expected future recoveries of current period defaults		32
Recoveries		(107)
Charge-offs		(34)
End of period expected recoveries	\$	479
Change in balance during period	\$	(109)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Year Ended December 31, 2019			
	FFELP Loans	Private Education Loans	Other Loans	Total
Beginning balance	\$ 76	\$ 1,201	\$ 9	\$ 1,286
Total provision	30	226	1	258
Net adjustment resulting from the change in the charge-off rate ⁽¹⁾	—	(21)	—	(21)
Net charge-offs remaining ⁽²⁾	(42)	(364)	(2)	(408)
Total net charge-offs	(42)	(385)	(2)	(429)
Reclassification of interest reserve ⁽³⁾	—	7	—	7
Loan sales	—	(1)	(8)	(9)
Ending balance	<u>\$ 64</u>	<u>\$ 1,048</u>	<u>\$ —</u>	<u>\$ 1,112</u>
Allowance Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 941	\$ —	\$ 941
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	64	107	—	171
Purchased Non-Credit Impaired Loans acquired at a discount ⁽⁴⁾	—	—	—	—
Purchased Credit Impaired Loans ⁽⁴⁾	—	—	—	—
Ending total allowance	<u>\$ 64</u>	<u>\$ 1,048</u>	<u>\$ —</u>	<u>\$ 1,112</u>
Loans Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 9,617	\$ —	\$ 9,617
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	61,589	12,286	9	73,884
Purchased Non-Credit Impaired Loans acquired at a discount ⁽⁴⁾	2,505	1,806	—	4,311
Purchased Credit Impaired Loans ⁽⁴⁾	—	201	—	201
Ending total loans ⁽⁵⁾	<u>\$ 64,094</u>	<u>\$ 23,910</u>	<u>\$ 9</u>	<u>\$ 88,013</u>
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate ⁽¹⁾	.07%	1.67%	—%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment ⁽¹⁾	—%	.10%	—%	
Allowance coverage of charge-offs	1.5	2.7	—	
Allowance as a percentage of the ending total loan balance	.10%	4.38%	—%	
Allowance as a percentage of the ending loans in repayment	.12%	4.74%	—%	
Ending total loans ⁽⁵⁾	\$ 64,094	\$ 23,910	\$ 9	
Average loans in repayment	\$ 55,978	\$ 21,859	\$ 29	
Ending loans in repayment	\$ 53,538	\$ 22,089	\$ 9	

- (1) In 2019, the portion of the loan amount charged off at default on Private Education Loans increased from 80.5% to 81%. This charge resulted in a \$21 million reduction to the balance of the receivable for partially charged-off loan balance.
- (2) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be recovered and any shortfalls in what was actually recovered in the period. For FFELP Loans, the recovery is received at the time of charge-off.
- (3) 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.
- (4) 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 December 31, 2019. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of \$33 million and \$268 million respectively, as of December 31, 2019 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of December 31, 2019.
- (5) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Year Ended December 31, 2018			
	FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	\$ 60	\$ 1,297	\$ 10	\$ 1,367
Total provision	70	299	1	370
Net adjustment resulting from the change in the charge-off rate ⁽¹⁾	—	(32)	—	(32)
Net charge-offs remaining ⁽²⁾	(54)	(371)	(2)	(427)
Total net charge-offs	(54)	(403)	(2)	(459)
Reclassification of interest reserve ⁽³⁾	—	8	—	8
Ending balance	<u>\$ 76</u>	<u>\$ 1,201</u>	<u>\$ 9</u>	<u>\$ 1,286</u>
Allowance Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 1,100	\$ 8	\$ 1,108
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	76	101	1	178
Purchased Non-Credit Impaired Loans acquired at a discount ⁽⁴⁾	—	—	—	—
Purchased Credit Impaired Loans ⁽⁴⁾	—	—	—	—
Ending total allowance	<u>\$ 76</u>	<u>\$ 1,201</u>	<u>\$ 9</u>	<u>\$ 1,286</u>
Loans Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 10,336	\$ 28	\$ 10,364
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	68,880	11,464	51	80,395
Purchased Non-Credit Impaired Loans acquired at a discount ⁽⁴⁾	2,850	2,180	—	5,030
Purchased Credit Impaired Loans ⁽⁴⁾	—	225	—	225
Ending total loans ⁽⁵⁾	<u>\$ 71,730</u>	<u>\$ 24,205</u>	<u>\$ 79</u>	<u>\$ 96,014</u>
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate ⁽¹⁾	.09%	1.66%	—%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment ⁽¹⁾	—%	.14%	—%	
Allowance coverage of charge-offs	1.4	3.0	—	
Allowance as a percentage of the ending total loan balance	.11%	4.96%	11.52%	
Allowance as a percentage of the ending loans in repayment	.13%	5.45%	11.52%	
Ending total loans ⁽⁵⁾	\$ 71,730	\$ 24,205	\$ 79	
Average loans in repayment	\$ 62,927	\$ 22,312	\$ 75	
Ending loans in repayment	\$ 59,551	\$ 22,037	\$ 79	

- (1) In 2018, the portion of the loan amount charged off at default on Private Education Loans increased from 79% to 80.5%. This charge resulted in a \$32 million reduction to the balance of the receivable for partially charged-off loan balance.
- (2) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be recovered and any shortfalls in what was actually recovered in the period. For FFELP Loans, the recovery is received at the time of charge-off.
- (3) 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.
- (4) 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 December 31, 2018. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of \$37 million and \$326 million respectively, as of December 31, 2018 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of December 31, 2018.
- (5) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Troubled Debt Restructurings (TDRs)

We sometimes modify the terms of loans for customers experiencing financial difficulty. Certain Private Education Loans for which we have granted either a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. Approximately 72% and 69% of the loans granted forbearance have qualified as a TDR loan at December 31, 2020 and 2019, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction program as of December 31, 2020 and 2019 was \$948 million and \$1.7 billion, respectively.

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

(Dollars in millions)	Years Ended December 31,			
	2020	2019	2018	
Modified loans ⁽¹⁾	\$ 264	\$ 475	\$ 596	
Charge-offs ⁽²⁾	\$ 157	\$ 324	\$ 343	
Payment default	\$ 47	\$ 109	\$ 142	

⁽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.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators

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

FFELP Loans

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default. The key credit quality indicators are loan status and loan type.

(Dollars in millions)	FFELP Loan Delinquencies			
	December 31, 2020		December 31, 2019	
	Balance	%	Balance	%
Loans in-school/grace/deferment(1)	\$ 2,791		\$ 3,114	
Loans in forbearance(2)	7,725		7,442	
Loans in repayment and percentage of each status:				
Loans current	43,623	90.8%	47,255	88.3%
Loans delinquent 31-60 days(3)	1,374	2.9	2,094	3.9
Loans delinquent 61-90 days(3)	836	1.7	1,082	2.0
Loans delinquent greater than 90 days(3)	2,223	4.6	3,107	5.8
Total FFELP Loans in repayment	48,056	100%	53,538	100%
Total FFELP Loans, gross	58,572		64,094	
FFELP Loan unamortized premium (4)	—		545	
Total FFELP Loans	58,572		64,639	
FFELP Loan allowance for losses	(288)		(64)	
FFELP Loans, net	\$ 58,284		\$ 64,575	
Percentage of FFELP Loans in repayment		82.0%		83.5%
Delinquencies as a percentage of FFELP Loans in repayment		9.2%		11.7%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		13.8%		12.2%

- (1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.
- (2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.
- (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.
- (4) In connection with the adoption of CECL on January 1, 2020, the \$497 million premium as of December 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure. This change is prospective in nature as prior balances are not restated under CECL.

Loan type:

(Dollars in millions)	December 31, 2020	December 31, 2019	Change
Stafford Loans	\$ 17,686	\$ 19,093	\$ (1,407)
Consolidation Loans	35,968	39,706	(3,738)
Rehab Loans	4,918	5,295	(377)
Total loans, gross	\$ 58,572	\$ 64,094	\$ (5,522)

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Private Education Loans

The key credit quality indicators are credit scores (FICO scores), loan status, loan seasoning, whether a loan is a TDR, the existence of a cosigner and school type. The FICO score is the higher of the borrower or co-borrower score and is updated at least every six months while school type is assessed at origination. The other Private Education Loan key quality indicators are updated quarterly.

(Dollars in millions)	Private Education Loan Credit Quality Indicators by Origination Year							
	2020	2019	2018	2017	2016	Prior	Total	% of Total
Credit Quality Indicators								
FICO Scores:								
640 and above	\$ 4,008	\$ 2,964	\$ 1,079	\$ 340	\$ 72	\$ 11,746	\$ 20,209	91%
Below 640	15	34	23	9	2	1,876	1,959	9
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Loan Status:								
In-school/grace/deferment/forbearance	\$ 23	\$ 43	\$ 25	\$ 10	\$ 2	\$ 1,224	\$ 1,327	6%
Current/90 days or less delinquent	3,999	2,953	1,075	338	72	12,187	20,624	93
Greater than 90 days delinquent	1	2	2	1	—	211	217	1
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Seasoning(1):								
1-12 payments	\$ 4,014	\$ 879	\$ 7	\$ 2	\$ —	\$ 180	\$ 5,082	23%
13-24 payments	—	2,098	243	7	1	234	2,583	12
25-36 payments	—	—	839	101	3	380	1,323	6
37-48 payments	—	—	—	236	38	584	858	4
More than 48 payments	—	—	—	—	31	11,808	11,839	53
Loans in-school/grace/deferment	9	21	13	3	1	436	483	2
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
TDR Status:								
TDR	\$ 1	\$ 14	\$ 23	\$ 31	\$ 11	\$ 8,351	\$ 8,431	38%
Non-TDR	4,022	2,984	1,079	318	63	5,271	13,737	62
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Cosigners:								
With cosigner(2)	\$ 5	\$ 13	\$ 1	\$ 49	\$ 21	\$ 8,911	\$ 9,000	41%
Without cosigner	4,018	2,985	1,101	300	53	4,711	13,168	59
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
School Type:								
Not-for-profit	\$ 3,844	\$ 2,801	\$ 1,019	\$ 333	\$ 74	\$ 11,255	\$ 19,326	87%
For-profit	179	197	83	16	—	2,367	2,842	13
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Allowance for loan losses							(1,089)	
Total loans, net							\$ 21,079	

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

(2) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 65% for total loans at December 31, 2020

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

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

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

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

(3) Balance equals the gross Private Education Loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

	Private Education Loan Delinquencies			
	TDRs			
	December 31, 2020		December 31, 2019	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 280		\$ 349	
Loans in forbearance ⁽²⁾	703		479	
Loans in repayment and percentage of each status:				
Loans current	6,952	93.4 %	7,557	89.5 %
Loans delinquent 31-60 days ⁽³⁾	185	2.5	296	3.5
Loans delinquent 61-90 days ⁽³⁾	114	1.5	191	2.3
Loans delinquent greater than 90 days ⁽³⁾	197	2.6	398	4.7
Total TDR loans in repayment	7,448	100 %	8,442	100 %
Total TDR loans, gross	8,431		9,270	
TDR loans unamortized discount ⁽⁴⁾	—		(203)	
Total TDR loans	8,431		9,067	
TDR loans receivable for partially charged-off loans ⁽⁴⁾	—		347	
TDR loans allowance for losses	(929)		(941)	
TDR loans, net	\$ 7,502		\$ 8,473	
Percentage of TDR loans in repayment		88.3 %		91.1 %
Delinquencies as a percentage of TDR loans in repayment		6.6 %		10.5 %
Loans in forbearance as a percentage of TDR loans in repayment and forbearance		8.6 %		5.4 %

- (1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
- (2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.
- (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.
- (4) In connection with the adoption of CECL on January 1, 2020, (1) the \$200 million discount as of December 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure and (2) the receivable for partially charged-off loans balance has been reclassified from the Private Education Loan balance to the allowance for loan loss. Both of these changes are prospective in nature as prior balances are not restated under CECL.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Private Education Loan Delinquencies			
	Non-TDRs			
	December 31, 2020		December 31, 2019	
	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 203		\$ 280	
Loans in forbearance ⁽²⁾	141		125	
Loans in repayment and percentage of each status:				
Loans current	13,335	99.6%	13,526	99.1%
Loans delinquent 31-60 days ⁽³⁾	26	.2	53	.4
Loans delinquent 61-90 days ⁽³⁾	12	.1	27	.2
Loans delinquent greater than 90 days ⁽³⁾	20	.1	41	.3
Total non-TDR loans in repayment	13,393	100%	13,647	100%
Total non-TDR loans, gross	13,737		14,052	
Non-TDR loans unamortized discount ⁽⁴⁾	—		(414)	
Total non-TDR loans	13,737		13,638	
Non-TDR loans receivable for partially charged-off loans ⁽⁴⁾	—		241	
Non-TDR loans allowance for losses	(160)		(107)	
Non-TDR loans, net	\$ 13,577		\$ 13,772	
Percentage of non-TDR loans in repayment		97.5%		97.1%
Delinquencies as a percentage of non-TDR loans in repayment		.4%		.9%
Loans in forbearance as a percentage of non-TDR loans in repayment and forbearance		1.0%		.9%

- (1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
- (2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.
- (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.
- (4) In connection with the adoption of CECL on January 1, 2020, (1) the \$275 million discount as of December 31, 2020, associated with the loans is now included as part of the respective loan balance for this disclosure and (2) the receivable for partially charged-off loans balance has been reclassified from the Private Education Loan balance to the allowance for loan loss. Both of these changes are prospective in nature as prior balances are not restated under CECL.

5. Business Combinations, Goodwill and Acquired Intangible

Goodwill

The following table summarizes our goodwill for our reporting units and reportable segments.

(Dollars in millions)	As of Dec. 31, 2020 and Dec. 31, 2019
Federal Education Loans reportable segment:	
FFELP Loans	\$ 227
Federal Education Loan Servicing	13
Total	240
Consumer Lending reportable segment:	
Private Education Loans	106
Private Education Refinance Loans	77
Total	183
Business Processing reportable segment:	
Government Services	136
Healthcare Services	106
Total	242
Total goodwill	\$ 665

Interim Trigger Event Assessments

During 2020, COVID-19 created significant disruption in the U.S. economy and impacted the macroeconomic conditions which impact our reporting units with goodwill, the industry and markets in which these reporting units operate, their cost structures and, to some degree, their expected 2020 financial performance. As a result, we assessed whether a triggering event occurred as of September 30, 2020, June 30, 2020 and March 31, 2020.

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

Despite COVID-19, the outlook and associated long-term cash flow projections of our FFELP Loans, Private Education Loans-Legacy, and Federal Education Loan Servicing reporting units have not changed significantly since our 2019 assessment. For the Private Education Loan Refinance reporting unit, we considered origination volume and the demand for its refinance loan products as well as Navient's strong liquidity position and ability to issue Private Education Loan ABS comprised entirely of the reporting unit's refinance loans albeit at a higher cost of funds. For Government and Healthcare Services, we also considered the short and long-term outlook for these businesses including temporary stoppage of certain collection and processing activity and lower volume in the transportation business. We also considered that no contracts had been terminated due to COVID-19, and significant additional contracts were acquired in 2020 to implement programs under the CARES Act and perform contact tracing services. The revenue from these new contracts more than offset the decline in other revenue which occurred due to COVID-19. Based on these qualitative factors, we concluded that it was not “more-likely-than-not” that the fair value of an individual reporting unit was less than its carrying value as of September 30, 2020, June 30, 2020 and March 31, 2020. As a result, COVID-19 and its impact to Navient's individual reporting units as we perceived them during each quarter did not constitute a triggering event. No further impairment testing was performed during interim quarters in 2020.

5. Business Combinations, Goodwill and Acquired Intangible (Continued)

Annual Goodwill Impairment Testing – October 1, 2020

We perform our goodwill impairment testing annually in the fourth quarter as of October 1. As part of the 2020 annual impairment testing associated with our FFELP Loans, Federal Education Loan Servicing, Private Education Loan-Legacy and Private Education Refinance Loans reporting units, we assessed relevant qualitative factors to determine whether it is “more-likely-than-not” that the fair value of an individual reporting unit is less than its carrying value. Consistent with the interim triggering events assessment performed during each quarter in 2020, we considered the amount of excess fair value for each reporting unit over their carrying values as of October 1, 2019 since the fair value of these reporting units were substantially in excess of their carrying amounts. The outlook and cash flows for the FFELP Loans, Private Education Loans-Legacy and Federal Education Loan Servicing reporting units have not changed significantly since our 2019 assessment despite COVID-19. Also consistent with the triggering events assessments we completed each quarter, for the Private Education Refinance Loans reporting unit, we considered current and expected future origination volume both of which increased since prior quarters and the improved demand for the reporting unit’s refinance loan products as well as Navient’s strong liquidity position and ability to issue Private Education Loan ABS comprised entirely of the reporting unit’s refinance loans. No goodwill was deemed impaired for these reporting units after assessing these relevant qualitative factors.

As part of our annual impairment testing associated with our Government Services and Healthcare Services reporting units, we retained a third-party appraisal firm to assist in the valuations required to perform a quantitative impairment test for these reporting units. No goodwill was deemed impaired in conjunction with these reporting units as a result of the quantitative impairment tests as the fair values of the reporting units were substantially greater than their respective carry values at October 1, 2020.

The income approach was the primary approach used to estimate the fair value of each reporting unit. The income approach measures the value of each reporting unit’s future economic benefit determined by its discounted cash flows derived from assumptions we believe a market participant would assume in an acquisition, principally projected financial information derived based on our long term projections and an assumed terminal growth rate. The projections used for purposes of the quantitative test are four-year projections that reflect the anticipated cash flow fluctuations of the respective reporting units.

Under our guidance, the third-party appraisal firm developed the discount rates for these reporting units incorporating such factors as the risk free rate, a market rate of return, a measure of volatility (Beta) and a company-specific and capital markets risk premium to adjust for volatility and uncertainty in the economy and to capture specific risk related to the respective reporting units. We considered whether an asset sale or an equity sale would be the most likely sale structure for each reporting unit and valued each reporting unit based on the more likely hypothetical scenario. The discount rates reflect market-based estimates of capital costs and are adjusted for our assessment of a market participant’s view with respect to execution, source concentration and other risks associated with the projected cash flows of the individual reporting units. We reviewed and approved the discount rates provided by the third-party appraiser including the factors incorporated to develop the discount rates for each reporting unit.

We and the third-party appraisal firm also considered a market approach to value the Government Services and Healthcare Services reporting units. Market-based multiples related primarily to revenue and EBITDA for comparable publicly traded companies and similar transactions were evaluated as an indicator of the value of the reporting units to assess the reasonableness of the estimated fair value derived from the income approach.

For each of our reporting units, we have also considered the current regulatory and legislative environment, the current economic environment which is heavily impacted by COVID-19, our 2020 earnings, 2021 expected earnings, market expectations regarding our stock price, and our market capitalization in relation to book equity. Although our market capitalization was less than our book equity during 2020, it was concluded that our market capitalization in relation to our book equity does not indicate impairment of our reporting units’ respective goodwill at December 31, 2020 as our market capitalization which has been impacted by market declines due to the COVID-19 pandemic, is not indicative of the value of our reporting units with goodwill on a standalone basis. If the regulatory environment changes such that it negatively impacts our reporting units and future economic conditions as a result of COVID-19 are significantly worse than what was assumed as a part of our annual impairment testing for each of our reporting units, specifically related to the severity and length of the downturn and subsequent recovery, goodwill attributed to our reporting units could be impaired in future periods.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Business Combinations, Goodwill and Acquired Intangible Assets (Continued)

Acquired Intangible Assets

Acquired intangible assets include the following:

(Dollars in millions)	As of December 31, 2020			As of December 31, 2019		
	Cost Basis ⁽¹⁾	Accumulated Impairment and Amortization ⁽¹⁾ (2)	Net	Cost Basis ⁽¹⁾	Accumulated Impairment and Amortization ⁽¹⁾ (2)	Net
Customer, services and lending relationships	\$ 262	\$ (230)	\$ 32	\$ 262	\$ (220)	\$ 42
Software and technology	114	(101)	13	114	(96)	18
Trade names and trademarks	52	(27)	25	52	(20)	32
Total acquired intangible assets	<u>\$ 428</u>	<u>\$ (358)</u>	<u>\$ 70</u>	<u>\$ 428</u>	<u>\$ (336)</u>	<u>\$ 92</u>

- (1) Accumulated impairment and amortization include impairment amounts only if the acquired intangible asset has been deemed partially impaired. When an acquired intangible asset is considered fully impaired and no longer in use, the cost basis and any accumulated amortization related to the asset is written off.
- (2) We recorded amortization of acquired intangible assets of \$21 million, \$25 million and \$31 million in 2020, 2019 and 2018, respectively. We will continue to amortize our intangible assets with definite useful lives over their remaining estimated useful lives. We estimate amortization expense associated with these intangible assets will be \$19 million, \$15 million, \$13 million, \$10 million and \$13 million in 2021, 2022, 2023, 2024 and after 2024, respectively.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings

Borrowings consist of secured borrowings issued through our securitization program, borrowings through secured facilities, unsecured notes issued by us, and other interest-bearing liabilities related primarily to obligations to return cash collateral held.

The following table summarizes our borrowings.

(Dollars in millions)	December 31, 2020					December 31, 2019				
	Short Term	Weighted Average Interest Rate(7)	Long Term	Weighted Average Interest Rate(7)	Total	Short Term	Weighted Average Interest Rate(7)	Long Term	Weighted Average Interest Rate(7)	Total
Unsecured borrowings:										
Senior unsecured debt(1)	\$ 677	6.61%	\$ 7,714	6.19%	\$ 8,391	\$ 1,052	6.45%	\$ 8,461	6.30%	\$ 9,513
Total unsecured borrowings	677	6.61	7,714	6.19	8,391	1,052	6.45	8,461	6.30	9,513
Secured borrowings:										
FFELP Loan securitizations(2)(3)	—	—	54,697	.89	54,697	72	3.16	59,735	2.45	59,807
Private Education Loan securitizations(4)	960	2.68	13,891	2.04	14,851	2,120	4.14	11,430	3.12	13,550
FFELP Loan ABCP facilities	2,053	1.05	479	1.13	2,532	2,783	2.46	617	2.66	3,400
Private Education Loan ABCP facilities	2,582	1.46	—	—	2,582	2,114	2.76	1,513	3.31	3,627
Other(5)	337	.09	—	—	337	338	1.55	—	—	338
Total secured borrowings	5,932	1.44	69,067	1.12	74,999	7,427	2.99	73,295	2.58	80,722
Total before hedge accounting adjustments(6)	6,609	1.97	76,781	1.63	83,390	8,479	3.42	81,756	2.96	90,235
Hedge accounting adjustments	4	—	551	(.01)	555	4	—	(41)	—	(37)
Total	\$ 6,613	1.97%	\$ 77,332	1.62%	\$ 83,945	\$ 8,483	3.42%	\$ 81,715	2.96%	\$ 90,198

- (1) Includes principal amount of \$678 million and \$1.1 billion of short-term debt as of December 31, 2020 and 2019, respectively. Includes principal amount of \$7.8 billion and \$8.5 billion of long-term debt as of December 31, 2020 and 2019, respectively.
- (2) Includes \$0 and \$72 million of short-term debt related to the FFELP Loan ABS repurchase facilities (FFELP Loan Repurchase Facilities) as of December 31, 2020 and 2019, respectively. Includes \$157 million and \$231 million of long-term debt related to the FFELP Loan Repurchase Facilities as of December 31, 2020 and 2019, respectively.
- (3) Includes \$3.6 billion and \$4.0 billion of non-U.S. dollar-denominated debt as of December 31, 2020 and 2019, respectively, which has been hedged with swaps converting to U.S. dollars.
- (4) Includes \$960 million and \$2.1 billion of short-term debt related to the Private Education Loan ABS repurchase facilities (Private Education Loan Repurchase Facilities) as of December 31, 2020 and 2019, respectively. Includes \$260 million and \$194 million of long-term debt related to the Private Education Loan Repurchase Facilities as of December 31, 2020 and 2019, respectively.
- (5) "Other" primarily includes the obligation to return cash collateral held related to derivative exposure.
- (6) Includes \$60.0 billion and \$67.7 billion of long-term floating rate debt as of December 31, 2020 and 2019, respectively, and \$16.8 billion and \$14.0 billion of long-term fixed rate debt as of December 31, 2020 and 2019, respectively.
- (7) Weighted average interest rate is as of end of period.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings (Continued)

As of December 31, 2020, the expected maturities of our long-term borrowings are shown in the following table.

(Dollars in millions)	Expected Maturity		
	Senior Unsecured Debt	Secured Borrowings ⁽¹⁾	Total ⁽²⁾
Year of Maturity			
2021	\$ —	\$ 6,792	\$ 6,792
2022	1,746	7,150	8,896
2023	1,506	6,035	7,541
2024	1,349	5,756	7,105
2025	550	5,522	6,072
2026-2043	2,563	37,812	40,375
	7,714	69,067	76,781
Hedge accounting adjustments	718	(167)	551
Total	<u>\$ 8,432</u>	<u>\$ 68,900</u>	<u>\$ 77,332</u>

- (1) We view our securitization trust debt as long-term based on the contractual maturity dates which range from 2021 to 2083. However, we have projected the expected principal paydowns based on our current estimates regarding the securitized loans' prepayment speeds for purposes of this disclosure to better reflect how we expect this debt to be paid down over time. The projected principal paydowns in year 2021 include \$6.8 billion related to the securitization trust debt.
- (2) The aggregate principal amount of debt that matures in each period is \$6.8 billion in 2021, \$9.0 billion in 2022, \$7.6 billion in 2023, \$7.2 billion in 2024, \$6.1 billion in 2025 and \$40.7 billion in 2026-2043.

