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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

or

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

For the transition period from to

Commission file numbers 001-36228

Navient Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**46-4054283**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
123 Justison Street, Wilmington, Delaware 19801	**(302) 283-8000**
(Address of Principal Executive Offices)	*(Telephone Number)*

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

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

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 28, 2019 was $3.1 billion (based on closing sale price of $13.65 per share as reported for the NASDAQ Global Select Market).

As of January 31, 2020, there were 193,333,131 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement (the “2020 Proxy Statement”) relating to the Registrant’s 2020 Annual Meeting of Stockholders, currently scheduled to be held on May 21, 2020, are incorporated by reference into Part III of this Annual Report on Form 10-K.

NAVIENT CORPORATION

TABLE OF CONTENTS

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This Annual Report on Form 10-K contains “forward-looking” statements and other information that is based on management’s current expectations as of the date of this report. Statements that are not historical facts, including statements about our beliefs, opinions, or expectations and statements that assume or are dependent upon future events, are forward-looking statements and often contain words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “see,” “will,” “would,” “may,” “could,” “should,” “goals,” or “target.” Such statements are based on management's expectations as of the date of this filing and involve many risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include those described throughout this report and particularly in “Risk Factors”. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Form 10-K and in other documents we file from time to time with the SEC that disclose risks and uncertainties that may affect our business.

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

Definitions for certain capitalized terms used but not otherwise defined in this Annual Report on Form 10-K can be found in the “Glossary” at the end of this report.

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

AVAILABLE INFORMATION

Our website address is *www.navient.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities and Exchange Commission (the "SEC"). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements and other information with the SEC. Copies of these reports, as well as any amendments to these reports, are available free of charge through our website at *www.navient.com/about/investors/stockholderinfo/secfilings*, as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The public may also read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at *www.sec.gov*.

In addition, copies of our Board Governance Guidelines, Code of Business Conduct (which includes the code of ethics applicable to our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer) and the governing charters for each committee of our Board of Directors are available free of charge on our website at *www.navient.com/about/investors/corp_governance*, as well as in print to any stockholder upon request. We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Principal Executive Officer or Principal Financial Officer) by posting such information on our website.

Information contained or referenced on the foregoing websites is not incorporated by reference into and does not form a part of this Annual Report on Form 10-K. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

PART I.

Item 1. Business

Overview

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.

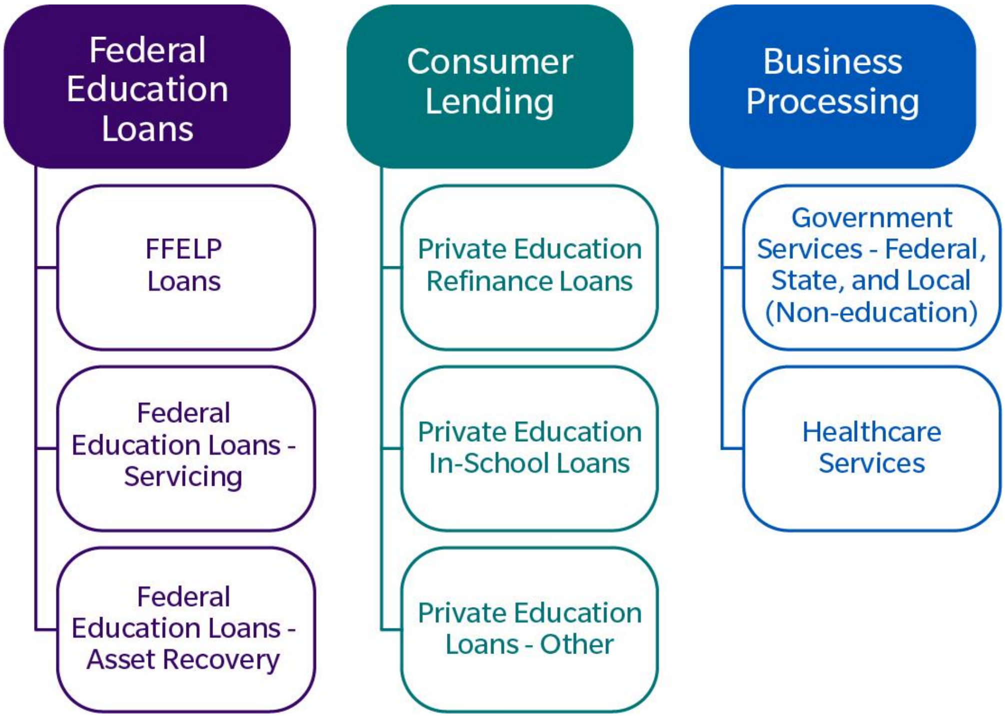
With a focus on data-driven insights, service, compliance and innovative support, Navient:

- 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.