Variable Interest Entities

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

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

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

6. Borrowings (Continued)

Secured Facilities and Unsecured Debt

FFELP Loan ABCP Facilities

We have various ABCP borrowing facilities that we use to finance our FFELP Loans. Liquidity is available under these secured credit facilities to the extent we have eligible collateral and available capacity. The maximum borrowing capacity under these facilities will vary and is subject to each agreement's borrowing conditions. These include but are not limited to the facility's size, current usage and the availability and fair value of qualifying unencumbered FFELP Loan collateral. Our borrowings under these facilities are non-recourse. The maturity dates on these facilities range from November 2021 to April 2022. The interest rate on certain facilities can increase under certain circumstances. The facilities are subject to termination under certain circumstances. As of December 31, 2020, there was approximately \$2.5 billion outstanding under these facilities, with approximately \$2.6 billion of assets securing these facilities. As of December 31, 2020, the maximum unused capacity under these facilities was \$506 million and we had \$0.2 billion of unencumbered FFELP Loans.

FFELP Loan Repurchase Facilities

In 2018, we closed a \$0.9 billion FFELP Loan Repurchase Facility that provides liquidity for the acquisition of certain Navient-sponsored auction rate securities. Borrowings under the facility are secured by the auction rate securities. The lenders also have unsecured recourse to Navient Corporation as guarantor for any shortfall in amounts payable. Because the facility is secured by Navient-sponsored instruments issued in previous securitizations, we show the debt as part of FFELP Loan securitizations in the various borrowing tables above. As of December 31, 2020, there was approximately \$0.2 billion outstanding under this facility.

Private Education Loan ABCP Facilities

We have various ABCP borrowing facilities that we use to finance our Private Education Loans. Liquidity is available under these secured credit facilities to the extent we have eligible collateral and available capacity. The maximum borrowing capacity under these facilities will vary and is subject to each agreement's borrowing conditions. These include but are not limited to the facility's size, current usage and the availability and fair value of qualifying unencumbered Private Education Loan collateral. Our borrowings under these facilities are non-recourse. The maturity dates on these facilities range from June 2021 to December 2021. The interest rate on certain facilities can increase under certain circumstances. The facilities are subject to termination under certain circumstances. As of December 31, 2020, there was approximately \$2.6 billion outstanding under these facilities, with approximately \$2.9 billion of assets securing these facilities. As of December 31, 2020, the maximum unused capacity under these facilities was \$2.2 billion and we had \$2.4 billion of unencumbered Private Education Loans.

Private Education Loan Repurchase Facilities

Since the fourth quarter of 2015, we have closed on \$4.3 billion of Private Education Loan Repurchase Facilities. These repurchase facilities are collateralized by Residual Interests in previously issued Private Education Loan ABS trusts. The lenders also have unsecured recourse to Navient Corporation as guarantor for any shortfall in amounts payable. Because these facilities are secured by the Residual Interests in previous securitizations, we show the debt as part of Private Education Loan securitizations in the various borrowing tables above. As of December 31, 2020, there was approximately \$1.2 billion outstanding under these facilities.

Senior Unsecured Debt

We issued \$700 million, \$0 and \$500 million of unsecured debt in 2020, 2019 and 2018, respectively.

Debt Repurchases

The following table summarizes activity related to our senior unsecured debt repurchases.

(Dollars in millions)	Years Ended December 31,		
	2020	2019	2018
Debt principal repurchased	\$ 768	\$ 1,184	\$ 2,809
Gains (losses) on debt repurchases	\$ (6)	\$ 45	\$ 19

7. Derivative Financial Instruments

Risk Management Strategy

We maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate changes. Our goal is to manage interest rate sensitivity by modifying the repricing frequency and underlying index characteristics of certain balance sheet assets and liabilities so the net interest margin is not, on a material basis, adversely affected by movements in interest rates. We do not use derivative instruments to hedge credit risk. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. Income or loss on the derivative instruments that are linked to the hedged assets and liabilities will generally offset the effect of this unrealized appreciation or depreciation for the period the item is being hedged. We view this strategy as a prudent management of interest rate sensitivity. In addition, we utilize derivative contracts to minimize the economic impact of changes in foreign currency exchange rates on certain debt obligations that are denominated in foreign currencies. As foreign currency exchange rates fluctuate, these liabilities will appreciate and depreciate in value. These fluctuations, to the extent the hedge relationship is effective, are offset by changes in the value of the cross-currency interest rate swaps executed to hedge these instruments. Management believes certain derivative transactions entered into as hedges, primarily Floor Income Contracts, basis swaps and, at times, certain other LIBOR swaps, are economically effective; however, those transactions do not qualify for hedge accounting under GAAP and thus may adversely impact earnings.

Although we use derivatives to minimize the risk of interest rate and foreign currency changes, the use of derivatives does expose us to both market and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates, foreign exchange rates and market liquidity. Credit risk is the risk that a counterparty will not perform its obligations under a contract and it is limited to the loss of the fair value gain in a derivative that the counterparty owes us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no credit risk exposure to the counterparty; however, the counterparty has exposure to us. We minimize the credit risk in derivative instruments by entering into transactions with highly rated counterparties that are reviewed regularly by our Credit Department. We also maintain a policy of requiring that all derivative contracts be governed by an International Swaps and Derivative Association Master Agreement. Depending on the nature of the derivative transaction, bilateral collateral arrangements related to Navient Corporation contracts generally are required as well. When we have more than one outstanding derivative transaction with the counterparty, and there exists legally enforceable netting provisions with the counterparty (i.e., a legal right to offset receivable and payable derivative contracts), the "net" mark-to-market exposure, less collateral the counterparty has posted to us, represents exposure with the counterparty. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At December 31, 2020 and 2019, we had a net positive exposure (derivative gain positions to us less collateral which has been posted by counterparties to us) related to Navient Corporation derivatives of \$13 million and \$12 million, respectively.

7. Derivative Financial Instruments (Continued)

Our on-balance sheet securitization trusts have \$3.6 billion of Euro and British Pound Sterling denominated bonds outstanding as of December 31, 2020. To convert these non-U.S. dollar denominated bonds into U.S. dollar liabilities, the trusts have entered into foreign-currency swaps with highly rated counterparties. In addition, the trusts have entered into \$2.4 billion notional of interest rates swaps which are primarily used to convert Prime received on securitized education loans to LIBOR paid on the bonds. 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. At December 31, 2020 and 2019, the net positive exposure on swaps in securitization trusts was \$28 million and \$0, respectively.

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

(Dollars in millions)	Corporate Contracts	Securitization Trust Contracts
Exposure, net of collateral	\$ 13	\$ 28
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	100%	—%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	—%	—%

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact

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

Impact of Derivatives on Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow		Fair Value(4)		Trading		Total	
		Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Fair Values(1)									
Derivative Assets:									
Interest rate swaps	Interest rate	\$ —	\$ —	\$ 323	\$ 226	\$ 6	\$ 4	\$ 329	\$ 230
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	28	—	—	—	28	—
Total derivative assets(2)		—	—	351	226	6	4	357	230
Derivative Liabilities:									
Interest rate swaps	Interest rate	—	—	—	—	(14)	(20)	(14)	(20)
Floor Income Contracts	Interest rate	—	—	—	—	(197)	(68)	(197)	(68)
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	(322)	(575)	—	—	(322)	(575)
Other(3)	Interest rate	—	—	—	—	—	(1)	—	(1)
Total derivative liabilities(2)		—	—	(322)	(575)	(211)	(89)	(533)	(664)
Net total derivatives		\$ —	\$ —	\$ 29	\$ (349)	\$ (205)	\$ (85)	\$ (176)	\$ (434)

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

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

(Dollar in millions)	Other Assets		Other Liabilities	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Gross position	\$ 357	\$ 230	\$ (533)	\$ (664)
Impact of master netting agreements	(50)	(18)	50	18
Derivative values with impact of master netting agreements (as carried on balance sheet)	307	212	(483)	(646)
Cash collateral (held) pledged	(336)	(337)	234	155
Net position	\$ (29)	\$ (125)	\$ (249)	\$ (491)

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

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

(Dollar in millions)	As of December 31, 2020		As of December 31, 2019	
	Carrying Value	Hedge Basis Adjustments	Carrying Value	Hedge Basis Adjustments
Short-term borrowings	\$ 631	\$ 4	\$ 1,001	\$ 4
Long-term borrowings	\$ 11,017	\$ 541	\$ 11,488	\$ (58)

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

The above fair values include adjustments when necessary for counterparty credit risk for both when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the asset position at December 31, 2020 and December 31, 2019 by \$8 million and \$11 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at December 31, 2020 and December 31, 2019 by \$5 million and \$12 million, respectively.

	Cash Flow		Fair Value		Trading		Total	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
(Dollars in billions)								
Notional Values:								
Interest rate swaps	\$ 16.7	\$ 19.1	\$ 7.5	\$ 8.6	\$ 26.8	\$ 51.5	\$ 51.0	\$ 79.2
Floor Income Contracts	—	—	—	—	17.0	21.2	17.0	21.2
Cross-currency interest rate swaps	—	—	3.7	4.0	—	—	3.7	4.0
Total derivatives	\$ 16.7	\$ 19.1	\$ 11.2	\$ 12.6	\$ 43.8	\$ 72.7	\$ 71.7	\$ 104.4

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

	Total Gains (Losses)		
	Years Ended December 31,		
(Dollars in millions)	2020	2019	2018
Fair Value Hedges⁽²⁾:			
Interest Rate Swaps			
Gains (losses) recognized in net income on derivatives	\$ 301	\$ 281	\$ (137)
Gains (losses) recognized in net income on hedged items	(327)	(299)	162
Net fair value hedge ineffectiveness gains (losses)	(26)	(18)	25
Cross currency interest rate swaps			
Gains (losses) recognized in net income on derivatives	281	57	(311)
Gains (losses) recognized in net income on hedged items	(272)	(18)	210
Net fair value hedge ineffectiveness gains (losses)	9	39	(101)
Total fair value hedges ⁽¹⁾⁽²⁾	(17)	21	(76)
Cash Flow Hedges:			
Total cash flow hedges ⁽²⁾	—	—	—
Trading			
Interest rate swaps	(47)	44	22
Floor income contracts	(209)	(22)	15
Cross currency interest rate swaps	—	(2)	(3)
Other	—	2	4
Total trading derivatives ⁽³⁾	(256)	22	38
Mark-to-market gains (losses) recognized	\$ (273)	\$ 43	\$ (38)

(1) Recorded in interest expense in the consolidated statements of income for 2020 and 2019 with the adoption of ASU No. 2017-12. Recorded in "gains (losses) on derivatives and hedging activities, net" in the consolidated statements of income for 2018.

(2) The accrued interest income (expense) on fair value hedges and cash flow hedges is recorded in interest expense and is excluded from this table.

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

Impact of Derivatives on Other Comprehensive Income (Equity)

(Dollars in millions)	Years Ended December 31,		
	2020	2019	2018
Total gains (losses) on cash flow hedges	\$ (233)	\$ (165)	\$ 50
Reclassification adjustments for derivative (gains) losses included in net income (interest expense) ⁽¹⁾	50	(39)	(11)
Net changes in cash flow hedges, net of tax	<u>\$ (183)</u>	<u>\$ (204)</u>	<u>\$ 39</u>

(1) Includes net settlement income/expense.

Collateral

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

(Dollars in millions)	December 31, 2020	December 31, 2019
Collateral held:		
Cash (obligation to return cash collateral is recorded in short-term borrowings)	\$ 336	\$ 337
Securities at fair value — corporate derivatives (not recorded in financial statements) ⁽¹⁾	—	—
Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements) ⁽²⁾	78	69
Total collateral held	<u>\$ 414</u>	<u>\$ 406</u>
Derivative asset at fair value including accrued interest	<u>\$ 351</u>	<u>\$ 282</u>
Collateral pledged to others:		
Cash (right to receive return of cash collateral is recorded in investments)	\$ 234	\$ 155
Total collateral pledged	<u>\$ 234</u>	<u>\$ 155</u>
Derivative liability at fair value including accrued interest and premium receivable	<u>\$ 504</u>	<u>\$ 658</u>

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

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

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of \$164 million with our counterparties. Downgrades in our unsecured credit rating would not result in any additional collateral requirements. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Other Assets

The following table provides the detail of our other assets.

(Dollars in millions)	December 31, 2020	December 31, 2019
Accrued interest receivable	\$ 1,933	\$ 1,952
Benefit and insurance-related investments	469	459
Income tax asset, net	454	258
Derivatives at fair value	307	212
Fixed assets, net	116	135
Accounts receivable	118	119
Other	95	199
Total	<u>\$ 3,492</u>	<u>\$ 3,334</u>

9. Stockholders' Equity

Common Stock

Our shareholders have authorized the issuance of 1.125 billion shares of common stock. The par value of Navient common stock is \$0.01 per share. At December 31, 2020, 186 million shares were issued and outstanding and 23 million shares were unissued but encumbered for outstanding stock options, restricted stock units, performance stock units and dividend equivalent units for employee compensation and remaining authority for stock-based compensation plans.

Dividend and Share Repurchase Program

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

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

(Dollars and shares in millions, except per share amounts)	Years Ended December 31,		
	2020	2019	2018
Common stock repurchased ⁽¹⁾	30.6	34.5	17.4
Common stock repurchased (in dollars) ⁽¹⁾	\$ 400	\$ 440	\$ 220
Average purchase price per share ⁽¹⁾	\$ 13.06	\$ 12.76	\$ 12.64
Remaining common stock repurchase authority ⁽¹⁾	\$ 600	\$ 1,000	\$ 440
Shares repurchased related to employee stock-based compensation plans ⁽²⁾	1.2	3.2	3.8
Average purchase price per share ⁽²⁾	\$ 12.86	\$ 11.62	\$ 13.71
Common shares issued ⁽³⁾	2.7	5.7	5.7
Dividends paid	\$ 123	\$ 147	\$ 166
Dividends per share	\$.64	\$.64	\$.64

(1) Common shares purchased under our share repurchase program. Our board of directors authorized a \$500 million share repurchase program in September 2018 which was fully utilized in 2019 and in October 2019, an additional \$1 billion multi-year program was approved.

(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 December 31, 2020 was \$9.82.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Earnings (Loss) per Common Share

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

(In millions, except per share data)	Years Ended December 31,		
	2020	2019	2018
Numerator:			
Net income	\$ 412	\$ 597	\$ 395
Denominator:			
Weighted average shares used to compute basic EPS	193	230	260
Effect of dilutive securities:			
Dilutive effect of stock options, restricted stock, restricted stock units, performance stock units and Employee Stock Purchase Plan (ESPP)(1)	2	3	4
Dilutive potential common shares(2)	2	3	4
Weighted average shares used to compute diluted EPS	195	233	264
Basic earnings per common share	\$ 2.14	\$ 2.59	\$ 1.52
Diluted earnings per common share	\$ 2.12	\$ 2.56	\$ 1.49

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

(2) For the years ended December 31, 2020, 2019 and 2018, stock options covering approximately 2 million, 4 million and 6 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

11. 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. The fair value of the items discussed below are separately disclosed in this footnote.

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

Education Loans

Our FFELP Loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. Fair values are determined by modeling loan cash flows using stated terms of the assets using mostly internally developed assumptions that are validated against market transactions when available.

FFELP Loans

The significant assumptions used to determine fair value of our FFELP Loans are prepayment speeds, default rates, cost of funds, discount rate, capital levels and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable in active markets. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

Private Education Loans

The significant assumptions used to determine fair value of our Private Education Loans are prepayment speeds, default rates, recovery rates, cost of funds, discount rate and capital levels. A number of significant inputs into the models are internally derived and not observable in active markets. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

Cash and Investments (Including "Restricted Cash and Investments")

Cash and cash equivalents are carried at cost. Carrying value approximates fair value. The fair value of investments in commercial paper, ABCP, or demand deposits that have a remaining term of less than 90 days when purchased are estimated to equal their cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. No additional adjustments were deemed necessary. These investments are level 2 valuations.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate (which for us is LIBOR) and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Foreign currency-denominated borrowings are re-measured at current spot rates in the financial statements. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Fair value adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets. As such, these are level 3 valuations.

11. Fair Value Measurements (Continued)

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair value of a majority of derivative financial instruments was determined by standard derivative pricing and option models using the stated terms of the contracts and observable market inputs and are therefore classified as level 2 fair values. In some cases, we utilized internally developed inputs that are not observable in the market, and as such, classified these instruments as level 3 fair values. Complex structured derivatives or derivatives that trade in less liquid markets require significant estimates and judgment in determining fair value that cannot be corroborated with market transactions.

When determining the fair value of derivatives, we take into account counterparty credit risk for positions where there is exposure to the counterparty on a net basis by assessing exposure net of collateral held. See "Note 7 – Derivative Financial Instruments" for further discussion on methodology. The net credit risk adjustment (adjustments for our exposure to counterparties net of adjustments for the counterparties' exposure to us) decreased the valuations at December 31, 2020 by \$8 million.

Inputs specific to each class of derivatives disclosed in the table below are as follows:

- Interest rate swaps — Fair value is determined using standard derivative cash flow models. Derivatives that swap fixed interest payments for LIBOR interest payments (or vice versa) and derivatives swapping quarterly reset LIBOR for daily reset LIBOR or one-month LIBOR were valued using the LIBOR swap yield curve which is an observable input from an active market. These derivatives are level 2 fair value estimates in the hierarchy. Other derivatives swapping LIBOR interest payments for another variable interest payment (primarily Prime) are valued using the LIBOR swap yield curve and observable market spreads for the specified index. The markets for these swaps are generally illiquid as indicated by a wide bid/ask spread. The adjustment made for liquidity decreased the valuations by \$5 million at December 31, 2020. These derivatives are level 3 fair value estimates.
- Cross-currency interest rate swaps — Fair value is determined using standard derivative cash flow models. Derivatives hedging foreign-denominated bonds are valued using the LIBOR swap yield curve (for both USD and the foreign-denominated currency), cross-currency basis spreads and forward foreign currency exchange rates. These inputs are observable inputs from active markets. Therefore, the resulting valuation is a level 2 fair value estimate. Amortizing notional derivatives (derivatives whose notional amounts change based on changes in the balance of, or pool of, assets or debt) hedging trust debt use internally derived assumptions for the trust assets' prepayment speeds and default rates to model the notional amortization. Management makes assumptions concerning the extension features of derivatives hedging rate-reset notes denominated in a foreign currency. These inputs are not market observable; therefore, these derivatives are level 3 fair value estimates.
- Floor Income Contracts — Derivatives are valued using an option pricing model. Inputs to the model include the LIBOR swap yield curve and LIBOR interest rate volatilities. The inputs are observable inputs in active markets and these derivatives are level 2 fair value estimates.

The carrying value of borrowings designated as the hedged item in a fair value hedge is adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates and volatilities.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fair Value Measurements (Continued)

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis. During 2020 and 2019, there were no significant transfers of financial instruments between levels.

(Dollars in millions)	Fair Value Measurements on a Recurring Basis							
	December 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivative instruments:(1)								
Interest rate swaps	—	323	6	329	—	227	3	230
Cross-currency interest rate swaps	—	—	28	28	—	—	—	—
Total derivative assets(2)	—	323	34	357	—	227	3	230
Total	<u>\$ —</u>	<u>\$ 323</u>	<u>\$ 34</u>	<u>\$ 357</u>	<u>\$ —</u>	<u>\$ 227</u>	<u>\$ 3</u>	<u>\$ 230</u>
Liabilities(3)								
Derivative instruments(1)								
Interest rate swaps	\$ —	\$ —	\$ (14)	\$ (14)	\$ —	\$ —	\$ (20)	\$ (20)
Floor Income Contracts	—	(197)	—	(197)	—	(68)	—	(68)
Cross-currency interest rate swaps	—	—	(322)	(322)	—	—	(575)	(575)
Other	—	—	—	—	—	—	(1)	(1)
Total derivative liabilities(2)	—	(197)	(336)	(533)	—	(68)	(596)	(664)
Total	<u>\$ —</u>	<u>\$ (197)</u>	<u>\$ (336)</u>	<u>\$ (533)</u>	<u>\$ —</u>	<u>\$ (68)</u>	<u>\$ (596)</u>	<u>\$ (664)</u>

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

(2) See "Note 7 — Derivative Financial Instruments" for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fair Value Measurements (Continued)

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

(Dollars in millions)	Year Ended December 31, 2020			
	Derivative Instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	\$ (17)	\$ (575)	\$ (1)	\$ (593)
Total gains/(losses):				
Included in earnings(1)	8	231	—	239
Included in other comprehensive income	—	—	—	—
Settlements	1	50	1	52
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (8)</u>	<u>\$ (294)</u>	<u>\$ —</u>	<u>\$ (302)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	<u>\$ 5</u>	<u>\$ 273</u>	<u>\$ 1</u>	<u>\$ 279</u>

(Dollars in millions)	Year Ended December 31, 2019			
	Derivative Instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	\$ (27)	\$ (633)	\$ (4)	\$ (664)
Total gains/(losses):				
Included in earnings(1)	8	(60)	2	(50)
Included in other comprehensive income	—	—	—	—
Settlements	2	118	1	121
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (17)</u>	<u>\$ (575)</u>	<u>\$ (1)</u>	<u>\$ (593)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	<u>\$ 9</u>	<u>\$ 58</u>	<u>\$ 3</u>	<u>\$ 70</u>

(Dollars in millions)	Year Ended December 31, 2018			
	Derivative Instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	\$ (41)	\$ (322)	\$ (18)	\$ (381)
Total gains/(losses):				
Included in earnings(1)	11	(433)	8	(414)
Included in other comprehensive income	—	—	—	—
Settlements	3	122	6	131
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (27)</u>	<u>\$ (633)</u>	<u>\$ (4)</u>	<u>\$ (664)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	<u>\$ 13</u>	<u>\$ (284)</u>	<u>\$ 14</u>	<u>\$ (257)</u>

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

(Dollars in millions)	Years Ended December 31,		
	2020	2019	2018
Gains (losses) on derivative and hedging activities, net	\$ 8	\$ 10	\$ (292)
Interest expense	231	(60)	(122)
Total	<u>\$ 239</u>	<u>\$ (50)</u>	<u>\$ (414)</u>

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fair Value Measurements (Continued)

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

(Dollars in millions)	Fair Value at December 31, 2020	Valuation Technique	Input	Range and Weighted Average
Derivatives				
Prime/LIBOR basis swaps	\$ (8)	Discounted cash flow	Constant Prepayment Rate	9%
			Bid/ask adjustment to discount rate	.08%
Cross-currency interest rate swaps	(294)	Discounted cash flow	Constant Prepayment Rate	5%
Other	—			
Total	<u>\$ (302)</u>			

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

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

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

(Dollars in millions)	December 31, 2020			December 31, 2019		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
FFELP Loans	\$ 59,117	\$ 58,284	\$ 833	\$ 64,478	\$ 64,575	\$ (97)
Private Education Loans	22,462	21,079	1,383	22,984	22,245	739
Cash and investments	3,822	3,822	—	3,992	3,992	—
Total earning assets	<u>85,401</u>	<u>83,185</u>	<u>2,216</u>	<u>91,454</u>	<u>90,812</u>	<u>642</u>
Interest-bearing liabilities						
Short-term borrowings	6,626	6,613	(13)	8,498	8,483	(15)
Long-term borrowings	76,719	77,332	613	81,317	81,715	398
Total interest-bearing liabilities	<u>83,345</u>	<u>83,945</u>	<u>600</u>	<u>89,815</u>	<u>90,198</u>	<u>383</u>
Derivative financial instruments						
Floor Income Contracts	(197)	(197)	—	(68)	(68)	—
Interest rate swaps	315	315	—	210	210	—
Cross-currency interest rate swaps	(294)	(294)	—	(575)	(575)	—
Other	—	—	—	(1)	(1)	—
Excess of net asset fair value over carrying value⁽¹⁾			<u>\$ 2,816</u>			<u>\$ 1,025</u>

(1) \$371 million of this excess as of December 31, 2020 is a result of adjusting the Company's \$8.4 billion senior unsecured debt down to fair value compared to such adjustment being a \$56 million increase as of December 31, 2019. This change in fair value is primarily a result of wider credit spreads as of December 31, 2020 as a result of COVID-19.

12. Commitments, Contingencies and Guarantees

Legal Proceedings

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

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

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

Certain Cases

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

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

At this point in time, the Company is unable to anticipate the timing of a resolution or the impact that these legal proceedings discussed above 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.

12. Commitments, Contingencies and Guarantees (Continued)

In January 2017, the Consumer Financial Protection Bureau (the CFPB) and Attorneys General for the State of Illinois and the State of Washington initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of certain Federal and State consumer protection statutes, including the CFPB, FCRA, FDCPA and various state consumer protection laws. In October 2017, the Attorney General for the Commonwealth of Pennsylvania initiated a civil action against Navient Corporation and Navient Solutions, LLC (Solutions), containing similar alleged violations of the CFPB and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The Attorneys General for the States of California, Mississippi and, in October 2020, New Jersey have also initiated actions against the Company and certain subsidiaries alleging violations of various state and federal consumer protection laws based upon similar alleged acts or failures to act. We refer to the Illinois, Pennsylvania, Washington, California, Mississippi and New Jersey Attorneys General collectively as the "State Attorneys General." In addition to these matters, a number of lawsuits have been filed by nongovernmental parties or, in the future, may be filed by additional governmental or nongovernmental parties seeking damages or other remedies related to similar issues raised by the CFPB and the State Attorneys General. As the Company has previously stated, we believe the suits improperly seek to impose penalties on Navient based on new, previously unannounced servicing standards applied retroactively against only one servicer, and that the allegations are false. We therefore have denied these allegations and are vigorously defending against the allegations in each of these cases. At this point in time, it is reasonably possible that a loss contingency exists; however, the Company is unable to anticipate the timing of a resolution or the impact that these legal proceedings may have on the Company's consolidated financial position, liquidity, results of operation or cash flows. As a result, it is not possible at this time to estimate a range of potential exposure, if any, for amounts that may be payable in connection with these matters and reserves have not been established. It is possible that an adverse ruling or rulings may have a material adverse impact on the Company.

Regulatory Matters

In addition, Navient and its subsidiaries are subject to examination or regulation by various federal regulatory, state licensing or other regulatory agencies as part of its ordinary course of business including the SEC, CFPB, FFIEC and ED. Items or matters similar to or different from those described above may arise during the course of those examinations. We also routinely receive inquiries or requests from various regulatory entities or bodies or government agencies concerning our business or our assets. Generally, the Company endeavors to cooperate with each such inquiry or request. The Company subsequently received separate but similar CIDs or subpoenas from the Attorneys General for the District of Columbia, Kansas, Oregon, Colorado, New Jersey, New York and Indiana. We have and, in the future, may receive additional CIDs or subpoenas and other inquiries from these or other Attorneys General with respect to similar or different matters.

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

12. Commitments, Contingencies and Guarantees (Continued)

OIG Audit

The Office of the Inspector General (the OIG) of ED commenced an audit regarding Special Allowance Payments (SAP) on September 10, 2007. In September 2013, we received the final audit determination of Federal Student Aid (the Final Audit Determination) on the final audit report issued by the OIG in August 2009 related to this audit. The Final Audit Determination concurred with the final audit report issued by the OIG and instructed us to make adjustment to our government billing to reflect the policy determination. In August 2016, we filed our notice of appeal to the Administrative Actions and Appeals Service Group of ED, and a hearing was held in April 2017. In March 2019, the administrative law judge hearing the appeal affirmed the audit's findings, holding the then-existing Dear Colleague letter relied upon by the Company and other industry participants was inconsistent with the statutory framework creating the SAP rules applicable to loans funded by certain types of debt obligations at issue. We appealed the administrative law judge's decision to the Secretary of Education given Navient's adherence to ED-issued guidance and the potential impact on participants in any ED program student loan servicers if such guidance is deemed unreliable and may not be relied upon. In January 2021, the Acting Secretary of Education upheld the decision of the administrative law judge. We continue to believe that our SAP billing practices were proper, considering then-existing ED guidance and lack of applicable regulations and are assessing whether to further appeal this decision. The Company first established a reserve for this matter in 2014 and increased the reserve in 2020 in response to the recent decision by the Acting Secretary. We do not believe, at this time, that an adverse ruling will have a material effect on the Company as a whole.

Contingencies

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

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

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

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

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Income Taxes

Reconciliations of the statutory U.S. federal income tax rates to our effective tax rate for continuing operations follow:

	Years Ended December 31,		
	2020	2019	2018
Statutory rate	21.0%	21.0%	21.0%
State tax, net of federal benefit	1.6	1.4	3.9
Other, net	—	(.5)	.3
Effective tax rate	<u>22.6%</u>	<u>21.9%</u>	<u>25.2%</u>

Income tax expense consists of:

(Dollars in millions)	December 31,		
	2020	2019	2018
Current provision/(benefit):			
Federal	\$ 98	\$ 78	\$ 71
State	14	11	13
Foreign	(1)	—	3
Total current provision/(benefit)	<u>111</u>	<u>89</u>	<u>87</u>
Deferred provision/(benefit):			
Federal	12	73	33
State	(3)	3	13
Foreign	—	1	—
Total deferred provision/(benefit)	<u>9</u>	<u>77</u>	<u>46</u>
Provision for income tax expense/(benefit)	<u>\$ 120</u>	<u>\$ 166</u>	<u>\$ 133</u>

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Income Taxes (Continued)

The tax effect of temporary differences that give rise to deferred tax assets and liabilities include the following:

(Dollars in millions)	December 31,	
	2020	2019
Deferred tax assets:		
Loan reserves	\$ 414	\$ 257
Market value adjustments on education loans, investments and derivatives	64	—
Education loan premiums and discounts, net	41	44
Operating loss and credit carryovers	14	17
Accrued expenses not currently deductible	22	16
Stock-based compensation plans	6	10
Other	22	21
Total deferred tax assets	583	365
Deferred tax liabilities:		
Acquired intangible assets	16	17
Market value adjustments on education loans, investments and derivatives	—	13
Original issue discount on borrowings	11	10
Other	16	18
Total deferred tax liabilities	43	58
Net deferred tax assets	\$ 540	\$ 307

Included in operating loss and credit carryovers is a valuation allowance of \$64 million and \$60 million as of December 31, 2020 and 2019, respectively, against a portion of the Company's federal and state deferred tax assets. The valuation allowance is primarily attributable to deferred tax assets for federal and state net operating loss carryovers and state IRC § 163(j) disallowed interest expense carryovers that management believes it is more likely than not will expire prior to being realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income of the appropriate character (i.e. capital or ordinary) during the period in which the temporary differences become deductible. Factors generally considered by management include (but are not limited to): any changes in economic conditions, the scheduled reversals of deferred tax liabilities, and the history of positive taxable income available for net operating loss carrybacks in evaluating the realizability of the deferred tax assets.

The operating loss and credit carryovers consist of:

(Dollars in millions)	December 31, 2020				
	Gross	Tax-Effect	Expiration	Corresponding Valuation Allowance ⁽¹⁾	Operating Loss and Credit Carryovers
Federal operating loss carryovers	\$ 53	\$ 11	Begins in 2031	\$ —	\$ 11
State operating loss carryovers	505	36	Begins in 2021	33	3
State IRC § 163(j) disallowed interest expense carryovers	1,907	29	Indefinite	29	—
Federal and State capital loss carryovers	10	2	Begins in 2021	2	—
		<u>\$ 78</u>		<u>\$ 64</u>	<u>\$ 14</u>

(1) The valuation allowance attributable to deferred tax assets for federal and state net operating loss carryovers, and state IRC § 163(j) disallowed interest expense carryovers, are amounts that management believes more likely than not will expire prior to being realized.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Income Taxes (Continued)

Accounting for Uncertainty in Income Taxes

The following table summarizes changes in unrecognized tax benefits:

(Dollars in millions)	December 31,		
	2020	2019	2018
Unrecognized tax benefits at beginning of year	\$ 53.6	\$ 65.7	\$ 57.4
Increases resulting from tax positions taken during a prior period	7.6	4.0	8.0
Decreases resulting from tax positions taken during a prior period	—	(3.8)	(.3)
Increases resulting from tax positions taken during the current period	3.5	1.9	3.8
Decreases related to settlements with taxing authorities	(.2)	(11.1)	(1.4)
Increases related to settlements with taxing authorities	—	—	—
Reductions related to the lapse of statute of limitations	(6.6)	(3.1)	(1.8)
Unrecognized tax benefits at end of year⁽¹⁾	<u>\$ 57.9</u>	<u>\$ 53.6</u>	<u>\$ 65.7</u>

(1) Included in the \$57.9 million of gross unrecognized tax benefits at December 31, 2020 are \$45.7 million of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate.

The Company or one of its subsidiaries files income tax returns at the U.S. federal level, in most U.S. states, and various foreign jurisdictions. All periods prior to 2016 are closed for federal examinations purposes. Various combinations of subsidiaries, tax years, and jurisdictions remain open for review, subject to statute of limitations periods (typically 3 to 4 prior years). We do not expect the resolution of open audits to have a material impact on our unrecognized tax benefits.

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

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

Revenue by Service Type

(Dollars in millions)	Years Ended December 31,					
	2020			2019		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal Education Loan asset recovery services	\$ 84	\$ —	\$ 84	\$ 133	\$ —	\$ 133
Government services	—	191	191	—	154	154
Healthcare services	—	113	113	—	104	104
Total	<u>\$ 84</u>	<u>\$ 304</u>	<u>\$ 388</u>	<u>\$ 133</u>	<u>\$ 258</u>	<u>\$ 391</u>

Revenue by Client Type

(Dollars in millions)	Years Ended December 31,					
	2020			2019		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal government	\$ 44	\$ 18	\$ 62	\$ 74	\$ 17	\$ 91
Guarantor agencies	38	—	38	52	—	52
Other institutions	2	—	2	7	—	7
State and local government	—	122	122	—	83	83
Tolling authorities	—	51	51	—	54	54
Hospitals and other healthcare providers	—	113	113	—	104	104
Total	<u>\$ 84</u>	<u>\$ 304</u>	<u>\$ 388</u>	<u>\$ 133</u>	<u>\$ 258</u>	<u>\$ 391</u>

As of December 31, 2020 and 2019, there was \$90 million and \$67 million, respectively, of net accounts receivable related to these contracts. Navient had no material contract assets or contract liabilities.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting

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

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

Federal Education Loans Segment

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

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

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

(Dollars in millions)	December 31,	
	2020	2019
FFELP Loans, net	\$ 58,284	\$ 64,575
Cash and investments ⁽¹⁾	1,685	2,043
Other	2,241	2,202
Total assets	<u>\$ 62,210</u>	<u>\$ 68,820</u>

(1) Includes restricted cash and investments.

Consumer Lending Segment

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

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

(Dollars in millions)	December 31,	
	2020	2019
Private Education Loans, net	\$ 21,079	\$ 22,245
Cash and investments ⁽¹⁾	828	927
Other	964	931
Total assets	<u>\$ 22,871</u>	<u>\$ 24,103</u>

(1) Includes restricted cash and investments.

15. Segment Reporting (Continued)

Business Processing Segment

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

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

At December 31, 2020 and 2019, the Business Processing segment had total assets of \$425 million and \$423 million, respectively.

Other Segment

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

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

At December 31, 2020 and 2019, the Other segment had total assets of \$1.9 billion and \$1.6 billion, respectively.

15. Segment Reporting (Continued)

Measure of Profitability

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

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

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

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Year Ended December 31, 2020								
						Adjustments			
(Dollars in millions)	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	Total GAAP
Interest income:									
Education loans	\$ 1,813	\$ 1,445	\$ —	\$ —	\$ 3,258	\$ 79	\$ (55)	\$ 24	\$ 3,282
Other loans	—	—	—	—	—	—	—	—	—
Cash and investments	7	3	—	6	16	—	—	—	16
Total interest income	1,820	1,448	—	6	3,274	79	(55)	24	3,298
Total interest expense	1,194	699	—	120	2,013	39	(6)	33	2,046
Net interest income (loss)	626	749	—	(114)	1,261	40	(49)	(9)	1,252
Less: provisions for loan losses	13	142	—	—	155	—	—	—	155
Net interest income (loss) after provisions for loan losses	613	607	—	(114)	1,106	40	(49)	(9)	1,097
Other income (loss):									
Servicing revenue	208	6	—	—	214	—	—	—	214
Asset recovery and business processing revenue	154	—	304	—	458	—	—	—	458
Other income (loss)	9	—	—	11	20	(40)	(216)	(256)	(236)
Losses on debt repurchases	—	—	—	(6)	(6)	—	—	—	(6)
Total other income (loss)	371	6	304	5	686	(40)	(216)	(256)	430
Expenses:									
Direct operating expenses	287	146	254	—	687	—	—	—	687
Unallocated shared services expenses	—	—	—	277	277	—	—	—	277
Operating expenses	287	146	254	277	964	—	—	—	964
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	22	22	22
Restructuring/other reorganization expenses	—	—	—	9	9	—	—	—	9
Total expenses	287	146	254	286	973	—	22	22	995
Income (loss) before income tax expense (benefit)	697	467	50	(395)	819	—	(287)	(287)	532
Income tax expense (benefit) ⁽²⁾	160	107	11	(90)	188	—	(68)	(68)	120
Net income (loss)	\$ 537	\$ 360	\$ 39	\$ (305)	\$ 631	\$ —	\$ (219)	\$ (219)	\$ 412

(1) Core Earnings adjustments to GAAP:

	Year Ended December 31, 2020		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ (9)	\$ —	\$ (9)
Total other income (loss)	(256)	—	(256)
Goodwill and acquired intangible asset impairment and amortization	—	22	22
Total Core Earnings adjustments to GAAP	\$ (265)	\$ (22)	(287)
Income tax expense (benefit)			(68)
Net income (loss)			\$ (219)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

	Year Ended December 31, 2019								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			
(Dollars in millions)						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	Total GAAP
Interest income:									
Education loans	\$ 2,907	\$ 1,731	\$ —	\$ —	\$ 4,638	\$ 8	\$ (68)	\$ (60)	\$ 4,578
Other loans	1	1	—	—	2	—	—	—	2
Cash and investments	50	16	—	27	93	—	—	—	93
Total interest income	2,958	1,748	—	27	4,733	8	(68)	(60)	4,673
Total interest expense	2,376	980	—	161	3,517	6	(35)	(29)	3,488
Net interest income (loss)	582	768	—	(134)	1,216	2	(33)	(31)	1,185
Less: provisions for loan losses	30	228	—	—	258	—	—	—	258
Net interest income (loss) after provisions for loan losses	552	540	—	(134)	958	2	(33)	(31)	927
Other income (loss):									
Servicing revenue	229	11	—	—	240	—	—	—	240
Asset recovery and business processing revenue	230	—	258	—	488	—	—	—	488
Other income (loss)	28	1	—	14	43	(41)	65	24	67
Gains on sales of loans	—	16	—	—	16	—	—	—	16
Gains on debt repurchases	—	—	—	33	33	39	(27)	12	45
Total other income (loss)	487	28	258	47	820	(2)	38	36	856
Expenses:									
Direct operating expenses	359	156	215	—	730	—	—	—	730
Unallocated shared services expenses	—	—	—	254	254	—	—	—	254
Operating expenses	359	156	215	254	984	—	—	—	984
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	30	30	30
Restructuring/other reorganization expenses	—	—	—	6	6	—	—	—	6
Total expenses	359	156	215	260	990	—	30	30	1,020
Income (loss) before income tax expense (benefit)	680	412	43	(347)	788	—	(25)	(25)	763
Income tax expense (benefit) ⁽²⁾	155	96	10	(80)	181	—	(15)	(15)	166
Net income (loss)	\$ 525	\$ 316	\$ 33	\$ (267)	\$ 607	\$ —	\$ (10)	\$ (10)	\$ 597

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2019		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ (31)	\$ —	\$ (31)
Total other income (loss)	36	—	36
Goodwill and acquired intangible asset impairment and amortization	—	30	30
Total Core Earnings adjustments to GAAP	\$ 5	\$ (30)	(25)
Income tax expense (benefit)			(15)
Net income (loss)			\$ (10)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

	Year Ended December 31, 2018								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			Total GAAP
(Dollars in millions)						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	
Interest income:									
Education loans	\$ 3,080	\$ 1,778	\$ —	\$ —	\$ 4,858	\$ 17	\$ (70)	\$ (53)	\$ 4,805
Other loans	4	2	—	—	6	—	—	—	6
Cash and investments	46	13	—	38	97	—	—	—	97
Total interest income	3,130	1,793	—	38	4,961	17	(70)	(53)	4,908
Total interest expense	2,467	1,013	—	192	3,672	8	(12)	(4)	3,668
Net interest income (loss)	663	780	—	(154)	1,289	9	(58)	(49)	1,240
Less: provisions for loan losses	70	300	—	—	370	—	—	—	370
Net interest income (loss) after provisions for loan losses	593	480	—	(154)	919	9	(58)	(49)	870
Other income (loss):									
Servicing revenue	262	12	—	—	274	—	—	—	274
Asset recovery and business processing revenue	163	—	267	—	430	—	—	—	430
Other income (loss)	24	—	—	6	30	(22)	(29)	(51)	(21)
Gains on debt repurchases	—	—	—	9	9	13	(3)	10	19
Total other income (loss)	449	12	267	15	743	(9)	(32)	(41)	702
Expenses:									
Direct operating expenses	298	169	229	—	696	—	—	—	696
Unallocated shared services expenses	—	—	—	288	288	—	—	—	288
Operating expenses	298	169	229	288	984	—	—	—	984
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	47	47	47
Restructuring/other reorganization expenses	—	—	—	13	13	—	—	—	13
Total expenses	298	169	229	301	997	—	47	47	1,044
Income (loss) before income tax expense (benefit)	744	323	38	(440)	665	—	(137)	(137)	528
Income tax expense (benefit) ⁽²⁾	164	71	8	(97)	146	—	(13)	(13)	133
Net income (loss)	\$ 580	\$ 252	\$ 30	\$ (343)	\$ 519	\$ —	\$ (124)	\$ (124)	\$ 395

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2018		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ (49)	\$ —	\$ (49)
Total other income (loss)	(41)	—	(41)
Goodwill and acquired intangible asset impairment and amortization	—	47	47
Total Core Earnings adjustments to GAAP	\$ (90)	\$ (47)	(137)
Income tax expense (benefit)			(13)
Net income (loss)			\$ (124)

(2) Income taxes are based on a percentage of net income before tax for the individual reportable segment with the impact of the DTA Remeasurement Loss included in the Other segment.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

(Dollars in millions)	Years Ended December 31,		
	2020	2019	2018
Core Earnings net income	\$ 631	\$ 607	\$ 519
Core Earnings adjustments to GAAP:			
Net impact of derivative accounting ⁽¹⁾	(265)	5	(90)
Net impact of goodwill and acquired intangible assets ⁽²⁾	(22)	(30)	(47)
Net income tax effect ⁽³⁾	68	15	13
Total Core Earnings adjustments to GAAP	(219)	(10)	(124)
GAAP net income	\$ 412	\$ 597	\$ 395

- (1) **Derivative accounting:** Core Earnings exclude periodic gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic mark-to-market gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. Under GAAP, for our derivatives that are held to maturity, the mark-to-market gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts where the mark-to-market gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.
- (2) **Goodwill and acquired intangible assets:** Our Core Earnings exclude goodwill and intangible asset impairment and amortization of acquired intangible assets.
- (3) **Net tax effect:** Such tax effect is based upon our Core Earnings effective tax rate for the year.

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm	F-4
Consolidated Balance Sheets	F-7
Consolidated Statements of Income	F-8
Consolidated Statements of Comprehensive Income	F-9
Consolidated Statements of Changes in Stockholders' Equity	F-10
Consolidated Statements of Cash Flows	F-13
Notes to Consolidated Financial Statements	F-14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Navient Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Navient Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated February 25, 2022 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

McLean, Virginia
February 25, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Navient Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Navient Corporation and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for recognition and measurement of credit losses as of January 1, 2020 due to the adoption of Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Accounting Standards Codification Topic 326)*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for loan losses on private education loans

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company's total allowance for loan losses for private education loans (private education ALL) was \$1,009 million as of December 31, 2021. For the private education ALL, the expected credit losses are the product of a transition rate model determining the Company's estimates of probability of default and prepayment as well as loss given default on an undiscounted basis. The Company makes estimates regarding transition rates including prepayments and recoveries on

defaults including expected future recoveries on charged-off loans (expected recoveries). The model used to project losses utilizes key credit quality indicators of the loan portfolio and predicts how those attributes are expected to perform at the loan level in connection with the forecasted economic conditions over the contractual term of the loans including any prepayments and extension options within the control of the borrower. The private education ALL incorporates reasonable and supportable forecasts of various macro-economic variables and several forecast scenarios over the remaining life of the loans. The development of the reasonable and supportable forecasts incorporates an assumption that each macro-economic variable will revert to a long-term expectation. Qualitative adjustments are based on factors not reflected in the quantitative model.

We identified the assessment of the private education ALL as a critical audit matter. A high degree of audit effort, including skills and knowledge, and subjective and complex auditor judgment was involved in the assessment. Specifically, the assessment encompassed an evaluation of the private education ALL methodology including the method and model used to estimate the projected losses and their significant assumptions. Such significant assumptions included (1) the forecasted economic scenarios, including related weightings, (2) the reasonable and supportable forecast periods, (3) the transition rates including estimated prepayments, (4) the expected recoveries, and (5) the qualitative adjustments. The assessment also included an evaluation of the conceptual soundness and performance of the model. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the private education ALL estimate including controls over:

- development of the private education ALL methodology
- continued use and appropriateness of changes made to the model
- identification and determination of significant assumptions used in the model to estimate credit losses
- development of the qualitative adjustments
- performance monitoring of the model
- analysis of private education ALL results, trends, and ratios.

We evaluated the Company's process to develop the private education ALL estimate by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized industry knowledge and experience who assisted in:

- evaluating the Company's private education ALL methodology for compliance with U.S. generally accepted accounting principles
- evaluating the judgments made by the Company relative to the assessment and performance testing of the model including transition rates used by the Company by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices
- assessing the conceptual soundness and performance testing of the model including transition rates by inspecting the model documentation to determine whether the model is suitable for their intended use
- evaluating the selection of the economic forecasted scenarios, including the weighting of the scenarios, and underlying assumptions by comparing it to business environment and relevant industry practices
- evaluating the length of reasonable and supportable forecast periods by comparing them to specific portfolio risk characteristics and trends
- evaluating the expected recoveries by comparing them to relevant Company-specific metrics and trends, the applicable industry and regulatory practices, and to an independently developed expected recoveries range

- evaluating the methodology used to develop the qualitative adjustments and the effect of those adjustments on the private education ALL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying quantitative model.

We also assessed the sufficiency of the audit evidence obtained related to the Company's private education ALL estimate by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

/s/ KPMG LLP

We have served as the Company's auditor since 2012.

McLean, Virginia
February 25, 2022

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

	December 31, 2021	December 31, 2020
Assets		
FFELP Loans (net of allowance for losses of \$262 and \$288, respectively)	\$ 52,641	\$ 58,284
Private Education Loans (net of allowance for losses of \$1,009 and \$1,089, respectively)	20,171	21,079
Investments		
Held-to-maturity	74	15
Other	193	270
Total investments	267	285
Cash and cash equivalents	905	1,183
Restricted cash and cash equivalents	2,673	2,354
Goodwill and acquired intangible assets, net	725	735
Other assets	3,223	3,492
Total assets	\$ 80,605	\$ 87,412
Liabilities		
Short-term borrowings	\$ 2,490	\$ 6,613
Long-term borrowings	74,488	77,332
Other liabilities	1,019	1,020
Total liabilities	77,997	84,965
Commitments and contingencies		
Equity		
Series A Junior Participating Preferred Stock, par value \$0.20 per share; 2 million shares authorized at December 31, 2021; no shares issued or outstanding	—	—
Common stock, par value \$0.01 per share; 1.125 billion shares authorized: 459 million and 454 million shares issued, respectively	4	4
Additional paid-in capital	3,282	3,226
Accumulated other comprehensive loss (net of tax benefit of \$45 and \$90, respectively)	(133)	(274)
Retained earnings	3,939	3,331
Total Navient Corporation stockholders' equity before treasury stock	7,092	6,287
Less: Common stock held in treasury at cost: 305 million and 267 million shares, respectively	(4,495)	(3,854)
Total Navient Corporation stockholders' equity	2,597	2,433
Noncontrolling interest	11	14
Total equity	2,608	2,447
Total liabilities and equity	\$ 80,605	\$ 87,412

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

	December 31, 2021	December 31, 2020
FFELP Loans	\$ 52,502	\$ 58,068
Private Education Loans	18,147	18,658
Restricted cash	2,649	2,322
Other assets, net	1,522	1,420
Short-term borrowings	2,188	5,595
Long-term borrowings	67,107	68,900
Net assets of consolidated variable interest entities	\$ 5,525	\$ 5,973

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Years Ended December 31,		
	2021	2020	2019
Interest income:			
FFELP Loans	\$ 1,464	\$ 1,837	\$ 2,847
Private Education Loans	1,181	1,445	1,731
Other loans	—	—	2
Cash and investments	3	16	93
Total interest income	2,648	3,298	4,673
Total interest expense	1,316	2,046	3,488
Net interest income	1,332	1,252	1,185
Less: provisions for loan losses	(61)	155	258
Net interest income after provisions for loan losses	1,393	1,097	927
Other income (loss):			
Servicing revenue	168	214	240
Asset recovery and business processing revenue	539	458	488
Other income	30	20	45
Gains on sales of loans	78	—	16
Gains (losses) on debt repurchases	(73)	(6)	45
Gains (losses) on derivative and hedging activities, net	64	(256)	22
Total other income	806	430	856
Expenses:			
Salaries and benefits	569	497	488
Other operating expenses	638	467	496
Total operating expenses	1,207	964	984
Goodwill and acquired intangible asset impairment and amortization expense	30	22	30
Restructuring/other reorganization expenses	26	9	6
Total expenses	1,263	995	1,020
Income before income tax expense	936	532	763
Income tax expense	219	120	166
Net income	<u>\$ 717</u>	<u>\$ 412</u>	<u>\$ 597</u>
Basic earnings per common share	<u>\$ 4.23</u>	<u>\$ 2.14</u>	<u>\$ 2.59</u>
Average common shares outstanding	170	193	230
Diluted earnings per common share	<u>\$ 4.18</u>	<u>\$ 2.12</u>	<u>\$ 2.56</u>
Average common and common equivalent shares outstanding	172	195	233
Dividends per common share	<u>\$.64</u>	<u>\$.64</u>	<u>\$.64</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years Ended December 31,		
	2021	2020	2019
Net income	\$ 717	\$ 412	\$ 597
Net changes in cash flow hedges, net of taxes ⁽¹⁾	141	(183)	(204)
Total comprehensive income	<u>\$ 858</u>	<u>\$ 229</u>	<u>\$ 393</u>

(1) See "Note 7 – Derivative Financial Instruments."