As of December 31, 2019, Navient's principal assets consisted of:

- $64.6 billion in FFELP Loans, with a 0.83% Core Earnings segment net interest margin and a weighted average life of 7 years;
- $22.2 billion in Private Education Loans, with a 3.30% Core Earnings segment net interest margin and a weighted average life of 5 years;
- a loan origination business that assists borrowers in refinancing their education loan debt and assists students and families in financing their higher education, which produced $4.9 billion of Private Education Loan originations in 2019;
- an education loan servicing business that services over $300 billion in ED, FFELP and Private Education Loans; and
- a business solutions suite through which we provide services for over 500 clients in the non-education related government and healthcare sectors.

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



Strengths and Opportunities

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

High Quality Asset Base Generating Significant and Predictable Cash Flows

At December 31, 2019, Navient's $86.8 billion education loan portfolio was 82% funded to term and is expected to produce predictable cash flows over the remaining life of the portfolio. Our $64.6 billion FFELP Loan portfolio bears a maximum 3% loss exposure under the terms of the federal guaranty. Our $22.2 billion Private Education Loan portfolio is 47% cosigned (65% excluding Private Education Refinance Loans).

Navient expects to generate approximately $19 billion of cash flows from its FFELP Loan and Private Education Loan portfolios (net of secured financing obligations) over the next 20 years.

Strong Capital Return

As a result of our significant cash flow and capital generation, Navient expects to return excess capital to stockholders through dividends and share repurchases. We repurchased 34 million shares of common stock (13% reduction in shares outstanding) for $440 million and 17 million shares (6% reduction in shares outstanding) for $220 million in 2019 and 2018, respectively. At December 31, 2019, there was $1.0 billion remaining in share repurchase authorization. Since April 2014, Navient has repurchased $3.2 billion in common shares, which has reduced common shares outstanding by over 50%.

Navient has paid a quarterly dividend of $0.16 per share of common stock since 2015. In 2019 and 2018, Navient paid $147 million and $166 million, respectively, in dividends.

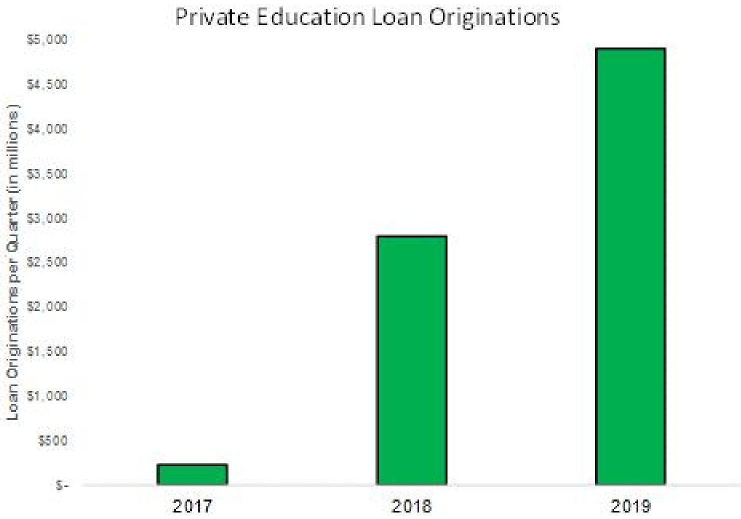
(Dollars in millions)	1Q-19	2Q-19	3Q-19	4Q-19	YTD-19
Capital Returned(1)	$ 146	$ 163	$ 166	$ 111	$ 587
Tangible Net Asset Ratio(2)	1.25x	1.27x	1.27x	1.30x	

(1) "Capital Returned" is defined as share repurchases and dividends paid.

(2) "Tangible Net Asset Ratio" is a non-GAAP financial measure. For an explanation and reconciliation of our non-GAAP financial measures, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures."

Consumer Lending Business Growth

In the Consumer Lending segment, we see meaningful value opportunities in originating Private Education Loans to financially responsible consumers. We are pursuing opportunities in the Private Education Loan market to generate attractive long-term risk adjusted returns. This includes a loan origination business that assists borrowers in refinancing their education loan debt and assists students and families in financing their higher education. We originated $4.9 billion of Private Education Loans in 2019, a 75% increase from $2.8 billion in 2018.