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common	Additional	Accumulated	Retained	Treasury	Total	Noncontrolling	Total
	Issued	Treasury	Outstanding	Stock	Paid-In	Other	Earnings	Stock	Stockholders'	Interest	Equity
					Capital	Comprehensive			Equity		
						Income (Loss)					
Balance at December 31, 2018	445,377,826	(197,940,553)	247,437,273	\$ 4	\$ 3,145	\$ 113	\$ 3,218	\$ (2,961)	3,519	\$ 28	3,547
Comprehensive income:											
Net income	—	—	—	—	—	—	597	—	597	—	597
Other comprehensive income (loss), net of tax	—	—	—	—	—	(204)	—	—	(204)	—	(204)
Total comprehensive income	—	—	—	—	—	—	—	—	393	—	393
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(147)	—	(147)	—	(147)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(4)	—	(4)	—	(4)
Issuance of common shares	5,717,053	—	5,717,053	—	28	—	—	—	28	—	28
Stock-based compensation expense	—	—	—	—	25	—	—	—	25	—	25
Common stock repurchased	—	(34,491,342)	(34,491,342)	—	—	—	—	(440)	(440)	—	(440)
Shares repurchased related to employee stock-based compensation plans	—	(3,226,301)	(3,226,301)	—	—	—	—	(38)	(38)	—	(38)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2019	<u>451,094,879</u>	<u>(235,658,196)</u>	<u>215,436,683</u>	<u>\$ 4</u>	<u>\$ 3,198</u>	<u>\$ (91)</u>	<u>\$ 3,664</u>	<u>\$ (3,439)</u>	<u>\$ 3,336</u>	<u>\$ 13</u>	<u>\$ 3,349</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2019	451,094,879	(235,658,196)	215,436,683	\$ 4	\$ 3,198	\$ (91)	\$ 3,664	\$ (3,439)	3,336	\$ 13	3,349
Cumulative adjustment for the adoption of ASU No. 2016-13	—	—	—	—	—	—	(620)	—	(620)	—	(620)
Comprehensive income:											
Net income	—	—	—	—	—	—	412	—	412	—	412
Other comprehensive income (loss), net of tax	—	—	—	—	—	(183)	—	—	(183)	—	(183)
Total comprehensive income	—	—	—	—	—	—	—	—	229	—	229
Cash dividends:											
Common stock (\$.64 per share)	—	—	—	—	—	—	(123)	—	(123)	—	(123)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	2,684,096	—	2,684,096	—	10	—	—	—	10	—	10
Stock-based compensation expense	—	—	—	—	18	—	—	—	18	—	18
Common stock repurchased	—	(30,628,580)	(30,628,580)	—	—	—	—	(400)	(400)	—	(400)
Shares repurchased related to employee stock-based compensation plans	—	(1,189,745)	(1,189,745)	—	—	—	—	(15)	(15)	—	(15)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	1	1
Balance at December 31, 2020	<u>453,778,975</u>	<u>(267,476,521)</u>	<u>186,302,454</u>	<u>\$ 4</u>	<u>\$ 3,226</u>	<u>\$ (274)</u>	<u>\$ 3,331</u>	<u>\$ (3,854)</u>	<u>\$ 2,433</u>	<u>\$ 14</u>	<u>\$ 2,447</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION

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

	Common Stock Shares			Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Issued	Treasury	Outstanding								
Balance at December 31, 2020	453,778,975	(267,476,521)	186,302,454	\$ 4	\$ 3,226	\$ (274)	\$ 3,331	\$ (3,854)	\$ 2,433	\$ 14	\$ 2,447
Comprehensive income (loss):											
Net income	—	—	—	—	—	—	717	—	717	—	717
Other comprehensive income (loss), net of tax	—	—	—	—	—	141	—	—	141	—	141
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	858	—	858
Cash dividends:	—										
Common stock (\$.64 per share)	—	—	—	—	—	—	(107)	—	(107)	—	(107)
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	4,850,409	—	4,850,409	—	34	—	—	—	34	—	34
Stock-based compensation expense	—	—	—	—	22	—	—	—	22	—	22
Common stock repurchased	—	(34,371,073)	(34,371,073)	—	—	—	—	(600)	(600)	—	(600)
Shares repurchased related to employee stock-based compensation plans	—	(3,039,019)	(3,039,019)	—	—	—	—	(41)	(41)	—	(41)
Net activity in noncontrolling interest	—	—	—	—	—	—	—	—	—	(3)	(3)
Balance at December 31, 2021	<u>458,629,384</u>	<u>(304,886,613)</u>	<u>153,742,771</u>	<u>\$ 4</u>	<u>\$ 3,282</u>	<u>\$ (133)</u>	<u>\$ 3,939</u>	<u>\$ (4,495)</u>	<u>\$ 2,597</u>	<u>\$ 11</u>	<u>\$ 2,608</u>

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended December 31,		
	2021	2020	2019
Operating activities			
Net income	\$ 717	\$ 412	\$ 597
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gains) on sale of education loans	(78)	—	(16)
(Gains) losses on debt repurchases	73	6	(45)
Goodwill and acquired intangible asset impairment and amortization expense	30	22	30
Stock-based compensation expense	22	18	25
Mark-to-market (gains)/losses on derivative and hedging activities, net	(433)	340	130
Provisions for loan losses	(61)	155	258
Decrease in accrued interest receivable	47	22	78
(Decrease) in accrued interest payable	(55)	(113)	(96)
Decrease in other assets	145	177	191
Increase (decrease) in other liabilities	295	(52)	(133)
Total adjustments	(15)	575	422
Total net cash provided by operating activities	702	987	1,019
Investing activities			
Education loans acquired	(6,104)	(4,641)	(5,411)
Principal payments on education loans	11,137	11,179	12,472
Proceeds from sales of education loans	1,588	—	408
Other investing activities, net	68	(90)	16
Purchase of subsidiary, net of cash acquired	(16)	—	—
Total net cash provided by investing activities	6,673	6,448	7,485
Financing activities			
Borrowings collateralized by loans in trust - issued	7,973	7,959	7,919
Borrowings collateralized by loans in trust - repaid	(11,163)	(11,858)	(14,271)
Asset-backed commercial paper conduits, net	(2,169)	(1,915)	(907)
Long-term unsecured notes issued	1,237	682	—
Long-term unsecured notes repaid	(2,702)	(1,832)	(1,950)
Other financing activities, net	197	(192)	(189)
Common stock repurchased	(600)	(400)	(440)
Common dividends paid	(107)	(123)	(147)
Total net cash used in financing activities	(7,334)	(7,679)	(9,985)
Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	41	(244)	(1,481)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	3,537	3,781	5,262
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 3,578	\$ 3,537	\$ 3,781
Cash disbursements made (refunds received) for:			
Interest	\$ 1,378	\$ 2,059	\$ 3,479
Income taxes paid	\$ 190	\$ 74	\$ 93
Income taxes received	\$ (11)	\$ —	\$ (4)
Reconciliation of the Consolidated Statements of Cash Flows to the Consolidated Balance Sheets:			
Cash and cash equivalents	\$ 905	\$ 1,183	\$ 1,233
Restricted cash and restricted cash equivalents	2,673	2,354	2,548
Total cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 3,578	\$ 3,537	\$ 3,781
Supplemental cash flow information:			
Non-cash activities			
Investing activity - Held-to-maturity asset backed securities retained related to sales of education loans	\$ 83	\$ —	\$ 22
Operating activity - Servicing assets recognized upon sales of education loans	21	—	3

See accompanying notes to consolidated financial statements.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Navient's Business

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

With a focus on data-driven insights, service, compliance and innovative support, Navient's business consists of:

- Federal Education Loans

We own a portfolio of \$52.6 billion of federally guaranteed Federal Family Education Loan Program (FFELP) Loans. We service and provide asset recovery services on this portfolio and for third parties, deploying data-driven approaches to support the success of our customers. Our flexible and scalable infrastructure manages large volumes of complex transactions, simplifying the customer experience and continually improving efficiency.

- Consumer Lending

We own, service and originate Private Education Loans that enable students to pursue higher education and economic opportunities. Our \$20.2 billion private loan portfolio demonstrates high customer success rates. We help people simplify their finances through student loan refinancing, and we help families finance their higher education through transparent, affordable private education loans. In 2021, we originated \$6.0 billion in Private Education Loans.

- Business Processing

Through our business processing solutions, we support more than 600 public sector and healthcare organizations, and their tens of millions of clients, patients, and constituents. Our suite of solutions and customer experience expertise enable our clients to focus on their missions and optimize their cash flow, while helping those they serve successfully navigate complex programs, transactions and decisions. For each client, we customize a blend of technologies to deliver personalized, omnichannel communication experiences; machine learning automation; root-cause business analytics; secure cloud computing; and intelligent customer relationship platforms.

2. Significant Accounting Policies

Use of Estimates

Our financial reporting and accounting policies conform to generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Uncertain and volatile market and economic conditions increase the risk and complexity of the judgments in these estimates and actual results could differ from estimates. Accounting policies that include the most significant judgments, estimates and assumptions include the allowance for loan losses, goodwill and intangible asset impairment assessment and the amortization of loan premiums and discounts using the effective interest rate method.

Consolidation

The consolidated financial statements include the accounts of Navient Corporation 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.

2. Significant Accounting Policies (Continued)

We consolidate any VIEs where we have determined we are the primary beneficiary. A VIE is a legal entity that does not have sufficient equity at risk to finance its own operations, or whose equity holders do not have the power to direct the activities that most significantly affect the economic performance of the entity, or whose equity holders do not share proportionately in the losses or benefits of the entity. The primary beneficiary of the VIE is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. As it relates to our securitizations and other secured borrowing facilities that are VIEs as of December 31, 2021 that we consolidate, we are the primary beneficiary as we are the servicer of the related education loan assets and own the Residual Interest of the securitization trusts and secured borrowing facilities.

Fair Value Measurement

We use estimates of fair value in applying various accounting standards for our financial statements. Fair value measurements are used in one of four ways:

- In the balance sheet with changes in fair value recorded in the statement of income;
- In the balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the statement of changes in stockholders' equity;
- In the balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the statement of income; and
- In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, our policy in estimating fair value is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads, relying first on observable data from active markets. Depending on current market conditions, additional adjustments to fair value may be based on factors such as liquidity and credit spreads. Transaction costs are not included in the determination of fair value. When possible, we seek to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

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. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.
- Level 2 — Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.
- Level 3 — Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available. However, significant judgment is required by us in developing the inputs.

Loans

Loans, consisting of federally insured education loans and Private Education Loans, that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment and are carried at amortized cost. Amortized cost includes the unamortized premiums, discounts, and capitalized origination costs and fees, all of which are amortized to interest income as further discussed below. Loans which are held-for-investment also have an allowance for loan loss. Any loans we have not classified as held-for-investment are classified as held-for-sale and carried at the lower of cost or fair value. Loans are classified as held-for-sale when we have the intent and ability to sell such loans. Loans which are held-for-sale do not have the associated premium, discount, and capitalized origination costs and fees amortized into interest income. In addition, once a loan is classified as held-for-sale, any allowance for loan losses that existed immediately prior to the reclassification to held-for-sale is reversed through provision.

2. Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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

Related to this new standard:

- We have determined that, for modeling current expected credit losses, we can reasonably estimate expected losses that incorporate current and forecasted economic conditions over a "reasonable and supportable" period. For Private Education Loans, we incorporate a reasonable and supportable forecast of various macro-economic variables over the remaining life of the loans. The development of the reasonable and supportable forecast incorporates an assumption that each macro-economic variable will revert to a long-term expectation starting in years 2-4 of the forecast and largely completing within the first five years of the forecast. For FFELP Loans, after a three-year reasonable and supportable period, there is an immediate reversion to a long-term expectation. The models used to project losses utilize key credit quality indicators of the loan portfolio and predict how those attributes are expected to perform in connection with the forecasted economic conditions. These losses are calculated on an undiscounted basis. For Private Education Loans, we utilize a transition rate model that estimates the probability of prepayment and default and apply the loss given default. For FFELP Loans, we use historical transition rates to determine prepayments and defaults. The forecasted economic conditions used in our modeling of expected losses are provided by a third party. The primary economic metrics we use in the economic forecast are unemployment, GDP, interest rates, consumer loan delinquency rates and consumer income. Several forecast scenarios are provided which represent the baseline economic expectations as well as favorable and adverse scenarios. We analyze and evaluate the alternative scenarios for reasonableness and determine the appropriate weighting of these alternative scenarios based upon the current economic conditions and our view of the likelihood and risks of the alternative scenarios. We project losses at the loan level and make estimates regarding prepayments, recoveries on defaults and reasonably expected new Troubled Debt Restructurings (TDRs).
- Separately, as it relates to interest rate concessions granted as part of our Private Education Loan modification program, a discounted cash flow model is used to calculate the amount of interest forgiven for loans currently in the program. The present value of this interest rate concession is included in our allowance for loan loss.
- Charge-offs include the discount or premium related to such defaulted loan.
- CECL requires our expected future recoveries on charged-off loans to be presented within the allowance for loan loss whereas previously, we accounted for our receivable for partially charged-off loans as part of our Private Education Loan portfolio. This change is only a change in classification on the balance sheet and did not impact retained earnings at adoption of CECL or provision and net income post-adoption.
- Once our loss model calculations are performed, we determine if qualitative adjustments are needed for factors not reflected in the quantitative model. These adjustments may include, but are not limited to, changes in lending and servicing and collection policies and practices, as well as the effect of other external factors such as the economy and changes in legal or regulatory requirements that impact the amount of future credit losses.

2. Significant Accounting Policies (Continued)

At the end of each month, for Private Education Loans that are 212 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 “expected future recoveries on charged-off loans.” If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for Private Education Loan losses with an offsetting reduction in the expected future recoveries on charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98% reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97% reimbursement. For loans disbursed prior to October 1, 1993, we receive 100% reimbursement.

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

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

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

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

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

Allowance for Loan Losses Prior to the Adoption of CECL

Private Education Loans

We consider a loan to be impaired when, based on current information, a loss has been incurred and it is probable that we will not receive all contractual amounts due. When making our assessment as to whether a loan is impaired, we also take into account more than insignificant delays in payment. We generally evaluate impaired loans on an aggregate basis by grouping similar loans. Impaired loans also include those loans which are individually assessed for impairment at a loan level, such as in a troubled debt restructuring (TDR). We maintain an allowance for loan losses at an amount sufficient to absorb losses incurred in our portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio.

2. Significant Accounting Policies (Continued)

Our Private Education Loan portfolio contains TDR and non-TDR loans. For customers experiencing financial difficulty, certain Private Education Loans for which we have granted a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. The allowance requirements are different based on these designations. In determining the allowance for loan losses on our non-TDR portfolio, we estimate the principal amount of loans that will default over the next two years (two years being the expected period between a loss event and default) and how much we expect to recover over time related to the defaulted amount. Expected defaults less our expected recoveries equal the allowance related to this portfolio. Our historical experience indicates that, on average, the time between the date that a customer experiences a default causing event (i.e., the loss trigger event) and the date that we charge off the unrecoverable portion of that loan is two years. Separately, for our TDR portfolio, we estimate an allowance amount sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows (which would include life-of-loan default and recovery assumptions) discounted at the loan's original effective interest rate. Our TDR portfolio is comprised mostly of loans with forbearance usage greater than three months and interest rate reductions. The separate allowance estimates for our TDR and non-TDR portfolios are combined into our total allowance for Private Education Loan losses.

In estimating both the non-TDR and TDR allowance amounts, we start with historical experience of customer default behavior. We make judgments about which historical period to start with and then make further judgments about whether that historical experience is representative of future expectations and whether additional adjustments may be needed to those historical default rates. We also take the economic environment into consideration when calculating the allowance for loan losses. We analyze key economic statistics and the effect we expect them to have on future defaults. Key economic statistics analyzed as part of the allowance for loan losses are primarily unemployment rates. Our allowance for loan losses is estimated using an analysis of delinquent and current accounts. Our model is used to estimate the likelihood that a loan may progress through the various delinquency stages and ultimately charge off. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. The estimate for the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement.

We determine the collectability of our Private Education Loan portfolio by evaluating certain risk characteristics. We consider credit score (FICO), loan status, loan seasoning, existence of a cosigner and school type as the key credit quality indicators because they have the most significant effect on our determination of the adequacy of our allowance for loan losses.

To estimate the probable credit losses incurred in the loan portfolio at the reporting date, we use historical experience of customer payment behavior in connection with the key credit quality indicators and incorporate management expectations regarding macroeconomic and collection performance factors. Our model is based upon the most recent 12 months of actual collection experience as the starting point for the non-TDR portfolio and the most recent approximate 15 years for the TDR portfolio and applies expected macroeconomic changes and collection procedure changes to estimate expected losses caused by loss events incurred as of the balance sheet date. Our model for the non-TDR portfolio places a greater emphasis on the more recent default experience rather than the default experience for older historical periods, as we believe the more recent default experience is more indicative of the probable losses incurred in the loan portfolio today that will default over the next two years. The TDR portfolio uses a longer historical default experience since we are projecting life of loan remaining losses. Similar to estimating defaults, we use historical customer payment behavior to estimate the timing and amount of future recoveries on charged-off loans. We use judgment in determining whether historical performance is representative of what we expect to collect in the future. We then apply the default and collection rate projections to each category of loans. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. Additionally, we consider changes in laws and regulations that could potentially impact the allowance for loan losses.

FFELP Loans

Similar to the allowance for Private Education Loan losses, the allowance for FFELP Loan losses uses historical experience of customer default behavior and a two-year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, we review the adequacy of the allowance for loan losses and determine if qualitative adjustments need to be considered. For FFELP Loans that have lost their government insurance and have been charged off, any subsequent cash recoveries benefit the allowance for loan losses when received.

2. Significant Accounting Policies (Continued)

Investments

Other investments are primarily receivables for cash collateral posted to derivative counterparties.

Cash and Cash Equivalents

Cash and cash equivalents can include term federal funds, Eurodollar deposits, commercial paper, asset-backed commercial paper (ABCP), CDs, treasuries and money market funds with original terms to maturity of less than three months.

Restricted Cash and Investments

Restricted cash primarily includes amounts held in education loan securitization trusts and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

Securities pledged as collateral related to our derivative portfolio, where the counterparty has rights to replace the securities, are classified as restricted. When the counterparty does not have these rights, the security is recorded in investments and disclosed as pledged collateral in the notes. Additionally, certain counterparties require cash collateral pledged to us to be segregated and held in restricted cash accounts.

Goodwill and Acquired Intangible Assets

Acquisitions are accounted for under the acquisition method of accounting which results in the Company allocating the purchase price to the fair value of the acquired assets, liabilities and non-controlling interests, if any, with the remaining purchase price allocated to goodwill.

Goodwill is not amortized but is tested periodically for impairment. We test goodwill for impairment annually as of October 1 at the reporting unit level, which is the same as or one level below a business segment. Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

We complete a goodwill impairment analysis which may be a qualitative or a quantitative analysis depending on the facts and circumstances associated with the reporting unit. In conjunction with a qualitative impairment analysis, we assess relevant qualitative factors to determine whether it is "more-likely-than-not" that the fair value of a reporting unit is less than its carrying amount. The "more-likely-than-not" threshold is defined as having a likelihood of more than 50%. If, based on first assessing impairment utilizing a qualitative approach, we determine it is "more-likely-than-not" that the fair value of the reporting unit is less than its carrying amount, we will also complete a quantitative impairment analysis. In conjunction with a quantitative impairment analysis, we compare the fair value of the reporting unit to the reporting unit's carrying value, including goodwill. If the carrying value of the reporting unit exceeds the fair value, goodwill is impaired in an amount equal to the amount by which the carrying value exceeds the fair value of the reporting unit not to exceed the goodwill amount attributed to the reporting unit.

Acquired intangible assets include, but are not limited to, trade names, customer and other relationships, and non-compete agreements. Acquired intangible assets with finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. If the carrying amount of the asset or asset group exceeds the undiscounted cash flows, the fair value of the asset or asset group is determined using an acceptable valuation technique. An impairment loss would be recognized if the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value.

2. Significant Accounting Policies (Continued)

Securitization Accounting

Our securitizations use a two-step structure with a special purpose entity that legally isolates the transferred assets from us, even in the event of bankruptcy. Transactions receiving sale treatment are also structured to ensure that the holders of the beneficial interests issued are not constrained from pledging or exchanging their interests, and that we do not maintain effective control over the transferred assets. If these criteria are not met, then the transaction is accounted for as an on-balance sheet secured borrowing. In all cases, irrespective of whether they qualify as accounting sales our securitizations are legally structured to be sales of assets that isolate the transferred assets from us. If a securitization qualifies as a sale, we then assess whether we are the primary beneficiary of the securitization trust (VIE) and are required to consolidate such trust. If we are the primary beneficiary, then no gain or loss is recognized. See "Consolidation" of this Note 2 for additional information regarding the accounting rules for consolidation when we are the primary beneficiary of these trusts.

Irrespective of whether a securitization receives sale or on-balance sheet treatment, our continuing involvement with our securitization trusts is generally limited to:

- Owning equity certificates or other certificates of certain trusts and, in certain cases, securities retained for the purpose of complying with risk retention requirements under securities laws.
- Lending to certain trusts, under a revolving credit, amounts necessary to cover temporary cash flow needs of the trust. These amounts are repaid to us on subordinated basis with interest at a market rate.
- The servicing of the education loan assets within the securitization trusts, on both a pre- and post-default basis.
- Our acting as administrator for the securitization transactions we sponsored, which includes remarketing certain bonds at future dates.
- Our responsibilities relative to representation and warranty violations.
- Temporarily advancing to the trust certain borrower benefits afforded the borrowers of education loans that have been securitized. These advances subsequently are returned to us in the next quarter.
- Certain back-to-back derivatives entered into by us contemporaneously with the execution of derivatives by certain Private Education Loan securitization trusts.
- The option held by us to buy certain delinquent loans from certain Private Education Loan securitization trusts.
- The option to exercise the clean-up call and purchase the education loans from the trust when the asset balance is 10% or less of the original loan balance.
- The option, on some trusts, to purchase education loans aggregating up to 10% of the trust's initial pool balance.
- The option (in certain trusts) to call rate reset notes in instances where the remarketing process has failed.

The investors of the securitization trusts have no recourse to our other assets should there be a failure of the trusts to pay when due. Generally, the only arrangements under which we have to provide financial support to the trusts are representation and warranty violations requiring the buyback of loans.

Under the terms of the transaction documents of certain trusts, we have, from time to time, exercised our options to purchase delinquent loans from Private Education Loan trusts, to purchase the remaining loans from trusts once the loan balance falls below 10% of the original amount, to purchase education loans up to 10% of the trust's initial balance, or to call rate reset notes. Certain trusts maintain financial arrangements with third parties also typical of securitization transactions, such as derivative contracts (swaps).

We do not record servicing assets or servicing liabilities when our securitization trusts are consolidated. As of December 31, 2021, we had \$21 million of servicing assets on our balance sheet, recorded in connection with asset sales where we retained the servicing.

2. Significant Accounting Policies (Continued)

Education Loan Interest Income

For loans classified as held-for-investment, we recognize education loan interest income as earned, adjusted for the amortization of premiums (which includes premiums from loan purchases and capitalized direct origination costs), discounts and Repayment Borrower Benefits. These adjustments result in income being recognized based upon the expected yield of the loan over its life after giving effect to expected prepayments. We amortize premium and discount on education loans using a Constant Prepayment Rate (CPR) which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. In determining the CPR, we only consider payments made in excess of contractually required payments. This would include loan refinancing and consolidations and other early payoff activity. For Repayment Borrower Benefits, the estimates of their effect on education loan yield are based on analyses of historical payment behavior of customers who are eligible for the incentives and its effect on the ultimate qualification rate for these incentives. We regularly evaluate the assumptions used to estimate the prepayment speeds and the qualification rates used for Repayment Borrower Benefits. In instances where there are changes to the assumptions, amortization is adjusted on a cumulative basis to reflect the change since the acquisition of the loan. We do not amortize any premiums, discounts or other adjustments to the basis of education loans when they are classified as held-for-sale.

Interest Expense

Interest expense is based upon contractual interest rates adjusted for the amortization of debt issuance costs, premiums and discounts. Our interest expense is also adjusted for net payments/receipts related to interest rate and foreign currency swap agreements that qualify and are designated as hedges, as well as the mark-to-market impact of derivatives and debt in fair value hedge relationships. Interest expense also includes the amortization of deferred gains and losses on closed hedge transactions that qualified as hedges. Amortization of debt issuance costs, premiums, discounts and terminated hedge-basis adjustments are recognized using the effective interest rate method.

Servicing Revenue

We perform loan servicing functions for third parties in return for a servicing fee. Our compensation is typically based on a per-unit fee arrangement or a percentage of the loans outstanding. We recognize servicing revenues associated with these activities based upon the contractual arrangements as the services are rendered. We recognize late fees on third-party serviced loans as well as on loans in our portfolio according to the contractual provisions of the promissory notes, as well as our expectation of collectability.

Asset Recovery and Business Processing Revenue

We account for certain asset recovery and business processing contract revenue (herein referred to as revenue from contracts with customers) in accordance with ASC 606, "Revenue from Contracts with Customers." (All Business Processing segment and the majority of the Federal Education Loan segment asset recovery and business processing revenue is accounted for under ASC 606.) Revenue earned by our Federal Education Loans segment is derived from asset recovery activities related to the collection of delinquent education loans on behalf of ED, Guarantor agencies and other institutions, as well as certain other Guarantor activities. Revenue earned by our Business Processing segment is derived from government services, which includes receivables management services and account processing solutions, and healthcare services, which includes revenue cycle management services.

2. Significant Accounting Policies (Continued)

Most of our revenue from contracts with customers is derived from long-term contracts, the duration of which is expected to span more than one year. These contracts are billable monthly, as services are rendered, based on a percentage of the balance collected or the transaction processed, a flat fee per transaction or a stated rate per the service performed. In accordance with ASC 606, the unit of account is a contractual performance obligation, a promise to provide a distinct good or service to a customer. The transaction price is allocated to each distinct performance obligation when or as the good or service is transferred to the customer and the obligation is satisfied.

Distinct performance obligations are identified based on the services specified in the contract that are capable of being distinct such that the customer can benefit from the service on its own or together with other resources that are available from the Company or a third party, and are also distinct in the context of the contract such that the transfer of the services is separately identifiable from other services promised in the contract. Most of our contracts include integrated service offerings that include obligations that are not separately identifiable and distinct in the context of our contracts. Accordingly, our contracts generally have a single performance obligation. A limited number of full-service offerings include multiple performance obligations.

Substantially all our revenue is variable revenue which is recognized over time as our customers receive and consume the benefit of our services in an amount consistent with monthly billings. Accordingly, we do not disclose variable consideration associated with the remaining performance obligation as we have recognized revenue in the amount we have the right to invoice for services performed. Our fees correspond to the value the customer has realized from our performance of each increment of the service (for example, an individual transaction processed or collection of a past due balance).

Transfer of Financial Assets and Extinguishments of Liabilities

Our securitizations and other secured borrowings are generally accounted for as on-balance sheet secured borrowings. See "Securitization Accounting" of this Note 2 for further discussion on the criteria assessed to determine whether a transfer of financial assets is a sale or a secured borrowing. If a transfer of loans qualifies as a sale, we derecognize the loan and recognize a gain or loss as the difference between the carrying basis of the loan sold and liabilities retained and the compensation received.

We periodically repurchase our outstanding debt in the open market or through public tender offers. We record a gain or loss on the early extinguishment of debt based upon the difference between the carrying cost of the debt and the amount paid to the third party and net of hedging gains and losses when the debt is in a qualifying hedge relationship.

We recognize the results of a transfer of loans and the extinguishment of debt based upon the settlement date of the transaction.

Derivative Accounting

Derivative instruments that are used as part of our interest rate and foreign currency risk management strategy include interest rate swaps, cross-currency interest rate swaps, and interest rate floor contracts. The accounting for derivative instruments requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded on the balance sheet as either an asset or liability measured at its fair value. As more fully described below, if certain criteria are met, derivative instruments are classified and accounted for by us as either fair value or cash flow hedges. If these criteria are not met, the derivative financial instruments are accounted for as trading. Derivative positions are recorded as net positions by counterparty based on master netting arrangements exclusive of accrued interest and cash collateral held or pledged. Many of our derivatives, mainly fixed to variable or variable to fixed interest rate swaps and cross-currency interest rate swaps, qualify as effective hedges. For these derivatives, at the inception of the hedge relationship, the following is documented: the relationship between the hedging instrument and the hedged items (including the hedged risk, the method for assessing effectiveness, and the results of the upfront effectiveness testing), and the risk management objective and strategy for undertaking the hedge transaction. Each derivative is designated to either a specific (or pool of) asset(s) or liability(ies) on the balance sheet or expected future cash flows and designated as either a "fair value" or a "cash flow" hedge. The assessment of the hedge's effectiveness is performed at inception and on an ongoing basis, generally using regression testing. For hedges of a pool of assets or liabilities, tests are performed to demonstrate the similarity of individual instruments of the pool. When it is determined that a derivative is not currently an effective hedge, ineffectiveness is recognized for the full change in value of the derivative with no offsetting mark-to-market of the hedged item for the current period. If it is also determined the hedge will not be effective in the future, we discontinue the hedge accounting prospectively, cease recording changes in the fair value of the hedged item, and begin amortization of any basis adjustments that exist related to the hedged item.

2. Significant Accounting Policies (Continued)

Fair Value Hedges

Fair value hedges are generally used by us to hedge the exposure to changes in the fair value of a recognized fixed rate asset or liability. We enter into interest rate swaps to economically convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. We also enter into cross-currency interest rate swaps to economically convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. For fair value hedges, we generally consider all components of the derivative's gain and/or loss when assessing hedge effectiveness and generally hedge changes in fair values due to interest rates or interest rates and foreign currency exchange rates. For fair value hedges, both the derivative and the hedged item (for the risk being hedged) are marked-to-market through net interest income with any difference reflecting ineffectiveness.

Cash Flow Hedges

We use cash flow hedges to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt or assets. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. For cash flow hedges, the change in the fair value of the derivative is recorded in other comprehensive income, net of tax, and recognized in earnings in the same period as the earnings effects of the hedged item. In the case of a forecasted debt issuance, gains and losses are reclassified to earnings over the period which the stated hedged transaction affects earnings. If we determine it is not probable that the anticipated transaction will occur, gains and losses are reclassified immediately to earnings. In assessing hedge effectiveness, generally all components of each derivative's gains or losses are included in the assessment. We generally hedge exposure to changes in cash flows due to changes in interest rates or total changes in cash flow.

Trading Activities

When derivative instruments do not qualify as hedges, they are accounted for as trading instruments where all changes in fair value are recorded through earnings with no consideration for the corresponding change in fair value of the economically hedged item. Some of our derivatives, primarily Floor Income Contracts, basis swaps and at times, certain other LIBOR swaps do not qualify for hedge accounting treatment. Regardless of the accounting treatment, we consider these derivatives to be economic hedges for risk management purposes. We use this strategy to minimize our exposure to changes in interest rates.

The "gains (losses) on derivative and hedging activities, net" line item in the consolidated statements of income includes the mark-to-market gains and losses of our derivatives that do not qualify for hedge accounting, as well as the realized changes in fair value related to derivative net settlements and dispositions that do not qualify for hedge accounting.

Accounting for Stock-Based Compensation

We recognize stock-based compensation cost in our statements of income using the fair value-based method. Under this method we determine the fair value of the stock-based compensation at the time of the grant and recognize the resulting compensation expense over the grant's vesting period. We record stock-based compensation expense net of estimated forfeitures and as such, only those stock-based awards that we expect to vest are recorded. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. Ultimately, the total expense recognized over the vesting period will equal the fair value of awards that actually vest.

2. Significant Accounting Policies (Continued)

Restructuring and Other Reorganization Expenses

From time to time we implement plans to restructure our business. In conjunction with these restructuring plans, involuntary benefit arrangements, disposal costs (including contract termination costs and other exit costs), as well as certain other costs that are incremental and incurred as a direct result of our restructuring plans, are classified as restructuring expenses in the consolidated statements of income.

The Company administers the Navient Corporation Employee Severance Plan and the Navient Corporation Executive Severance Plan for Senior Officers (collectively, the Severance Plan). The Severance Plan provides severance benefits in the event of termination of the Company's full-time employees and part-time employees who work at least 24 hours per week. The Severance Plan establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon involuntary termination of employment. The benefits payable under the Severance Plan relate to past service, and they accumulate and vest. Accordingly, we recognize severance expenses to be paid pursuant to the Severance Plan when payment of such benefits is probable and can be reasonably estimated. Such benefits include severance pay calculated based on the Severance Plan, medical and dental benefits, and outplacement services expenses.

Contract termination costs are expensed at the earlier of (1) the contract termination date or (2) the cease use date under the contract. Other exit costs are expensed as incurred and classified as restructuring expenses if (1) the cost is incremental to and incurred as a direct result of planned restructuring activities and (2) the cost is not associated with or incurred to generate revenues subsequent to our consummation of the related restructuring activities.

Other reorganization expenses include certain internal costs and third-party costs incurred in connection with our cost reduction initiatives.

During 2021 and 2020, the Company incurred \$26 million and \$9 million, respectively, of restructuring/other reorganization expense in connection with an effort that will reduce costs and improve operating efficiency. These charges were primarily related to the impairment of a facility that is held for sale, facility lease terminations and severance-related costs.

Income Taxes

We account for income taxes under the asset and liability approach which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of our assets and liabilities. To the extent tax laws change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted.

"Income tax expense/(benefit)" includes (i) deferred tax expense/(benefit), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance and (ii) current tax expense/(benefit), which represents the amount of tax currently payable to or receivable from a tax authority plus amounts accrued for unrecognized tax benefits. Income tax expense/(benefit) excludes the tax effects related to adjustments recorded in equity.

If we have an uncertain tax position, then that tax position is recognized only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of tax benefit recognized in the financial statements is the largest amount of benefit that is more than 50% likely of being sustained upon ultimate settlement of the uncertain tax position. We recognize interest related to unrecognized tax benefits in income tax expense/(benefit) and penalties, if any, in operating expenses.

Earnings (Loss) per Common Share

We compute earnings (loss) per common share (EPS) by dividing net income allocated to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share is computed by dividing income allocated to common shareholders by the weighted average common shares outstanding plus amounts representing the dilutive effect of stock options outstanding, restricted stock, restricted stock units, and the outstanding commitment to issue shares under the Employee Stock Purchase Plan. See "Note 10 — Earnings (Loss) per Common Share" for further discussion.

2. Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

Effective in 2020 and Forward

Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides optional temporary relief for companies who are preparing for the discontinuation of interest rates indexed to the London Interbank Offered Rate (LIBOR). The ASU provides companies with guidance in the form of expedients and exceptions related to contract modifications and hedge accounting to ease the burden of and simplify the accounting associated with transitioning away from LIBOR. Modifications of qualifying contracts are accounted for as the continuation of an existing contract rather than as a new contract. Modifications of qualifying hedging relationships will not require discontinuation of the existing hedge accounting relationships. This guidance, which will only be available through December 31, 2022, can be applied commencing in March 2020. We have approximately \$172 billion of financial instruments indexed to one-month or three-month U.S. Dollar (USD) LIBOR as of December 31, 2021. One-month and three-month USD LIBOR will no longer be published after June 30, 2023. The Company continues to assess the implications of this and has not concluded whether it will apply the expedients and exceptions provided in this new standard. This decision will be made in 2022.

3. Education Loans

Education loans consist of FFELP and Private Education Loans.

There are two principal categories of FFELP Loans: Stafford and FFELP Consolidation Loans. Generally, Stafford loans have repayment periods of between 5 and 10 years. FFELP Consolidation Loans have repayment periods of 12 to 30 years. FFELP Loans do not require repayment, or have modified repayment plans, while the customer is in-school and during the grace period immediately upon leaving school. The customer may also be granted a deferment or forbearance for a period of time based on need, during which time the customer is not considered to be in repayment. Interest continues to accrue on loans in the in-school, deferment and forbearance period. FFELP Loans obligate the customer to pay interest at a stated fixed rate or a variable rate reset annually (subject to a cap) on July 1 of each year depending on when the loan was originated and the loan type. FFELP Loans disbursed before April 1, 2006 earn interest at the greater of the borrower's rate or a floating rate based on the Special Allowance Payment (SAP) formula, with the interest earned on the floating rate that exceeds the interest earned from the customer being paid directly by ED. For loans disbursed after April 1, 2006, FFELP Loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) is required to be rebated to ED.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed after October 1, 1993 and before July 1, 2006, we receive 98% reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97% reimbursement.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Education Loans (Continued)

Private Education Loans bear the full credit risk of the customer. Private Education Refinance Loans generally have a fixed interest rate with the non-refinance Private Education Loans generally at a variable rate indexed to LIBOR or Prime indices. The majority of non-refinance loans in our portfolio are cosigned. Similar to FFELP loans, Private Education Loans are generally non-dischargeable in bankruptcy. Most loans have repayment terms of 10 to 15 years or more, and for loans made prior to 2009, payments are typically deferred until after graduation. However, since 2009 we began to encourage interest-only or fixed payment options while the customer is enrolled in school.

The estimated weighted average life of education loans in our portfolio was approximately 6 years at December 31, 2021 and 2020. The following table reflects the distribution of our education loan portfolio by program.

	<u>December 31, 2021</u>		<u>Year Ended December 31, 2021</u>	
	<u>Ending</u>	<u>% of</u>	<u>Average</u>	<u>Average</u>
<u>(Dollars in millions)</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Effective</u>
				<u>Interest</u>
				<u>Rate</u>
FFELP Stafford Loans, net	\$ 18,219	25%	\$ 19,270	2.19%
FFELP Consolidation Loans, net	34,422	47	36,748	2.84
Private Education Loans, net	20,171	28	21,225	5.57
Total education loans, net	<u>\$ 72,812</u>	<u>100%</u>	<u>\$ 77,243</u>	<u>3.42%</u>

	<u>December 31, 2020</u>		<u>Year Ended December 31, 2020</u>	
	<u>Ending</u>	<u>% of</u>	<u>Average</u>	<u>Average</u>
<u>(Dollars in millions)</u>	<u>Balance</u>	<u>Balance</u>	<u>Balance</u>	<u>Effective</u>
				<u>Interest</u>
				<u>Rate</u>
FFELP Stafford Loans, net	\$ 19,607	25%	\$ 20,844	2.80%
FFELP Consolidation Loans, net	38,677	49	40,678	3.08
Private Education Loans, net	21,079	26	22,720	6.36
Total education loans, net	<u>\$ 79,363</u>	<u>100%</u>	<u>\$ 84,242</u>	<u>3.90%</u>

As of December 31, 2021 and 2020, 87% and 85%, respectively, of our education loan portfolio was in repayment.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses

Allowance for Loan Losses Metrics

	Year Ended December 31, 2021		
(Dollars in millions)	FFELP Loans	Private Education Loans	Total
Beginning balance	\$ 288	\$ 1,089	\$ 1,377
Provision:			
Reversal of allowance related to loan sales ⁽¹⁾	—	(107)	(107)
Remaining provision	—	46	46
Total provision	—	(61)	(61)
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate ⁽²⁾	—	(16)	(16)
Net charge-offs remaining ⁽³⁾	(26)	(153)	(179)
Total charge-offs ⁽³⁾	(26)	(169)	(195)
Decrease in expected future recoveries on charged-off loans ⁽⁴⁾	—	150	150
Allowance at end of period	262	1,009	1,271
Plus: expected future recoveries on charged-off loans ⁽⁴⁾	—	329	329
Allowance at end of period excluding expected future recoveries on charged-off loans ⁽⁵⁾	\$ 262	\$ 1,338	\$ 1,600
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate ⁽²⁾	.06%	.76%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment ⁽²⁾	—%	.08%	
Allowance coverage of charge-offs ⁽⁶⁾	10.0	7.9	
Allowance as a percentage of the ending total loan balance ⁽⁶⁾	.5%	6.3%	
Allowance as a percentage of the ending loans in repayment ⁽⁶⁾	.6%	6.6%	
Ending total loans	\$ 52,903	\$ 21,180	
Average loans in repayment	\$ 45,781	\$ 20,150	
Ending loans in repayment	\$ 44,390	\$ 20,284	

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

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

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

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

	Year Ended December 31, 2021
(Dollars in millions)	
Beginning of period expected recoveries	\$ 479
Expected future recoveries of current period defaults	22
Recoveries	(87)
Charge-offs	(35)
Reduction in expected recoveries related to regulatory settlement ⁽⁵⁾	(50)
End of period expected recoveries	\$ 329
Change in balance during period	\$ (150)

(5) See "Note 12 – Commitments, Contingencies and Guarantees" for further discussion.

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

See "Note 2 – Significant Accounting Policies" for discussion of the adoption of CECL on January 1, 2020.

	Year Ended December 31, 2020		
	FFELP Loans	Private Education Loans	Total
(Dollars in millions)			
Allowance at beginning of period	\$ 64	\$ 1,048	\$ 1,112
Transition adjustment made under CECL on January 1, 2020 ⁽¹⁾	260	(3)	257
Allowance at beginning of period after transition adjustment to CECL	324	1,045	1,369
Total provision	13	142	155
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate ⁽²⁾	—	(23)	(23)
Net charge-offs remaining ⁽³⁾	(49)	(184)	(233)
Total charge-offs ⁽³⁾	(49)	(207)	(256)
Decrease in expected future recoveries on charged-off loans ⁽⁴⁾	—	109	109
Allowance at end of period	288	1,089	1,377
Plus: expected future recoveries on charged-off loans ⁽⁴⁾	—	479	479
Allowance at end of period excluding expected future recoveries on charged-off loans ⁽⁵⁾	\$ 288	\$ 1,568	\$ 1,856
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate ⁽²⁾	.10%	.88%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment ⁽²⁾	—%	.11%	
Allowance coverage of charge-offs ⁽⁵⁾	5.9	7.6	
Allowance as a percentage of the ending total loan balance ⁽⁵⁾	.5%	7.1%	
Allowance as a percentage of the ending loans in repayment ⁽⁵⁾	.6%	7.5%	
Ending total loans	\$ 58,572	\$ 22,168	
Average loans in repayment	\$ 48,130	\$ 20,790	
Ending loans in repayment	\$ 48,057	\$ 20,841	

(1) For a further discussion of our adoption of CECL, see "Note 2 – Significant Accounting Policies."

(2) In 2020, the portion of the loan amount charged off at default on Private Education Loans increased from 81% to 81.4%. This charge resulted in a \$23 million reduction to the balance of the receivable for partially charged-off loan balance.

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

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

(Dollars in millions)	Year Ended December 31,	
	2020	
Beginning of period expected recoveries	\$	588
Expected future recoveries of current period defaults		32
Recoveries		(107)
Charge-offs		(34)
End of period expected recoveries	\$	479
Change in balance during period	\$	(109)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

	Year Ended December 31, 2019			
	FFELP Loans	Private Education Loans	Other Loans	Total
(Dollars in millions)				
Beginning balance	\$ 76	\$ 1,201	\$ 9	\$ 1,286
Total provision	30	226	1	258
Charge-offs:				
Net adjustment resulting from the change in the charge-off rate(1)	—	(21)	—	(21)
Net charge-offs remaining(2)	(42)	(364)	(2)	(408)
Total charge-offs(2)	(42)	(385)	(2)	(429)
Reclassification of interest reserve(3)	—	7	—	7
Loan sales	—	(1)	(8)	(9)
Ending balance	<u>\$ 64</u>	<u>\$ 1,048</u>	<u>\$ —</u>	<u>\$ 1,112</u>
Allowance Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 941	\$ —	\$ 941
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	64	107	—	171
Purchased Non-Credit Impaired Loans acquired at a discount(4)	—	—	—	—
Purchased Credit Impaired Loans(4)	—	—	—	—
Ending total allowance	<u>\$ 64</u>	<u>\$ 1,048</u>	<u>\$ —</u>	<u>\$ 1,112</u>
Loans Ending Balance:				
Individually evaluated for impairment — TDR	\$ —	\$ 9,617	\$ —	\$ 9,617
Collectively evaluated for impairment:				
Excluding Purchased Non-Credit Impaired Loans acquired at a discount and Purchased Credit Impaired Loans	61,589	12,286	9	73,884
Purchased Non-Credit Impaired Loans acquired at a discount(4)	2,505	1,806	—	4,311
Purchased Credit Impaired Loans(4)	—	201	—	201
Ending total loans(5)	<u>\$ 64,094</u>	<u>\$ 23,910</u>	<u>\$ 9</u>	<u>\$ 88,013</u>
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate(1)	.07%	1.67%	—%	
Net adjustment resulting from the change in charge-off rate as a percentage of average loans in repayment(1)	—%	.10%	—%	
Allowance coverage of charge-offs	1.5	2.7	—	
Allowance as a percentage of the ending total loan balance	.10%	4.38%	—%	
Allowance as a percentage of the ending loans in repayment	.12%	4.74%	—%	
Ending total loans(5)	\$ 64,094	\$ 23,910	\$ 9	
Average loans in repayment	\$ 55,978	\$ 21,859	\$ 29	
Ending loans in repayment	\$ 53,538	\$ 22,089	\$ 9	

- (1) In 2019, the portion of the loan amount charged off at default on Private Education Loans increased from 80.5% to 81%. This charge resulted in a \$21 million reduction to the balance of the receivable for partially charged-off loan balance.
- (2) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be recovered and any shortfalls in what was actually recovered in the period. For FFELP Loans, the recovery is received at the time of charge-off.
- (3) 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.
- (4) 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 December 31, 2019. The losses of the Purchased Non-Credit Impaired Loans acquired at a discount are not provided for by the allowance for loan losses in the above table as the remaining purchased discount associated with the FFELP and Private Education Loans of \$33 million and \$268 million, respectively, as of December 31, 2019 is greater than the incurred losses and as a result no allowance for loan losses has been established for these loans as of December 31, 2019.
- (5) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Troubled Debt Restructurings (TDRs)

We sometimes modify the terms of loans for customers experiencing financial difficulty. Certain Private Education Loans for which we have granted either a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. Approximately 75% and 72% of the loans granted forbearance have qualified as a TDR loan at December 31, 2021 and 2020, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction program as of December 31, 2021 and 2020 was \$831 million and \$948 million, respectively.

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

(Dollars in millions)	Years Ended December 31,		
	2021	2020	2019
Modified loans ⁽¹⁾	\$ 149	\$ 264	\$ 475
Charge-offs ⁽²⁾	\$ 124	\$ 157	\$ 324
Payment default	\$ 21	\$ 47	\$ 109

(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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators

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

FFELP Loans

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default. The key credit quality indicators are loan status and loan type.

(Dollars in millions)	FFELP Loan Delinquencies			
	December 31, 2021		December 31, 2020	
	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 2,220		\$ 2,791	
Loans in forbearance ⁽²⁾	6,292		7,725	
Loans in repayment and percentage of each status:				
Loans current	39,679	89.4%	43,623	90.8%
Loans delinquent 31-60 days ⁽³⁾	1,696	3.8	1,374	2.9
Loans delinquent 61-90 days ⁽³⁾	904	2.0	836	1.7
Loans delinquent greater than 90 days ⁽³⁾	2,112	4.8	2,223	4.6
Total FFELP Loans in repayment	44,391	100%	48,056	100%
Total FFELP Loans	52,903		58,572	
FFELP Loan allowance for losses	(262)		(288)	
FFELP Loans, net	\$ 52,641		\$ 58,284	
Percentage of FFELP Loans in repayment		83.9%		82.0%
Delinquencies as a percentage of FFELP Loans in repayment		10.6%		9.2%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		12.4%		13.8%

- (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 full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.
- (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

Loan type:

(Dollars in millions)	December 31, 2021	December 31, 2020	Change
Stafford Loans	\$ 16,329	\$ 17,686	\$ (1,357)
Consolidation Loans	31,873	35,968	(4,095)
Rehab Loans	4,701	4,918	(217)
Total loans, gross	\$ 52,903	\$ 58,572	\$ (5,669)

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

Private Education Loans

The key credit quality indicators are credit scores (FICO scores), loan status, loan seasoning, whether a loan is a TDR, the existence of a cosigner and school type. The FICO score is the higher of the borrower or co-borrower score and is updated at least every six months while school type is assessed at origination. The other Private Education Loan key quality indicators are updated quarterly.

Private Education Loan Credit Quality Indicators by Origination Year								
(Dollars in millions)	2021	2020	2019	2018	2017	Prior	Total	% of Total
Credit Quality Indicators								
FICO Scores:								
640 and above	\$ 5,185	\$ 1,990	\$ 1,862	\$ 695	\$ 209	\$ 9,606	\$ 19,547	92%
Below 640	42	15	37	21	8	1,510	1,633	8
Total	<u>\$ 5,227</u>	<u>\$ 2,005</u>	<u>\$ 1,899</u>	<u>\$ 716</u>	<u>\$ 217</u>	<u>\$ 11,116</u>	<u>\$ 21,180</u>	<u>100%</u>
Loan Status:								
In-school/grace/deferment/forbearance	\$ 41	\$ 30	\$ 34	\$ 17	\$ 6	\$ 768	\$ 896	4%
Current/90 days or less delinquent	5,184	1,973	1,860	697	211	10,062	19,987	94
Greater than 90 days delinquent	2	2	5	2	—	286	297	2
Total	<u>\$ 5,227</u>	<u>\$ 2,005</u>	<u>\$ 1,899</u>	<u>\$ 716</u>	<u>\$ 217</u>	<u>\$ 11,116</u>	<u>\$ 21,180</u>	<u>100%</u>
Seasoning(1):								
1-12 payments	\$ 5,208	\$ 161	\$ 27	\$ 5	\$ 1	\$ 133	\$ 5,535	26%
13-24 payments	—	1,824	568	14	3	150	2,559	12
25-36 payments	—	—	1,283	165	9	248	1,705	8
37-48 payments	—	—	—	524	61	380	965	5
More than 48 payments	—	—	—	—	141	9,914	10,055	47
Loans in-school/grace/deferment	19	20	21	8	2	291	361	2
Total	<u>\$ 5,227</u>	<u>\$ 2,005</u>	<u>\$ 1,899</u>	<u>\$ 716</u>	<u>\$ 217</u>	<u>\$ 11,116</u>	<u>\$ 21,180</u>	<u>100%</u>
TDR Status:								
TDR	\$ 2	\$ 8	\$ 31	\$ 28	\$ 29	\$ 7,158	\$ 7,256	34%
Non-TDR	5,225	1,997	1,868	688	188	3,958	13,924	66
Total	<u>\$ 5,227</u>	<u>\$ 2,005</u>	<u>\$ 1,899</u>	<u>\$ 716</u>	<u>\$ 217</u>	<u>\$ 11,116</u>	<u>\$ 21,180</u>	<u>100%</u>
Cosigners:								
With cosigner(2)	\$ 17	\$ 33	\$ 12	\$ —	\$ 34	\$ 7,266	\$ 7,362	35%
Without cosigner	5,210	1,972	1,887	716	183	3,850	13,818	65
Total	<u>\$ 5,227</u>	<u>\$ 2,005</u>	<u>\$ 1,899</u>	<u>\$ 716</u>	<u>\$ 217</u>	<u>\$ 11,116</u>	<u>\$ 21,180</u>	<u>100%</u>
School Type:								
Not-for-profit	\$ 4,918	\$ 1,916	\$ 1,771	\$ 659	\$ 208	\$ 9,241	\$ 18,713	88%
For-profit	309	89	128	57	9	1,875	2,467	12
Total	<u>\$ 5,227</u>	<u>\$ 2,005</u>	<u>\$ 1,899</u>	<u>\$ 716</u>	<u>\$ 217</u>	<u>\$ 11,116</u>	<u>\$ 21,180</u>	<u>100%</u>
Allowance for loan losses							(1,009)	
Total loans, net							<u>\$ 20,171</u>	

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

(2) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 65% for total loans at December 31, 2021.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

(Dollars in millions)	Private Education Loan Credit Quality Indicators by Origination Year							
	2020	2019	2018	2017	2016	Prior	Total	% of Total
Credit Quality Indicators								
FICO Scores:								
640 and above	\$ 4,008	\$ 2,964	\$ 1,079	\$ 340	\$ 72	\$ 11,746	\$ 20,209	91%
Below 640	15	34	23	9	2	1,876	1,959	9
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Loan Status:								
In-school/grace/deferment/forbearance	\$ 23	\$ 43	\$ 25	\$ 10	\$ 2	\$ 1,224	\$ 1,327	6%
Current/90 days or less delinquent	3,999	2,953	1,075	338	72	12,187	20,624	93
Greater than 90 days delinquent	1	2	2	1	—	211	217	1
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Seasoning(1):								
1-12 payments	\$ 4,014	\$ 879	\$ 7	\$ 2	\$ —	\$ 180	\$ 5,082	23%
13-24 payments	—	2,098	243	7	1	234	2,583	12
25-36 payments	—	—	839	101	3	380	1,323	6
37-48 payments	—	—	—	236	38	584	858	4
More than 48 payments	—	—	—	—	31	11,808	11,839	53
Loans in-school/grace/deferment	9	21	13	3	1	436	483	2
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
TDR Status:								
TDR	\$ 1	\$ 14	\$ 23	\$ 31	\$ 11	\$ 8,351	\$ 8,431	38%
Non-TDR	4,022	2,984	1,079	318	63	5,271	13,737	62
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Cosigners:								
With cosigner(2)	\$ 5	\$ 13	\$ 1	\$ 49	\$ 21	\$ 8,911	\$ 9,000	41%
Without cosigner	4,018	2,985	1,101	300	53	4,711	13,168	59
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
School Type:								
Not-for-profit	\$ 3,844	\$ 2,801	\$ 1,019	\$ 333	\$ 74	\$ 11,255	\$ 19,326	87%
For-profit	179	197	83	16	—	2,367	2,842	13
Total	\$ 4,023	\$ 2,998	\$ 1,102	\$ 349	\$ 74	\$ 13,622	\$ 22,168	100%
Allowance for loan losses							(1,089)	
Total loans, net							\$ 21,079	

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

(2) Excluding Private Education Refinance Loans, which do not have a cosigner, the cosigner rate was 65% for total loans at December 31, 2020.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

	Private Education Loan Delinquencies			
	TDRs			
	December 31, 2021		December 31, 2020	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 194		\$ 280	
Loans in forbearance ⁽²⁾	446		703	
Loans in repayment and percentage of each status:				
Loans current	6,023	91.0%	6,952	93.4%
Loans delinquent 31-60 days ⁽³⁾	199	3.0	185	2.5
Loans delinquent 61-90 days ⁽³⁾	120	1.8	114	1.5
Loans delinquent greater than 90 days ⁽³⁾	274	4.2	197	2.6
Total TDR loans in repayment	6,616	100%	7,448	100%
Total TDR loans	7,256		8,431	
TDR loans allowance for losses	(829)		(929)	
TDR loans, net	\$ 6,427		\$ 7,502	
Percentage of TDR loans in repayment		91.2%		88.3%
Delinquencies as a percentage of TDR loans in repayment		9.0%		6.6%
Loans in forbearance as a percentage of TDR loans in repayment and forbearance		6.3%		8.6%

- (1) Loans for customers who are attending school or are in other permitted educational activities and are not yet required to make payments on their loans, e.g., internship periods, as well as loans for customers who have requested and qualify for other permitted program deferments such as various military eligible deferments.
- (2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors such as disaster relief, including COVID-19 relief programs, consistent with established loan program servicing policies and procedures.
- (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Allowance for Loan Losses (Continued)

	Private Education Loan Delinquencies			
	Non-TDRs			
	December 31, 2021		December 31, 2020	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 167		\$ 203	
Loans in forbearance ⁽²⁾	89		141	
Loans in repayment and percentage of each status:				
Loans current	13,611	99.6%	13,335	99.6%
Loans delinquent 31-60 days ⁽³⁾	23	.2	26	.2
Loans delinquent 61-90 days ⁽³⁾	11	.1	12	.1
Loans delinquent greater than 90 days ⁽³⁾	23	.1	20	.1
Total non-TDR loans in repayment	13,668	100%	13,393	100%
Total non-TDR loans	13,924		13,737	
Non-TDR loans allowance for losses	(180)		(160)	
Non-TDR loans, net	\$ 13,744		\$ 13,577	
Percentage of non-TDR loans in repayment		98.2%		97.5%
Delinquencies as a percentage of non-TDR loans in repayment		.4%		.4%
Loans in forbearance as a percentage of non-TDR loans in repayment and forbearance		.6%		1.0%

(1) Loans for customers who are attending school or are in other permitted educational activities and are not yet required to make payments on their loans, e.g., internship periods, as well as loans for customers who have requested and qualify for other permitted program deferments such as various military eligible deferments.

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

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

5. Business Combinations, Goodwill and Acquired Intangible

Goodwill

The following table summarizes our goodwill for our reporting units and reportable segments.

(Dollars in millions)	As of December 31,	
	2021	2020
Federal Education Loans reportable segment:		
FFELP Loans	\$ 227	\$ 227
Federal Education Loan Servicing ⁽¹⁾	5	13
Total	232	240
Consumer Lending reportable segment:		
Private Education Loans	106	106
Private Education Refinance Loans	77	77
Private Education In-School Loans ⁽²⁾	14	—
Total	197	183
Business Processing reportable segment:		
Government Services	136	136
Healthcare Services	106	106
Total	242	242
Total goodwill	\$ 671	\$ 665

- (1) We wrote off \$8 million of goodwill in connection with the transfer of our ED contract to a third party in October 2021. This goodwill was allocated to the ED Servicing component of the Federal Education Loan Servicing reporting unit based on relative fair value. The \$8 million was recorded as part of goodwill and acquired intangible asset impairment and amortization expense.
- (2) In the third quarter of 2021, we completed an acquisition for a purchase price of approximately \$20 million. The preliminary purchase price allocation resulted in goodwill of \$14 million. The remainder of the purchase price was primarily allocated to developed technology.

Annual Goodwill Impairment Testing – October 1, 2021

We perform our goodwill impairment testing annually in the fourth quarter as of October 1. As part of the 2021 annual impairment testing for each of our reporting units with goodwill, we assessed relevant qualitative factors to determine whether it is “more-likely-than-not” that the fair value of an individual reporting unit is less than its carrying value. We considered the amount of excess fair value for our FFELP Loans, Federal Education Loan Servicing, Private Education Legacy Loans, and Private Education Refinance Loans over their carrying values as of October 1, 2019, the last time an independent appraiser estimated the value of these reporting units, since the fair value of these reporting units was substantially in excess of their carrying amounts. The outlook and cash flows for the FFELP Loans and Private Education Legacy Loans reporting units have not changed significantly since our 2019 assessment, despite COVID-19. Likewise, the outlook and cash flows for the Federal Education Loan Servicing components remaining after removing the cash flows attributed to the ED Servicing contract have not changed significantly since 2019. For the Private Education Refinance Loans reporting unit, we considered current and expected future origination volume both of which increased since 2019 and 2020 and the improved demand for the reporting unit’s refinance loan products. We also considered Navient’s strong liquidity position, its ability to issue Private Education Loan ABS comprised entirely of the reporting unit’s refinance loans and improved cost of funds in 2021 on these issuances. No goodwill was deemed impaired for these reporting units after assessing these relevant qualitative factors.

As part of our annual impairment testing associated with our Government Services and Healthcare Services reporting units, we also considered the amount of excess fair value over the carrying values of these reporting units as of October 1, 2020 when we engaged an independent appraiser to estimate the fair value of these reporting units since the fair value of these reporting units was substantially in excess of their carrying values. We also considered the financial performance for both of these reporting units in 2021 during which the Government Services and Healthcare Services reporting units significantly outperformed expectations due largely to significant contracts acquired in 2020 and 2021 to implement and administer programs under the CARES Act and perform contact tracing and vaccine administration services. The outlook and long-term cash flow projections for both of these reporting units remain favorable and have not changed significantly since our 2020 quantitative impairment assessment despite the economic impact of COVID 19. No goodwill was deemed impaired for these reporting units after assessing these relevant qualitative factors.

For each of our reporting units, we have also considered the current regulatory and legislative environment, the current economic environment which is still heavily impacted by COVID-19, our 2021 earnings, 2022 expected

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Business Combinations, Goodwill and Acquired Intangible Assets (Continued)

earnings, market expectations regarding our stock price which improved significantly in 2021, and our market capitalization, which was in excess of our book equity at October 1, 2021 and remained in excess of our book equity at December 31, 2021. If the regulatory environment changes such that it negatively impacts our reporting units and future economic conditions are significantly worse than what was assumed as a part of our annual impairment testing for each of our reporting units, specifically related to the impact of COVID-19 and the inflationary environment stemming from the recovery in certain sectors, goodwill attributed to our reporting units could be impaired in future periods.

Acquired Intangible Assets

Acquired intangible assets include the following:

	As of December 31, 2021			As of December 31, 2020		
	Cost Basis ⁽²⁾	Accumulated Impairment and Amortization ⁽²⁾ (3)	Net	Cost Basis ⁽²⁾	Accumulated Impairment and Amortization ⁽²⁾ (3)	Net
(Dollars in millions)						
Customer, services and lending relationships	\$ 246	\$ (223)	\$ 23	\$ 262	\$ (230)	\$ 32
Software and technology ⁽¹⁾	120	(105)	15	114	(101)	13
Trade names and trademarks	40	(23)	17	52	(27)	25
Total acquired intangible assets	<u>\$ 406</u>	<u>\$ (351)</u>	<u>\$ 55</u>	<u>\$ 428</u>	<u>\$ (358)</u>	<u>\$ 70</u>

- (1) In conjunction with the preliminary purchase price allocation associated with a third-quarter 2021 acquisition in the Consumer Lending reportable segment, we recorded \$7 million of acquired intangible assets which consisted primarily of developed technology.
- (2) Accumulated impairment and amortization include impairment amounts only if the acquired intangible asset has been deemed partially impaired. When an acquired intangible asset is considered fully impaired and no longer in use, the cost basis and any accumulated amortization related to the asset is written off.
- (3) We recorded amortization of acquired intangible assets of \$19 million, \$21 million and \$25 million in 2021, 2020 and 2019, respectively. We will continue to amortize our intangible assets with definite useful lives over their remaining estimated useful lives. We estimate amortization expense associated with these intangible assets will be \$14 million, \$12 million, \$10 million, \$7 million and \$12 million in 2022, 2023, 2024, 2025 and after 2025, respectively.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings

Borrowings consist of secured borrowings issued through our securitization program, borrowings through secured facilities, unsecured notes issued by us, and other interest-bearing liabilities related primarily to obligations to return cash collateral held.

The following table summarizes our borrowings.

(Dollars in millions)	December 31, 2021					December 31, 2020				
	Short Term	Weighted Average Interest Rate(8)	Long Term	Weighted Average Interest Rate(8)	Total	Short Term	Weighted Average Interest Rate(8)	Long Term	Weighted Average Interest Rate(8)	Total
Unsecured borrowings:										
Senior unsecured debt(1)	\$ —	—%	\$ 7,014	5.83%	\$ 7,014	\$ 677	6.61%	\$ 7,714	6.19%	\$ 8,391
Total unsecured borrowings	—	—	7,014	5.83	7,014	677	6.61	7,714	6.19	8,391
Secured borrowings:										
FFELP Loan securitizations(2)(3)(4)	—	—	51,841	.85	51,841	—	—	54,697	.89	54,697
Private Education Loan securitizations(5)	543	2.42	14,074	1.82	14,617	960	2.68	13,891	2.04	14,851
FFELP Loan ABCP facilities	282	.97	150	.97	432	2,053	1.05	479	1.13	2,532
Private Education Loan ABCP facilities	1,363	1.05	1,152	1.37	2,515	2,582	1.46	—	—	2,582
Other(6)	302	.19	—	—	302	337	.09	—	—	337
Total secured borrowings	2,490	1.24	67,217	1.07	69,707	5,932	1.44	69,067	1.12	74,999
Total before hedge accounting adjustments(7)	2,490	1.24	74,231	1.52	76,721	6,609	1.97	76,781	1.63	83,390
Hedge accounting adjustments	—	—	257	(.01)	257	4	—	551	(.01)	555
Total	\$ 2,490	1.24%	\$ 74,488	1.51%	\$ 76,978	\$ 6,613	1.97%	\$ 77,332	1.62%	\$ 83,945

- (1) Includes principal amount of \$0 and \$678 million of short-term debt as of December 31, 2021 and 2020, respectively. Includes principal amount of \$7.0 billion and \$7.8 billion of long-term debt as of December 31, 2021 and 2020, respectively.
- (2) Includes \$49 million and \$157 million of long-term debt related to the FFELP Loan ABS repurchase facilities (FFELP Loan Repurchase Facilities) as of December 31, 2021 and 2020, respectively.
- (3) Includes \$2.1 billion and \$3.6 billion of non-U.S. dollar-denominated debt as of December 31, 2021 and 2020, respectively, which has been hedged with swaps converting to U.S. dollars.
- (4) During 2021, three FFELP secured debt tranches defaulted in the amount of \$416 million as a result of not maturing by their respective contractual maturity dates. Notices were delivered to the trustee, rating agencies and bondholders alerting them to these maturity date defaults. At this time, it is expected the bonds will be paid in full between 2029 and 2035. There is no impact to the principal amount owed or the coupon at which the bonds accrue, and there is no revised contractual maturity date.
- (5) Includes \$543 million and \$960 million of short-term debt related to the Private Education Loan ABS repurchase facilities (Private Education Loan Repurchase Facilities) as of December 31, 2021 and 2020, respectively. Includes \$0 and \$260 million of long-term debt related to the Private Education Loan Repurchase Facilities as of December 31, 2021 and 2020, respectively.
- (6) "Other" primarily includes the obligation to return cash collateral held related to derivative exposure.
- (7) Includes \$55.5 billion and \$60.0 billion of long-term floating rate debt as of December 31, 2021 and 2020, respectively, and \$18.7 billion and \$16.8 billion of long-term fixed rate debt as of December 31, 2021 and 2020, respectively.
- (8) Weighted average interest rate is as of end of period.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Borrowings (Continued)

As of December 31, 2021, the expected maturities of our long-term borrowings are shown in the following table.

(Dollars in millions)	Expected Maturity		
	Senior Unsecured Debt	Secured Borrowings(1)	Total(2)
Year of Maturity			
2022	\$ —	\$ 6,965	\$ 6,965
2023	1,312	7,747	9,059
2024	1,350	5,868	7,218
2025	551	5,476	6,027
2026	522	5,194	5,716
2027-2043	3,279	35,967	39,246
Total before hedge accounting adjustments	7,014	67,217	74,231
Hedge accounting adjustments	367	(110)	257
Total	<u>\$ 7,381</u>	<u>\$ 67,107</u>	<u>\$ 74,488</u>

- (1) We view our securitization trust debt as long-term based on the contractual maturity dates which range from 2022 to 2083. However, we have projected the expected principal paydowns based on our current estimates regarding the securitized loans' prepayment speeds for purposes of this disclosure to better reflect how we expect this debt to be paid down over time. The projected principal paydowns in year 2022 include \$7.0 billion related to the securitization trust debt.
- (2) The aggregate principal amount of debt that matures in each period is \$7.0 billion in 2022, \$9.1 billion in 2023, \$7.2 billion in 2024, \$6.1 billion in 2025, \$5.8 billion in 2026 and \$39.5 billion in 2027-2043.

Variable Interest Entities

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

(Dollars in millions)	December 31, 2021						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets, Net	Total
Secured Borrowings — VIEs:							
FFELP Loan securitizations	\$ —	\$ 51,841	\$ 51,841	\$ 52,066	\$ 2,073	\$ 1,520	\$ 55,659
Private Education Loan securitizations	543	14,074	14,617	15,506	505	150	16,161
FFELP Loan ABCP facilities	282	150	432	436	8	15	459
Private Education Loan ABCP facilities	1,363	1,152	2,515	2,641	63	32	2,736
Total before hedge accounting adjustments	2,188	67,217	69,405	70,649	2,649	1,717	75,015
Hedge accounting adjustments	—	(110)	(110)	—	—	(195)	(195)
Total	<u>\$ 2,188</u>	<u>\$ 67,107</u>	<u>\$ 69,295</u>	<u>\$ 70,649</u>	<u>\$ 2,649</u>	<u>\$ 1,522</u>	<u>\$ 74,820</u>

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

6. Borrowings (Continued)

Secured Facilities and Unsecured Debt

FFELP Loan ABCP Facilities

We have various ABCP borrowing facilities that we use to finance our FFELP Loans. Liquidity is available under these secured credit facilities to the extent we have eligible collateral and available capacity. The maximum borrowing capacity under these facilities will vary and is subject to each agreement's borrowing conditions. These include but are not limited to the facility's size, current usage and the availability and fair value of qualifying unencumbered FFELP Loan collateral. Our borrowings under these facilities are non-recourse. The maturity dates on these facilities range from November 2022 to April 2023. The interest rate on certain facilities can increase under certain circumstances. The facilities are subject to termination under certain circumstances. As of December 31, 2021, there was approximately \$0.4 billion outstanding under these facilities, with approximately \$0.5 billion of assets securing these facilities. As of December 31, 2021, the maximum unused capacity under these facilities was \$0.5 billion and we had \$0.1 billion of unencumbered FFELP Loans.

FFELP Loan Repurchase Facilities

In 2018, we closed a \$0.9 billion FFELP Loan Repurchase Facility that provides liquidity for the acquisition of certain Navient-sponsored auction rate securities. Borrowings under the facility are secured by the auction rate securities. The lenders also have unsecured recourse to Navient Corporation as Guarantor for any shortfall in amounts payable. Because the facility is secured by Navient-sponsored instruments issued in previous securitizations, we show the debt as part of FFELP Loan securitizations in the various borrowing tables above. As of December 31, 2021, there was approximately \$49 million outstanding under this facility.

Private Education Loan ABCP Facilities

We have various ABCP borrowing facilities that we use to finance our Private Education Loans. Liquidity is available under these secured credit facilities to the extent we have eligible collateral and available capacity. The maximum borrowing capacity under these facilities will vary and is subject to each agreement's borrowing conditions. These include but are not limited to the facility's size, current usage and the availability and fair value of qualifying unencumbered Private Education Loan collateral. Our borrowings under these facilities are non-recourse. The maturity dates on these facilities range from June 2022 to June 2023. The interest rate on certain facilities can increase under certain circumstances. The facilities are subject to termination under certain circumstances. As of December 31, 2021, there was approximately \$2.5 billion outstanding under these facilities, with approximately \$2.7 billion of assets securing these facilities. As of December 31, 2021, the maximum unused capacity under these facilities was \$2.2 billion and we had \$2.0 billion of unencumbered Private Education Loans.

Private Education Loan Repurchase Facilities

These repurchase facilities are collateralized by the net assets in previously issued Private Education Loan ABS trusts. The lenders also have unsecured recourse to Navient Corporation as Guarantor for any shortfall in amounts payable. Because these facilities are secured by the Residual Interests in previous securitizations, we show the debt as part of Private Education Loan securitizations in the various borrowing tables above. As of December 31, 2021, there was approximately \$0.5 billion outstanding under these facilities.

Senior Unsecured Debt

We issued \$1.3 billion, \$700 million and \$0 of unsecured debt in 2021, 2020 and 2019, respectively.

Debt Repurchases

The following table summarizes activity related to our senior unsecured debt repurchases.

(Dollars in millions)	Years Ended December 31,		
	2021	2020	2019
Debt principal repurchased	\$ 2,577	\$ 768	\$ 1,184
Gains (losses) on debt repurchases	\$ (73)	\$ (6)	\$ 45

7. Derivative Financial Instruments

Risk Management Strategy

We maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate changes. Our goal is to manage interest rate sensitivity by modifying the repricing frequency and underlying index characteristics of certain balance sheet assets and liabilities so the net interest margin is not, on a material basis, adversely affected by movements in interest rates. We do not use derivative instruments to hedge credit risk. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. Income or loss on the derivative instruments that are linked to the hedged assets and liabilities will generally offset the effect of this unrealized appreciation or depreciation for the period the item is being hedged. We view this strategy as a prudent management of interest rate sensitivity. In addition, we utilize derivative contracts to minimize the economic impact of changes in foreign currency exchange rates on certain debt obligations that are denominated in foreign currencies. As foreign currency exchange rates fluctuate, these liabilities will appreciate and depreciate in value. These fluctuations, to the extent the hedge relationship is effective, are offset by changes in the value of the cross-currency interest rate swaps executed to hedge these instruments. Management believes certain derivative transactions entered into as hedges, primarily Floor Income Contracts, basis swaps and, at times, certain other LIBOR swaps, are economically effective; however, those transactions do not qualify for hedge accounting under GAAP and thus may adversely impact earnings.

Although we use derivatives to minimize the risk of interest rate and foreign currency changes, the use of derivatives does expose us to both market and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates, foreign exchange rates and market liquidity. Credit risk is the risk that a counterparty will not perform its obligations under a contract and it is limited to the loss of the fair value gain in a derivative that the counterparty owes us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no credit risk exposure to the counterparty; however, the counterparty has exposure to us. We minimize the credit risk in derivative instruments by entering into transactions with highly rated counterparties that are reviewed regularly by our Credit Department. We also maintain a policy of requiring that all derivative contracts be governed by an International Swaps and Derivative Association Master Agreement. Depending on the nature of the derivative transaction, bilateral collateral arrangements related to Navient Corporation contracts generally are required as well. When we have more than one outstanding derivative transaction with the counterparty, and there exists legally enforceable netting provisions with the counterparty (i.e., a legal right to offset receivable and payable derivative contracts), the "net" mark-to-market exposure, less collateral the counterparty has posted to us, represents exposure with the counterparty. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At December 31, 2021 and 2020, we had a net positive exposure (derivative gain positions to us less collateral which has been posted by counterparties to us) related to Navient Corporation derivatives of \$9 million and \$13 million, respectively.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

Our on-balance sheet securitization trusts have \$2.1 billion of Euro denominated bonds outstanding as of December 31, 2021. To convert these non-US dollar denominated bonds into US dollar liabilities, the trusts have entered into foreign-currency swaps with highly-rated counterparties. In addition, the trusts have entered into \$1.1 billion notional of interest rate swaps which are primarily used to convert Prime received on securitized education loans to LIBOR paid on the bonds. 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. At December 31, 2021 and 2020, the net positive exposure on swaps in securitization trusts was \$0 and \$28 million, respectively.

The table below highlights credit exposure related to our derivative counterparties at December 31, 2021.

(Dollars in millions)	Corporate Contracts	Securitization Trust Contracts
Exposure, net of collateral	\$ 9	\$ —
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	100%	—%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	—%	—%

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact

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

Impact of Derivatives on Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow		Fair Value(3)		Trading		Total	
		Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Fair Values(1)									
Derivative Assets:									
Interest rate swaps	Interest rate	\$ —	\$ —	\$ 222	\$ 323	\$ 2	\$ 6	\$ 224	\$ 329
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	—	28	—	—	—	28
Total derivative assets(2)		—	—	222	351	2	6	224	357
Derivative Liabilities:									
Interest rate swaps	Interest rate	—	—	—	—	(5)	(14)	(5)	(14)
Floor Income Contracts	Interest rate	—	—	—	—	(65)	(197)	(65)	(197)
Cross-currency interest rate swaps	Foreign currency and interest rate	—	—	(190)	(322)	—	—	(190)	(322)
Total derivative liabilities(2)		—	—	(190)	(322)	(70)	(211)	(260)	(533)
Net total derivatives		\$ —	\$ —	\$ 32	\$ 29	\$ (68)	\$ (205)	\$ (36)	\$ (176)

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

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

(Dollar in millions)	Other Assets		Other Liabilities	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Gross position	\$ 224	\$ 357	\$ (260)	\$ (533)
Impact of master netting agreements	(6)	(50)	6	50
Derivative values with impact of master netting agreements (as carried on balance sheet)	218	307	(254)	(483)
Cash collateral (held) pledged	(244)	(336)	147	234
Net position	\$ (26)	\$ (29)	\$ (107)	\$ (249)

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

(Dollar in millions)	As of December 31, 2021		As of December 31, 2020	
	Carrying Value	Hedge Basis Adjustments	Carrying Value	Hedge Basis Adjustments
Short-term borrowings	\$ —	\$ —	\$ 631	\$ 4
Long-term borrowings	\$ 8,503	\$ 252	\$ 11,017	\$ 541

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

The above fair values include adjustments when necessary for counterparty credit risk for both when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the asset position at December 31, 2021 and December 31, 2020 by \$8 million and \$8 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at December 31, 2021 and December 31, 2020 by \$2 million and \$5 million, respectively.

	Cash Flow		Fair Value		Trading		Total	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
(Dollars in billions)								
Notional Values:								
Interest rate swaps	\$ 12.1	\$ 16.7	\$ 6.2	\$ 7.5	\$ 28.4	\$ 26.8	\$ 46.7	\$ 51.0
Floor Income Contracts	—	—	—	—	12.5	17.0	12.5	17.0
Cross-currency interest rate swaps	—	—	2.1	3.7	—	—	2.1	3.7
Total derivatives	\$ 12.1	\$ 16.7	\$ 8.3	\$ 11.2	\$ 40.9	\$ 43.8	\$ 61.3	\$ 71.7

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

	Total Gains (Losses)		
	Years Ended December 31,		
(Dollars in millions)	2021	2020	2019
Fair Value Hedges⁽²⁾:			
Interest Rate Swaps			
Gains (losses) recognized in net income on derivatives	\$ (310)	\$ 301	\$ 281
Gains (losses) recognized in net income on hedged items	349	(327)	(299)
Net fair value hedge ineffectiveness gains (losses)	39	(26)	(18)
Cross currency interest rate swaps			
Gains (losses) recognized in net income on derivatives	104	281	57
Gains (losses) recognized in net income on hedged items	(55)	(272)	(18)
Net fair value hedge ineffectiveness gains (losses)	49	9	39
Total fair value hedges ⁽¹⁾⁽²⁾	88	(17)	21
Cash Flow Hedges:			
Total cash flow hedges ⁽²⁾	—	—	—
Trading			
Interest rate swaps	30	(47)	44
Floor Income Contracts	34	(209)	(22)
Cross currency interest rate swaps	—	—	(2)
Other	—	—	2
Total trading derivatives ⁽³⁾	64	(256)	22
Mark-to-market gains (losses) recognized	\$ 152	\$ (273)	\$ 43

(1) Recorded in interest expense in the consolidated statements of income.

(2) The accrued interest income (expense) on fair value hedges and cash flow hedges is recorded in interest expense and is excluded from this table.

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Derivative Financial Instruments (Continued)

Impact of Derivatives on Other Comprehensive Income (Equity)

(Dollars in millions)	Years Ended December 31,		
	2021	2020	2019
Total gains (losses) on cash flow hedges	\$ 55	\$ (233)	\$ (165)
Reclassification adjustments for derivative (gains) losses included in net income (interest expense) ⁽¹⁾	86	50	(39)
Net changes in cash flow hedges, net of tax	<u>\$ 141</u>	<u>\$ (183)</u>	<u>\$ (204)</u>

(1) Includes net settlement income/expense.

Collateral

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

(Dollars in millions)	December 31, 2021	December 31, 2020
Collateral held:		
Cash (obligation to return cash collateral is recorded in short-term borrowings)	\$ 244	\$ 336
Securities at fair value — corporate derivatives (not recorded in financial statements) ⁽¹⁾	—	—
Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements) ⁽²⁾	1	78
Total collateral held	<u>\$ 245</u>	<u>\$ 414</u>
Derivative asset at fair value including accrued interest	\$ 242	\$ 351
Collateral pledged to others:		
Cash (right to receive return of cash collateral is recorded in investments)	\$ 147	\$ 234
Total collateral pledged	<u>\$ 147</u>	<u>\$ 234</u>
Derivative liability at fair value including accrued interest and premium receivable	\$ 271	\$ 504

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

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

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of \$72 million with our counterparties. Downgrades in our unsecured credit rating would not result in any additional collateral requirements. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Other Assets

The following table provides the detail of our other assets.

(Dollars in millions)	December 31, 2021	December 31, 2020
Accrued interest receivable	\$ 1,881	\$ 1,933
Benefit and insurance-related investments	462	469
Income tax asset, net	369	454
Derivatives at fair value	218	307
Accounts receivable	159	118
Fixed assets	95	116
Other	39	95
Total	<u>\$ 3,223</u>	<u>\$ 3,492</u>

9. Stockholders' Equity

Common Stock

Our shareholders have authorized the issuance of 1.125 billion shares of common stock. The par value of Navient common stock is \$0.01 per share. At December 31, 2021, 154 million shares were issued and outstanding and 21 million shares were unissued but encumbered for outstanding stock options, restricted stock units, performance stock units and dividend equivalent units for employee compensation and remaining authority for stock-based compensation plans.

9. Stockholders' Equity (Continued)

Dividend and Share Repurchase Program

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

(Dollars and shares in millions, except per share amounts)	Years Ended December 31,		
	2021	2020	2019
Common stock repurchased ⁽¹⁾	34.4	30.6	34.5
Common stock repurchased (in dollars) ⁽¹⁾	\$ 600	\$ 400	\$ 440
Average purchase price per share ⁽¹⁾	\$ 17.46	\$ 13.06	\$ 12.76
Remaining common stock repurchase authority ⁽¹⁾	\$ 1,000	\$ 600	\$ 1,000
Shares repurchased related to employee stock-based compensation plans ⁽²⁾	3.0	1.2	3.2
Average purchase price per share ⁽²⁾	\$ 13.65	\$ 12.86	\$ 11.62
Common shares issued ⁽³⁾	4.9	2.7	5.7
Dividends paid	\$ 107	\$ 123	\$ 147
Dividends per share	\$.64	\$.64	\$.64

(1) Common shares purchased under our share repurchase program. Our board of directors authorized a \$1 billion share repurchase program in October 2019 which was fully utilized in 2021, and in December 2021 an additional \$1 billion multi-year program was approved.

(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 December 31, 2021 was \$21.22.

Rights Offering

On December 20, 2021, the Board of Directors declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company, par value \$0.01 per share, and adopted a shareholder rights plan dated as of December 20, 2021 (the Rights Agreement). The dividend was paid on December 30, 2021. Each Right allows its holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock (a Preferred Share) for \$100 (the Exercise Price), once the Rights become exercisable. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20% or more of Navient common stock (including certain derivative positions), subject to certain exceptions. The Rights will expire on December 19, 2022.

In connection with the adoption of the Rights Agreement, the Board of Directors approved the Certificate of Designations establishing the Preferred Shares and the rights, preferences and privileges thereof. The Company has authorized 2,000,000 of the Preferred Shares, par value \$0.20. Such number of shares may be increased or decreased by resolution of the Board of Directors subject to certain limitations set forth in the Certificate of Designations.

For additional information on the Rights Agreement and Certificate of Delegations, please refer to Exhibits 3.3 and 4.16 of this Form 10-K incorporated herein by reference.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Earnings (Loss) per Common Share

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

(In millions, except per share data)	Years Ended December 31,		
	2021	2020	2019
Numerator:			
Net income	\$ 717	\$ 412	\$ 597
Denominator:			
Weighted average shares used to compute basic EPS	170	193	230
Effect of dilutive securities:			
Dilutive effect of stock options, restricted stock, restricted stock units, performance stock units and Employee Stock Purchase Plan ("ESPP")(1)	2	2	3
Dilutive potential common shares(2)	2	2	3
Weighted average shares used to compute diluted EPS	172	195	233
Basic earnings per common share	\$ 4.23	\$ 2.14	\$ 2.59
Diluted earnings per common share	\$ 4.18	\$ 2.12	\$ 2.56

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

(2) For the years ended December 31, 2021, 2020 and 2019, stock options covering approximately 0 million, 2 million and 4 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

11. 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. The fair value of the items discussed below are separately disclosed in this footnote.

During 2021, there were no significant transfers of financial instruments between levels, or changes in our methodology used to value our financial instruments.

Education Loans

Our FFELP Loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. Fair values are determined by modeling loan cash flows using stated terms of the assets using mostly internally developed assumptions that are validated against market transactions when available.

FFELP Loans

The significant assumptions used to determine fair value of our FFELP Loans are prepayment speeds, default rates, cost of funds, discount rate, capital levels and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable in active markets. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

Private Education Loans

The significant assumptions used to determine fair value of our Private Education Loans are prepayment speeds, default rates, recovery rates, cost of funds, discount rate and capital levels. A number of significant inputs into the models are internally derived and not observable in active markets. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

Cash and Investments (Including "Restricted Cash")

Cash and cash equivalents are carried at cost. Carrying value approximates fair value. The fair value of investments in commercial paper, ABCP, or demand deposits that have a remaining term of less than 90 days when purchased are estimated to equal their cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. No additional adjustments were deemed necessary. These investments are level 2 valuations.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate (which for us is LIBOR) and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Foreign currency-denominated borrowings are re-measured at current spot rates in the financial statements. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Fair value adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets. As such, these are level 3 valuations.

11. Fair Value Measurements (Continued)

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair value of a majority of derivative financial instruments was determined by standard derivative pricing and option models using the stated terms of the contracts and observable market inputs and are therefore classified as level 2 fair values. In some cases, we utilized internally developed inputs that are not observable in the market, and as such, classified these instruments as level 3 fair values. Complex structured derivatives or derivatives that trade in less liquid markets require significant estimates and judgment in determining fair value that cannot be corroborated with market transactions.

When determining the fair value of derivatives, we take into account counterparty credit risk for positions where there is exposure to the counterparty on a net basis by assessing exposure net of collateral held. See "Note 7 – Derivative Financial Instruments" for further discussion on methodology. The net credit risk adjustment (adjustments for our exposure to counterparties net of adjustments for the counterparties' exposure to us) decreased the valuations at December 31, 2021 by \$8 million.

Inputs specific to each class of derivatives disclosed in the table below are as follows:

- Interest rate swaps — Fair value is determined using standard derivative cash flow models. Derivatives that swap fixed interest payments for LIBOR interest payments (or vice versa) and derivatives swapping quarterly reset LIBOR for daily reset LIBOR or one-month LIBOR were valued using the LIBOR swap yield curve which is an observable input from an active market. These derivatives are level 2 fair value estimates in the hierarchy. Other derivatives swapping LIBOR interest payments for another variable interest payment (primarily Prime) are valued using the LIBOR swap yield curve and observable market spreads for the specified index. The markets for these swaps are generally illiquid as indicated by a wide bid/ask spread. The adjustment made for liquidity decreased the valuations by \$2 million at December 31, 2021. These derivatives are level 3 fair value estimates.
- Cross-currency interest rate swaps — Fair value is determined using standard derivative cash flow models. Derivatives hedging foreign-denominated bonds are valued using the LIBOR swap yield curve (for both USD and the foreign-denominated currency), cross-currency basis spreads and forward foreign currency exchange rates. These inputs are observable inputs from active markets. Therefore, the resulting valuation is a level 2 fair value estimate. Amortizing notional derivatives (derivatives whose notional amounts change based on changes in the balance of, or pool of, assets or debt) hedging trust debt use internally derived assumptions for the trust assets' prepayment speeds and default rates to model the notional amortization. Management makes assumptions concerning the extension features of derivatives hedging rate-reset notes denominated in a foreign currency. These inputs are not market observable; therefore, these derivatives are level 3 fair value estimates.
- Floor Income Contracts — Derivatives are valued using an option pricing model. Inputs to the model include the LIBOR swap yield curve and LIBOR interest rate volatilities. The inputs are observable inputs in active markets and these derivatives are level 2 fair value estimates.

The carrying value of borrowings designated as the hedged item in a fair value hedge is adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates and volatilities.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fair Value Measurements (Continued)

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

(Dollars in millions)	Fair Value Measurements on a Recurring Basis							
	December 31, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivative instruments:(1)								
Interest rate swaps	—	223	1	224	—	323	6	329
Cross-currency interest rate swaps	—	—	—	—	—	—	28	28
Total derivative assets(2)	—	223	1	224	—	323	34	357
Total	\$ —	\$ 223	\$ 1	\$ 224	\$ —	\$ 323	\$ 34	\$ 357
Liabilities(3)								
Derivative instruments(1)								
Interest rate swaps	\$ —	\$ —	\$ (5)	\$ (5)	\$ —	\$ —	\$ (14)	\$ (14)
Floor Income Contracts	—	(65)	—	(65)	—	(197)	—	(197)
Cross-currency interest rate swaps	—	—	(190)	(190)	—	—	(322)	(322)
Total derivative liabilities(2)	—	(65)	(195)	(260)	—	(197)	(336)	(533)
Total	\$ —	\$ (65)	\$ (195)	\$ (260)	\$ —	\$ (197)	\$ (336)	\$ (533)

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

(2) See "Note 7 — Derivative Financial Instruments" for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. 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.

Year Ended December 31, 2021				
Derivative Instruments				
(Dollars in millions)	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	\$ (8)	\$ (294)	\$ —	\$ (302)
Total gains/(losses):				
Included in earnings(1)	3	81	—	84
Included in other comprehensive income	—	—	—	—
Settlements	1	23	—	24
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (4)</u>	<u>\$ (190)</u>	<u>\$ —</u>	<u>\$ (194)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	<u>\$ 3</u>	<u>\$ (157)</u>	<u>\$ —</u>	<u>\$ (154)</u>

Year Ended December 31, 2020				
Derivative Instruments				
(Dollars in millions)	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	\$ (17)	\$ (575)	\$ (1)	\$ (593)
Total gains/(losses):				
Included in earnings(1)	8	231	—	239
Included in other comprehensive income	—	—	—	—
Settlements	1	50	1	52
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (8)</u>	<u>\$ (294)</u>	<u>\$ —</u>	<u>\$ (302)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	<u>\$ 5</u>	<u>\$ 273</u>	<u>\$ 1</u>	<u>\$ 279</u>

Year Ended December 31, 2019				
Derivative Instruments				
(Dollars in millions)	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	\$ (27)	\$ (633)	\$ (4)	\$ (664)
Total gains/(losses):				
Included in earnings(1)	8	(60)	2	(50)
Included in other comprehensive income	—	—	—	—
Settlements	2	118	1	121
Transfers in and/or out of level 3	—	—	—	—
Balance, end of period	<u>\$ (17)</u>	<u>\$ (575)</u>	<u>\$ (1)</u>	<u>\$ (593)</u>
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	<u>\$ 9</u>	<u>\$ 58</u>	<u>\$ 3</u>	<u>\$ 70</u>

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

(Dollars in millions)	Years Ended December 31,		
	2021	2020	2019
Gains (losses) on derivative and hedging activities, net	\$ 3	\$ 8	\$ 10
Interest expense	81	231	(60)
Total	<u>\$ 84</u>	<u>\$ 239</u>	<u>\$ (50)</u>

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Fair Value Measurements (Continued)

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

(Dollars in millions)	Fair Value at December 31, 2021	Valuation Technique	Input	Range and Weighted Average
Derivatives				
Prime/LIBOR basis swaps	\$ (4)	Discounted cash flow	Constant Prepayment Rate	9%
			Bid/ask adjustment to discount rate	.08%
Cross-currency interest rate swaps	(190)	Discounted cash flow	Constant Prepayment Rate	5%
Other	—			
Total	<u>\$ (194)</u>			

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

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

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

(Dollars in millions)	December 31, 2021			December 31, 2020		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
FFELP Loans	\$ 53,632	\$ 52,641	\$ 991	\$ 59,117	\$ 58,284	\$ 833
Private Education Loans	21,140	20,171	969	22,462	21,079	1,383
Cash and investments	3,845	3,845	—	3,822	3,822	—
Total earning assets	<u>78,617</u>	<u>76,657</u>	<u>1,960</u>	<u>85,401</u>	<u>83,185</u>	<u>2,216</u>
Interest-bearing liabilities						
Short-term borrowings	2,492	2,490	(2)	6,626	6,613	(13)
Long-term borrowings	74,548	74,488	(60)	76,719	77,332	613
Total interest-bearing liabilities	<u>77,040</u>	<u>76,978</u>	<u>(62)</u>	<u>83,345</u>	<u>83,945</u>	<u>600</u>
Derivative financial instruments						
Floor Income Contracts	(65)	(65)	—	(197)	(197)	—
Interest rate swaps	219	219	—	315	315	—
Cross-currency interest rate swaps	(190)	(190)	—	(294)	(294)	—
Other	—	—	—	—	—	—
Excess of net asset fair value over carrying value			<u>\$ 1,898</u>			<u>\$ 2,816</u>

12. Commitments, Contingencies and Guarantees

Legal Proceedings

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

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

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

Certain Cases

During the first quarter of 2016, Navient Corporation, certain Navient officers and directors, and the underwriters of certain Navient securities offerings were sued in three putative securities class action lawsuits filed on behalf of certain investors in Navient stock or Navient unsecured debt. These three cases, which were filed in the U.S. District Court for the District of Delaware, were consolidated by the District Court, with Lord Abbett Funds appointed as Lead Plaintiff. The caption of the consolidated case is *Lord Abbett Affiliated Fund, Inc., et al. v. Navient Corporation, et al.* Additionally, two putative class actions have been filed in the U.S. District Court for the District of New Jersey captioned *Eli Pope v. Navient Corporation, John F. Remondi, Somsak Chivavibul and Christian Lown*, and *Melvin Gross v. Navient Corporation, John F. Remondi, Somsak Chivavibul and Christian M. Lown*, both of which allege violations of the federal securities laws under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The cases were consolidated by the Court in February 2018 under the caption *In Re Navient Corporation Securities Litigation* and the plaintiffs filed a consolidated amended complaint in April 2018. In the third quarter of 2021, the Company reached tentative agreements to settle both cases for a total of \$42.5 million. As a result of these contingent losses being probable, such loss was accrued in the third quarter of 2021. However, the net impact to operating expense for the quarter was \$0 due to the accrual of the offsetting insurance reimbursements. The settlements, in which the Company and other defendants expressly deny any admission or concession of wrongdoing or fault, are subject to approval by the Court after notice and hearing. The Company can give no assurance whether or when the tentative settlements will receive the required approvals.

The Company has been named as defendant in a number of putative class action cases alleging violations of various state and federal consumer protection laws including the Telephone Consumer Protection Act (TCPA), the Consumer Financial Protection Act of 2010 (CFPA), the Fair Credit Reporting Act (FCRA), the Fair Debt Collection Practices Act (FDCPA), in adversarial proceedings under the U.S. Bankruptcy Code, and various state consumer protection laws. At this point in time, the Company is unable to anticipate the timing of a resolution or the impact that these legal proceedings may have on the Company's consolidated financial position, liquidity, results of operation or cash flows. As a result, it is not possible at this time to estimate a range of potential exposure, if any, for amounts that may be payable in connection with these matters and reserves have not been established. It is possible that an adverse ruling or rulings may have a material adverse impact on the Company.

12. Commitments, Contingencies and Guarantees (Continued)

In January 2017, the Consumer Financial Protection Bureau (the CFPB) and Attorneys General for the State of Illinois and the State of Washington initiated civil actions naming Navient Corporation and several of its subsidiaries as defendants alleging violations of certain Federal and State consumer protection statutes, including the CFPA, FCRA, FDCPA and various state consumer protection laws. In October 2017, the Attorney General for the Commonwealth of Pennsylvania initiated a civil action against Navient Corporation and Navient Solutions, LLC (Solutions), containing similar alleged violations of the CFPA and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The Attorneys General for the States of California, Mississippi and, in October 2020, New Jersey also initiated actions against the Company and certain subsidiaries alleging violations of various state and federal consumer protection laws based upon similar alleged acts or failures to act. We refer to the Illinois, Pennsylvania, Washington, California, Mississippi and New Jersey Attorneys General collectively as the "State Attorneys General." In addition to these matters, a number of lawsuits have been filed by nongovernmental parties or, in the future, may be filed by additional governmental or nongovernmental parties seeking damages or other remedies related to similar issues raised by the CFPB and the State Attorneys General. In January 2022, we entered into a series of Consent Judgment and Orders (the "Agreements") with 40 state attorneys general to resolve all matters in dispute related to the State Attorneys General cases as well as the related investigations, subpoenas, civil investigative demands and inquiries from various other state regulators. These Agreements do not resolve the litigation involving the Company and the CFPB. The Company will cancel the loan balance of approximately 66,000 borrowers with qualifying private education loans that were originated largely between 2002 and 2010 and later defaulted and charged off. The loans to be cancelled have aggregate outstanding balances of approximately \$1.7 billion. The expense to the Company to cancel these loans is approximately \$50 million which represents the amount of expected future recoveries of these charged-off loans on the balance sheet. In addition, the Company agreed to make a one-time payment of approximately \$145 million to the states. In the fourth quarter of 2021 when such loss became probable, the Company recognized total regulatory expenses of approximately \$205 million related to this matter. Prior to the fourth quarter, this contingent liability was neither probable nor reasonably estimable and, as a result, no contingent liability had been previously established. The complete text of the Agreement is included in this Form 10-K and incorporated by reference herein as Exhibit 10.24.

As the Company has previously stated, we believe the allegations in the CFPB suit are false and that they improperly seek to impose penalties on Navient based on new, previously unannounced servicing standards applied retroactively against only one servicer. We therefore have denied these allegations and are vigorously defending against the allegations in that case. At this point in time, it is reasonably possible that a loss contingency exists; however, the Company is unable to anticipate the timing of a resolution or the impact that an adverse ruling in the CFPB case 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 this matter and reserves have not been established. It is possible that an adverse ruling or rulings may have a material adverse impact on the Company.

Regulatory Matters

In addition, Navient and its subsidiaries are subject to examination or regulation by various federal regulatory, state licensing or other regulatory agencies as part of its ordinary course of business including the SEC, CFPB, FFIEC and ED. Items or matters similar to or different from those described above may arise during the course of those examinations. We also routinely receive inquiries or requests from various regulatory entities or bodies or government agencies concerning our business or our assets. Generally, the Company endeavors to cooperate with each such inquiry or request. The Company subsequently received separate CIDs or subpoenas from the Attorneys General for the District of Columbia, Kansas, Oregon, Colorado, New Jersey, New York and Indiana that are similar to the CIDs or subpoenas that preceded the lawsuits referenced above. We have and, in the future, may receive additional CIDs or subpoenas and other inquiries from these or other Attorneys General with respect to similar or different matters.

Under the terms of the Separation and Distribution Agreement between the Company and SLM BankCo, Navient agreed to indemnify SLM BankCo for claims, actions, damages, losses or expenses that may arise from the conduct of activities of pre-Spin-Off SLM BankCo occurring prior to the Spin-Off other than those specifically excluded in that agreement. Also, as part of the Separation and Distribution Agreement, SLM BankCo agreed to indemnify Navient for certain claims, actions, damages, losses or expenses subject to the terms, conditions and limitations set forth in that agreement. As a result, subject to the terms, conditions and limitations set forth in that agreement, Navient agreed to indemnify and hold harmless Sallie Mae and its subsidiaries, including Sallie Mae Bank from liabilities arising out of the regulatory matters and CFPB and State Attorneys General lawsuits mentioned above. In addition, we asserted various claims for indemnification against Sallie Mae and Sallie Mae Bank for such specifically excluded items arising out of the CFPB and the State Attorneys General lawsuits if and to the extent any indemnified liabilities exist now or in the future. We expect these various indemnification claims to be resolved at a future date as the cases move toward conclusion. Navient has no reserves related to indemnification matters with SLM BankCo as of December 31, 2021.

12. Commitments, Contingencies and Guarantees (Continued)

OIG Audit

The Office of the Inspector General (the OIG) of ED commenced an audit regarding Special Allowance Payments (SAP) on September 10, 2007. In September 2013, we received the final audit determination of Federal Student Aid (the Final Audit Determination) on the final audit report issued by the OIG in August 2009 related to this audit. The Final Audit Determination concurred with the final audit report issued by the OIG and instructed us to make adjustment to our government billing to reflect the policy determination. In August 2016, we filed our notice of appeal to the Administrative Actions and Appeals Service Group of ED, and a hearing was held in April 2017. In March 2019, the administrative law judge hearing the appeal affirmed the audit's findings, holding the then-existing Dear Colleague letter relied upon by the Company and other industry participants was inconsistent with the statutory framework creating the SAP rules applicable to loans funded by certain types of debt obligations at issue. We appealed the administrative law judge's decision to the Secretary of Education given Navient's adherence to ED-issued guidance and the potential impact on participants in any ED program student loan servicers if such guidance is deemed unreliable and may not be relied upon. In January 2021, the Acting Secretary of Education upheld the decision of the administrative law judge. In March 2021, we filed a complaint for declaratory judgment in federal court seeking to set aside the Acting Secretary's decision. We continue to believe that our SAP billing practices were proper, considering then-existing ED guidance and lack of applicable regulations. We filed a lawsuit in federal court challenging the Acting Secretary's decision. That case is pending. The Company first established a reserve for this matter in 2014 and increased the reserve in 2020 in response to the decision by the Acting Secretary. We do not believe, at this time, that an adverse ruling will have a material effect on the Company as a whole.

Contingencies

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

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

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

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

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Income Taxes

Reconciliations of the statutory U.S. federal income tax rates to our effective tax rate for continuing operations follow:

	Years Ended December 31,		
	2021	2020	2019
Statutory rate	21.0%	21.0%	21.0%
Non-deductible regulatory-related expenses ⁽¹⁾	1.4	—	—
State tax, net of federal benefit	1.2	1.6	1.4
Other, net	(.2)	—	(.5)
Effective tax rate	<u>23.4%</u>	<u>22.6%</u>	<u>21.9%</u>

⁽¹⁾ Regulatory expenses for 2021 include \$205 million related to the resolution of State Attorneys General litigation and investigations, of which approximately \$50.7 million is non-deductible for income tax purposes. See "Note 12 – Commitments, Contingencies and Guarantees" for further discussion.

Income tax expense consists of:

(Dollars in millions)	December 31,		
	2021	2020	2019
Current provision/(benefit):			
Federal	\$ 147	\$ 98	\$ 78
State	19	14	11
Foreign	—	(1)	—
Total current provision/(benefit)	<u>166</u>	<u>111</u>	<u>89</u>
Deferred provision/(benefit):			
Federal	56	12	73
State	(3)	(3)	3
Foreign	—	—	1
Total deferred provision/(benefit)	<u>53</u>	<u>9</u>	<u>77</u>
Provision for income tax expense/(benefit)	<u>\$ 219</u>	<u>\$ 120</u>	<u>\$ 166</u>

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Income Taxes (Continued)

The tax effect of temporary differences that give rise to deferred tax assets and liabilities include the following:

(Dollars in millions)	December 31,	
	2021	2020
Deferred tax assets:		
Loan reserves	\$ 381	\$ 414
Market value adjustments on education loans, investments and derivatives	—	64
Education loan premiums and discounts, net	40	41
Operating loss and credit carryovers	12	14
Accrued expenses not currently deductible	49	22
Stock-based compensation plans	5	6
Other	23	22
Total deferred tax assets	510	583
Deferred tax liabilities:		
Acquired intangible assets	18	16
Market value adjustments on education loans, investments and derivatives	30	—
Original issue discount on borrowings	12	11
Other	8	16
Total deferred tax liabilities	68	43
Net deferred tax assets	\$ 442	\$ 540

Included in operating loss and credit carryovers is a valuation allowance of \$69 million and \$64 million as of December 31, 2021 and 2020, respectively, against a portion of the Company's federal and state deferred tax assets. The valuation allowance is primarily attributable to deferred tax assets for federal and state net operating loss carryovers and state IRC § 163(j) disallowed interest expense carryovers that management believes it is more likely than not will expire prior to being realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income of the appropriate character (i.e. capital or ordinary) during the period in which the temporary differences become deductible. Factors generally considered by management include (but are not limited to): any changes in economic conditions, the scheduled reversals of deferred tax liabilities, and the history of positive taxable income available for net operating loss carrybacks in evaluating the realizability of the deferred tax assets.

The operating loss and credit carryovers consist of:

(Dollars in millions)	December 31, 2021				
	Gross	Tax-Effectuated	Expiration	Corresponding Valuation Allowance ⁽¹⁾	Operating Loss and Credit Carryovers
Federal operating loss carryovers	\$ 47	\$ 10	Begins in 2032	\$ 1	\$ 9
State operating loss carryovers	511	35	Begins in 2021	32	3
State IRC § 163(j) disallowed interest expense carryovers	2,239	36	Indefinite	36	—
		<u>\$ 81</u>		<u>\$ 69</u>	<u>\$ 12</u>

(1) The valuation allowance attributable to deferred tax assets for federal and state net operating loss carryovers, and state IRC § 163(j) disallowed interest expense carryovers, are amounts that management believes more likely than not will expire prior to being realized.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Income Taxes (Continued)

Accounting for Uncertainty in Income Taxes

The following table summarizes changes in unrecognized tax benefits:

(Dollars in millions)	December 31,		
	2021	2020	2019
Unrecognized tax benefits at beginning of year	\$ 57.9	\$ 53.6	\$ 65.7
Increases resulting from tax positions taken during a prior period	6.4	7.6	4.0
Decreases resulting from tax positions taken during a prior period	(4.2)	—	(3.8)
Increases resulting from tax positions taken during the current period	6.4	3.5	1.9
Decreases related to settlements with taxing authorities	(.3)	(.2)	(11.1)
Increases related to settlements with taxing authorities	—	—	—
Reductions related to the lapse of statute of limitations	(7.4)	(6.6)	(3.1)
Unrecognized tax benefits at end of year (1)	\$ 58.8	\$ 57.9	\$ 53.6

(1) Included in the \$58.8 million of gross unrecognized tax benefits at December 31, 2021 are \$46.5 million of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate.

The Company or one of its subsidiaries files income tax returns at the U.S. federal level, in most U.S. states, and various foreign jurisdictions. All periods prior to 2018 are closed for federal examinations purposes. Various combinations of subsidiaries, tax years, and jurisdictions remain open for review, subject to statute of limitations periods (typically 3 to 4 prior years). We do not expect the resolution of open audits to have a material impact on our unrecognized tax benefits.

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

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

Revenue by Service Type

(Dollars in millions)	Years Ended December 31,					
	2021			2020		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal Education Loan						
asset recovery services	\$ 19	\$ —	\$ 19	\$ 84	\$ —	\$ 84
Government services	—	257	257	—	191	191
Healthcare services	—	231	231	—	113	113
Total	\$ 19	\$ 488	\$ 507	\$ 84	\$ 304	\$ 388

Revenue by Client Type

(Dollars in millions)	Years Ended December 31,					
	2021			2020		
	Federal Education Loans	Business Processing	Total Revenue	Federal Education Loans	Business Processing	Total Revenue
Federal government	\$ 1	\$ 20	\$ 21	\$ 44	\$ 18	\$ 62
Guarantor agencies	18	—	18	38	—	38
Other institutions	—	—	—	2	—	2
State and local government	—	183	183	—	122	122
Tolling authorities	—	54	54	—	51	51
Hospitals and other healthcare providers	—	231	231	—	113	113
Total	\$ 19	\$ 488	\$ 507	\$ 84	\$ 304	\$ 388

As of December 31, 2021 and 2020, there was \$82 million and \$90 million, respectively, of net accounts receivable related to these contracts. Navient had no material contract assets or contract liabilities.

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting

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

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

Federal Education Loans Segment

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

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

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

(Dollars in millions)	December 31,	
	2021	2020
FFELP Loans, net	\$ 52,641	\$ 58,284
Cash and investments ⁽¹⁾	2,071	1,685
Other	2,183	2,241
Total assets	<u>\$ 56,895</u>	<u>\$ 62,210</u>

(1) Includes restricted cash and investments.

Consumer Lending Segment

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

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

Dollars in millions)	December 31,	
	2021	2020
Private Education Loans, net	\$ 20,171	\$ 21,079
Cash and investments ⁽¹⁾	824	828
Other	815	964
Total assets	<u>\$ 21,810</u>	<u>\$ 22,871</u>

(1) Includes restricted cash and investments.

15. Segment Reporting (Continued)

Business Processing Segment

In this segment, Navient performs business processing services for over 600 government and healthcare clients.

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

At December 31, 2021 and 2020, the Business Processing segment had total assets of \$397 million and \$425 million, respectively.

Other Segment

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

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

At December 31, 2021 and 2020, the Other segment had total assets of \$1.5 billion and \$1.9 billion, respectively.

15. Segment Reporting (Continued)

Measure of Profitability

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

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

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

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

(Dollars in millions)	Year Ended December 31, 2021								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			Total GAAP
						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	
Interest income:									
Education loans	\$ 1,405	\$ 1,181	\$ —	\$ —	\$ 2,586	\$ 98	\$ (39)	\$ 59	\$ 2,645
Cash and investments	—	2	—	1	3	—	—	—	3
Total interest income	1,405	1,183	—	1	2,589	98	(39)	59	2,648
Total interest expense	830	541	—	70	1,441	(8)	(117)	(125)	1,316
Net interest income (loss)	575	642	—	(69)	1,148	106	78	184	1,332
Less: provisions for loan losses	—	(61)	—	—	(61)	—	—	—	(61)
Net interest income (loss) after provisions for loan losses	575	703	—	(69)	1,209	106	78	184	1,393
Other income (loss):									
Servicing revenue	162	6	—	—	168	—	—	—	168
Asset recovery and business processing revenue	51	—	488	—	539	—	—	—	539
Other income (loss)	25	—	—	5	30	(93)	157	64	94
Gains on sales of loans	—	91	—	—	91	(13)	—	(13)	78
Losses on debt repurchases	—	—	—	(73)	(73)	—	—	—	(73)
Total other income (loss)	238	97	488	(68)	755	(106)	157	51	806
Expenses:									
Direct operating expenses	223	162	360	—	745	—	—	—	745
Unallocated shared services expenses	—	—	—	462	462	—	—	—	462
Operating expenses	223	162	360	462	1,207	—	—	—	1,207
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	30	30	30
Restructuring/other reorganization expenses	—	—	—	26	26	—	—	—	26
Total expenses	223	162	360	488	1,233	—	30	30	1,263
Income (loss) before income tax expense (benefit)	590	638	128	(625)	731	—	205	205	936
Income tax expense (benefit) ⁽²⁾	136	146	29	(131)	180	—	39	39	219
Net income (loss)	\$ 454	\$ 492	\$ 99	\$ (494)	\$ 551	\$ —	\$ 166	\$ 166	\$ 717

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2021		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	\$ 184	\$ —	\$ 184
Total other income (loss)	51	—	51
Goodwill and acquired intangible asset impairment and amortization	—	30	30
Total Core Earnings adjustments to GAAP	\$ 235	\$ (30)	205
Income tax expense (benefit)			39
Net income (loss)			\$ 166

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

	Year Ended December 31, 2020									
						Adjustments				
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	Total GAAP	
(Dollars in millions)										
Interest income:										
Education loans	\$ 1,813	\$ 1,445	\$ —	\$ —	\$ 3,258	\$ 79	\$ (55)	\$ 24	\$ 3,282	
Cash and investments	7	3	—	6	16	—	—	—	16	
Total interest income	1,820	1,448	—	6	3,274	79	(55)	24	3,298	
Total interest expense	1,194	699	—	120	2,013	39	(6)	33	2,046	
Net interest income (loss)	626	749	—	(114)	1,261	40	(49)	(9)	1,252	
Less: provisions for loan losses	13	142	—	—	155	—	—	—	155	
Net interest income (loss) after provisions for loan losses	613	607	—	(114)	1,106	40	(49)	(9)	1,097	
Other income (loss):										
Servicing revenue	208	6	—	—	214	—	—	—	214	
Asset recovery and business processing revenue	154	—	304	—	458	—	—	—	458	
Other income (loss)	9	—	—	11	20	(40)	(216)	(256)	(236)	
Losses on debt repurchases	—	—	—	(6)	(6)	—	—	—	(6)	
Total other income (loss)	371	6	304	5	686	(40)	(216)	(256)	430	
Expenses:										
Direct operating expenses	287	146	254	—	687	—	—	—	687	
Unallocated shared services expenses	—	—	—	277	277	—	—	—	277	
Operating expenses	287	146	254	277	964	—	—	—	964	
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	22	22	22	
Restructuring/other reorganization expenses	—	—	—	9	9	—	—	—	9	
Total expenses	287	146	254	286	973	—	22	22	995	
Income (loss) before income tax expense (benefit)	697	467	50	(395)	819	—	(287)	(287)	532	
Income tax expense (benefit) ⁽²⁾	160	107	11	(90)	188	—	(68)	(68)	120	
Net income (loss)	\$ 537	\$ 360	\$ 39	\$ (305)	\$ 631	\$ —	\$ (219)	\$ (219)	\$ 412	

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2020		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ (9)	\$ —	\$ (9)
Total other income (loss)	(256)	—	(256)
Goodwill and acquired intangible asset impairment and amortization	—	22	22
Total Core Earnings adjustments to GAAP	<u>\$ (265)</u>	<u>\$ (22)</u>	<u>(287)</u>
Income tax expense (benefit)			(68)
Net income (loss)			<u>\$ (219)</u>

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

	Year Ended December 31, 2019								
	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments			Total GAAP
(Dollars in millions)						Reclassi- fications	Additions/ (Subtractions)	Total Adjustments ⁽¹⁾	
Interest income:									
Education loans	\$ 2,907	\$ 1,731	\$ —	\$ —	\$ 4,638	\$ 8	\$ (68)	\$ (60)	\$ 4,578
Other loans	1	1	—	—	2	—	—	—	2
Cash and investments	50	16	—	27	93	—	—	—	93
Total interest income	2,958	1,748	—	27	4,733	8	(68)	(60)	4,673
Total interest expense	2,376	980	—	161	3,517	6	(35)	(29)	3,488
Net interest income (loss)	582	768	—	(134)	1,216	2	(33)	(31)	1,185
Less: provisions for loan losses	30	228	—	—	258	—	—	—	258
Net interest income (loss) after provisions for loan losses	552	540	—	(134)	958	2	(33)	(31)	927
Other income (loss):									
Servicing revenue	229	11	—	—	240	—	—	—	240
Asset recovery and business processing revenue	230	—	258	—	488	—	—	—	488
Other income (loss)	28	1	—	14	43	(41)	65	24	67
Gains on sales of loans	—	16	—	—	16	—	—	—	16
Gains on debt repurchases	—	—	—	33	33	39	(27)	12	45
Total other income (loss)	487	28	258	47	820	(2)	38	36	856
Expenses:									
Direct operating expenses	359	156	215	—	730	—	—	—	730
Unallocated shared services expenses	—	—	—	254	254	—	—	—	254
Operating expenses	359	156	215	254	984	—	—	—	984
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	30	30	30
Restructuring/other reorganization expenses	—	—	—	6	6	—	—	—	6
Total expenses	359	156	215	260	990	—	30	30	1,020
Income (loss) before income tax expense (benefit)	680	412	43	(347)	788	—	(25)	(25)	763
Income tax expense (benefit) ⁽²⁾	155	96	10	(80)	181	—	(15)	(15)	166
Net income (loss)	\$ 525	\$ 316	\$ 33	\$ (267)	\$ 607	\$ —	\$ (10)	\$ (10)	\$ 597

(1) Core Earnings adjustments to GAAP:

(Dollars in millions)	Year Ended December 31, 2019		
	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ (31)	\$ —	\$ (31)
Total other income (loss)	36	—	36
Goodwill and acquired intangible asset impairment and amortization	—	30	30
Total Core Earnings adjustments to GAAP	\$ 5	\$ (30)	(25)
Income tax expense (benefit)			(15)
Net income (loss)			\$ (10)

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

NAVIENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

(Dollars in millions)	Years Ended December 31,		
	2021	2020	2019
Core Earnings net income	\$ 551	\$ 631	\$ 607
Core Earnings adjustments to GAAP:			
Net impact of derivative accounting ⁽¹⁾	235	(265)	5
Net impact of goodwill and acquired intangible assets ⁽²⁾	(30)	(22)	(30)
Net income tax effect ⁽³⁾	(39)	68	15
Total Core Earnings adjustments to GAAP	166	(219)	(10)
GAAP net income	\$ 717	\$ 412	\$ 597

- (1) **Derivative accounting:** Core Earnings exclude periodic gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic mark-to-market gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. Under GAAP, for our derivatives that are held to maturity, the mark-to-market gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts where the mark-to-market gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.
- (2) **Goodwill and acquired intangible assets:** Our Core Earnings exclude goodwill and intangible asset impairment and amortization of acquired intangible assets.
- (3) **Net tax effect:** Such tax effect is based upon our Core Earnings effective tax rate for the year.



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
05/04/2022

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER MARSH USA INC. 1050 CONNECTICUT AVENUE, SUITE 700 WASHINGTON, DC 20036-5386 Attn: CSS, TELEPHONE 202-263-7600	CONTACT NAME: PHONE (A/C, No. Ext): FAX (A/C, No): E-MAIL ADDRESS:
CN115014019-NAVI-FINPR-22-23	INSURER(S) AFFORDING COVERAGE INSURER A : American Zurich Insurance Company INSURER B : American Guarantee and Liability Insurance Company INSURER C : Zurich American Insurance Company INSURER D : INSURER E : INSURER F :
INSURED GILA LLC DBA MUNICIPAL SERVICES BUREAU 325 DANIEL ZENKER DRIVE, SUITE 3 HORSEHEADS, NY 14845	NAIC # 40142 26247 16535

COVERAGES

CERTIFICATE NUMBER:

CLE-006879929-01

REVISION NUMBER: 6

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC OTHER:			GLA 8604610 - 00	04/30/2022	04/30/2023	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000
B	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS ONLY <input type="checkbox"/> NON-OWNED AUTOS ONLY			GLA 8604610 - 00	04/30/2022	04/30/2023	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
B	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> EXCESS LIAB <input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$			AUC Q20547401 - 00	04/30/2022	04/30/2023	EACH OCCURRENCE \$ 5,000,000 AGGREGATE \$ 5,000,000
B	<input checked="" type="checkbox"/> WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	<input checked="" type="checkbox"/> Y / <input checked="" type="checkbox"/> N	N / A	WC 8604611 - 00	04/30/2022	04/30/2023	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000
C	PROPERTY			ERP0248012-04 'DED. \$100,000'	04/30/2022	04/30/2023	ALL RISK / REPL COST 320,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

The Jefferson Parish, its Districts Departments and Agencies under the direction of the Parish President and the Parish Council are additional insureds regarding Commercial General Liability, Workmen's Compensation Insurance and the Comprehensive Automobile Liability policies where required by written contract.

CERTIFICATE HOLDER

Jefferson Parish Government
Department of Purchasing
State of Louisiana RFP 0438
PO Box 9
Gretna, LA 70054

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Marsh USA Inc.

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ADDITIONAL REMARKS SCHEDULE

Page 2 of 2

AGENCY MARSH USA INC.		NAMED INSURED GILA LLC DBA MUNICIPAL SERVICES BUREAU 325 DANIEL ZENKER DRIVE, SUITE 3 HORSEHEADS, NY 14845
POLICY NUMBER		
CARRIER	NAIC CODE	EFFECTIVE DATE:

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,
FORM NUMBER: 25 **FORM TITLE:** Certificate of Liability Insurance

WITH REGARD TO PROPERTY COVERAGE, OTHER DEDUCTIBLES MAY APPLY AS PER POLICY TERMS AND CONDITIONS.

PROPERTY:

DEDUCTIBLES:

\$100,000 PER OCCURENCE ALL OTHER LOSSES

\$100,000 EARTH MOVEMENT PER OCCURRENCE

\$100,000 FLOOD PER OCCURRENCE

SUBLIMITS:

\$200,000,000 EARTH MOVEMENT (ANNUAL AGGREGATE, FOR ALL COVERAGES PROVIDED)

\$150,000,000 FLOOD (ANNUAL AGGREGATE, FOR ALL COVERAGES PROVIDED)

FIDUCIARY LIABILITY:

POLICY #: 47-EPF-301335-07

CARRIER: BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

LIMIT: \$10,000,000

SIR: \$2,500,000

EFF. DATE / EXPIR. DATE: 06/01/2021 - 06/01/2022

THE RETENTION IS \$2,500,000 FOR SECURITIES CLAIMS AND \$100,000 FOR ALL OTHER LOSS TO WHICH A RETENTION APPLIES.

FINANCIAL INSTIT. BOND, FIDELITY BOND, CRIME

POLICY #: ELU175465-21

CARRIER: INDIAN HARBOR INSURANCE COMPANY

LIMIT: \$10,000,000

DED: \$1,000,000

EFF. DATE / EXPIR. DATE: 06/01/2021 - 06/01/2022

E/O:

POLICY #: 1-10000-00-2021

CARRIER: RIVERFRONT INSURANCE, LLC

LIMIT: \$50,000,000

SIR: \$25,000,000

EFF. DATE / EXPIR. DATE: 06/01/2021 - 06/01/2022

DIRECTORS & OFFICERS:

POLICY #: 1-10000-00-2021

CARRIER: RIVERFRONT INSURANCE, LLC

LIMIT: \$50,000,000

SIR: \$7,500,000

EFF. DATE / EXPIR. DATE: 06/01/2021 - 06/01/2022

THE D&O/E&O PLACEMENT WAS MADE BY NAVIENT CORPORATION. MARSH USA INC. HAS ONLY ACTED IN THE ROLE OF A CONSULTANT TO THE CLIENT WITH RESPECT TO THIS PLACEMENT, WHICH IS INDICATED HERE FOR YOUR CONVENIENCE.

Request for Proposals #0438

Merchant Card Payment Processing Services

SIGNATURE PAGE

The Jefferson Parish Department of Purchasing is soliciting Request for Proposals (RFP'S) from qualified proposers who are interested in providing Merchant Card Payment Processing Services for the Jefferson Parish Finance Department.

Request for Proposals will be received until 3:30 p.m. Local Time on: May, 13, 2022.

Acknowledge Receipt of Addenda: Number: Addendum No. 1
Number: Addendum No. 2
Number: _____
Number: _____
Number: _____
Number: _____

Name of Proposer: Gila LLC d/b/a Municipal Services Bureau

Address: 325 Daniel Zenker Drive, Suite 3, Horseheads, NY 14845

Phone Number: 512-619--5262 Fax Number 866-232-6409

Type Name of Person Authorized to Sign: Elye Sackmary

Title of Person Authorized to Sign: President and Chief Executive Officer

Signature of Person Authorized to Sign: 

Email Address of Person Authorized to Sign: elye.sackmary@gilacorp.com

Date: May 13, 2022

This RFP signature page must be signed by an authorized Representative of the Company/Firm for proposal to be valid. Signing indicates you have read and comply with the Instructions and Conditions.

Request for Proposal

AFFIDAVIT

STATE OF Texas

PARISH/COUNTY OF Travis

BEFORE ME, the undersigned authority, personally came and appeared: Elye Sackmary
_____, (Affiant) who after being by me duly sworn, deposed and said that he/she
is the fully authorized President and Chief Executive Officer of Gila LLC d/b/a
Municipal Services Bureau (Entity), the party
who submitted a proposal in response to RFP Number 0438, to the Parish of Jefferson.

Affiant further said:

Campaign Contribution Disclosures

(Choose A or B, if option A is indicated please include the required attachment):

Choice A _____ Attached hereto is a list of all campaign contributions, including the date and amount of each contribution, made to current or former elected officials of the Parish of Jefferson by Entity, Affiant, and/or officers, directors and owners, including employees, owning 25% or more of the Entity during the two-year period immediately preceding the date of this affidavit or the current term of the elected official, whichever is greater. Further, Entity, Affiant, and/or Entity Owners have not made any contributions to or in support of current or former members of the Jefferson Parish Council or the Jefferson Parish President through or in the name of another person or legal entity, either directly or indirectly.

Choice B X there are **NO** campaign contributions made which would require disclosure under Choice A of this section.

Affiant further said:

Debt Disclosures

(Choose A or B, if option A is indicated please include the required attachment):

Choice A _____ Attached hereto is a list of all debts owed by the affiant to any elected or appointed official of the Parish of Jefferson, and any and all debts owed by any elected or appointed official of the Parish to the Affiant.

Choice B X There are **NO** debts which would require disclosure under Choice A of this section.

Affiant further said:

Solicitation of Campaign Contribution Disclosures

(Choose A or B, if option A is indicated please include the required attachment):

Choice A _____ Attached hereto is a list of all elected officials of the Parish of Jefferson, whether still holding office at the time of the affidavit or not, where the elected official, individually, either by **telephone or by personal contact**, solicited a campaign contribution or other monetary consideration from the Entity, including the Entity's officers, directors and owners, and employees owning twenty-five percent (25%) or more of the Entity, during the two-year period immediately preceding the date the affidavit is signed. Further, to the extent known to the Affiant, the date of any such solicitation is included on the attached list.

Choice B X there are **NO** solicitations for campaign contributions which would require disclosure under Choice A of this section.

Affiant further said:

That Affiant has employed no person, corporation, firm, association, or other organization, either directly or indirectly, to secure the public contract under which he received payment, other than persons regularly employed by the Affiant whose services in connection with the construction, alteration or demolition of the public building or project or in securing the public contract were in the regular course of their duties for Affiant; and

That no part of the contract price received by Affiant was paid or will be paid to any person, corporation, firm, association, or other organization for soliciting the contract, other than the payment of their normal compensation to persons regularly employed by the Affiant whose services in connection with the construction, alteration or demolition of the public building or project were in the regular course of their duties for Affiant.


Affiant further said:

Subcontractor Disclosures

(Choose A or B, if option A is indicated please include the required attachment):

Choice A _____ Affiant further said that attached is a listing of all subcontractors, excluding full time employees, who may assist in providing professional services for the aforementioned RFP.

Choice B X There are NO subcontractors which would require disclosure under Choice A of this section.



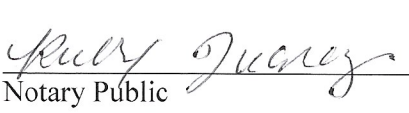
Signature of Affiant

Elye Sackmary

Printed Name of Affiant

SWORN AND SUBSCRIBED TO BEFORE ME

ON THE 4 DAY OF May, 2022.



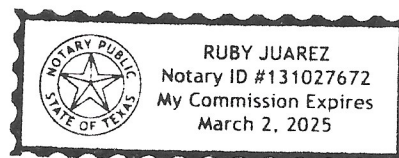
Notary Public

Ruby Juarez

Printed Name of Notary

131027672

Notary/Bar Roll Number



My commission expires March 2, 2025.

GILA, LLC

CONSENT OF MANAGING MEMBER

The undersigned, being the sole member of Gila, LLC (the "Company"), for the purpose of taking action without a meeting of the members, hereby waives any notice requirements, and adopts the following resolution:

RESOLVED, that the officers of the Company, which are identified below, be and each of them hereby is, authorized, directed and empowered to execute contracts on behalf of the Company.

Current Officers:

Elye Sackmary – President & Chief Executive Officer
Timothy Wendler – Vice President
C. Scott Booher, Treasurer
Mark Heleen, Secretary
Eric Kiss, Assistant Treasurer

IN WITNESS WHEREOF, the undersigned has executed this Consent of Sole Member on this 9th day of April 2021.

SOLE MEMBER:

ASSET PERFORMANCE GROUP, LLC



John Kane, President