(Dollars in millions)	2017	2018	2019
Loan originations	$ 233	$ 2,800	$ 4,903

Business Processing Opportunities

Navient has leveraged our large-scale operating platforms, superior data-driven strategies, operating efficiency, and regulatory compliance and risk management infrastructure to extend our receivables management and business processing services into new markets. Navient provides business processing services to over 500 clients, generating EBITDA[(1)] of $49 million in 2019, up 11% from the prior year. Navient's inventory of non-education related contingent asset recovery receivables was $14.9 billion as of December 31, 2019.

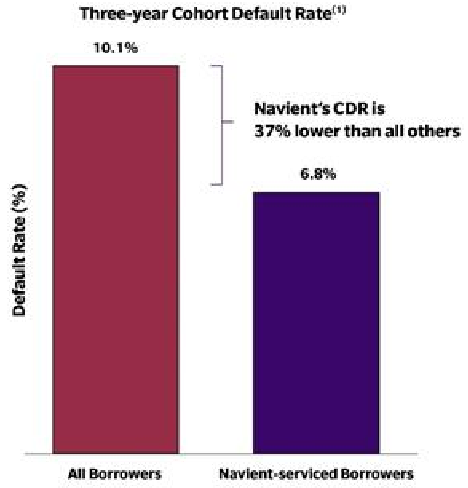
Efficient and Large-Scale Operating Platforms

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

(1) Item is a non-GAAP financial measure. For an explanation and reconciliation of our non-GAAP financial measures, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures."

Superior Performance

Navient has demonstrated superior default prevention performance. Federal loans serviced by Navient achieved a Cohort Default Rate ("CDR") 37% better than our peers, as calculated from the most recent CDR released by ED in September 2019. We are consistently a top performer in our asset recovery business and deliver superior service to our public and private sector clients. We continually leverage data-driven insights and customer service to identify new ways to add value to our clients.



(1) Source: "Official Cohort Default Rates for Schools," Federal Student Aid, 9/25/19. The 2016 Cohort Default Rate analyzes data from the group of borrowers who entered repayment between October 1, 2015, and September 30, 2018, and who defaulted in a three-year window by fall of 2018. To isolate the difference in defaults between Navient borrowers and others, the difference is calculated by removing Navient's market share from the overall national cohort default rate; the resulting CDR for non-Navient serviced borrowers is 10.9%.

Customer Service and Compliance Commitment

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

Navient's Approach to Helping Education Loan Borrowers Achieve Success

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

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

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

***Leading the industry*:** Navient is a leader in recommending policy reforms that would enhance the student loan program. For example, we have recommended improving financial literacy before borrowing, simplifying federal loan repayment options and encouraging college completion — reforms that we believe would make a meaningful difference for millions of Americans.

In 2009, we pioneered the creation of a loan modification program to help Private Education Loan borrowers needing additional assistance. As of December 31, 2019, $1.7 billion of our Private Education Loans were enrolled in this interest rate reduction program, helping customers through more affordable monthly payments while making progress in repaying their principal loan balance.

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

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

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

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

Business Segments

We have three primary reportable operating segments: Federal Education Loans; Consumer Lending; and Business Processing.

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.

Navient's portfolio of FFELP Loans as of December 31, 2019 was $64.6 billion. We expect this portfolio to have an amortization period in excess of 20 years, with a 7-year remaining weighted average life. Navient's goal is to maximize the amount and optimize the timing of the cash flows generated by its FFELP Loan portfolio. During the year ended 2019, Navient acquired $445 million of FFELP Loans compared to $761 million in 2018 and $5.7 billion in 2017.

FFELP Loans are insured or guaranteed by state or not-for-profit agencies and are protected by contractual rights to recovery from the United States pursuant to guaranty agreements among ED and these agencies. These guaranty agreements generally cover at least 97% of a FFELP Loan's principal and accrued interest for loans that default.

As a result of the long-term funding strategy used for our FFELP Loan portfolio and the guarantees provided on these loans, the portfolio generates consistent and predictable cash flows. As of December 31, 2019, approximately 90% of the FFELP Loans held by Navient were funded to term with non-recourse, long-term securitization debt.

ED is in the solicitation process for its new servicing platform and service providers. While the Company has submitted a proposal in response to one of the components of the solicitation, the Company cannot predict the timing and nature of the next steps for this RFP nor its impact on the current ED servicing contract. In December 2019, ED extended the current contract through December 2020, with two 6-month extension options.

Navient provides asset recovery services on defaulted education loans to ED. We are operating under a contract awarded to our subsidiary, Pioneer Credit Recovery, Inc. ("Pioneer") in 2017. This contract expired in 2019. Under the terms of that contract, ED has begun to recall any accounts placed with Pioneer under the contract which are not in a payment plan or other satisfactory arrangement. Also under the terms of that expired contract, we continue to work with borrowers on any accounts in a payment or other arrangement. The Company cannot predict the timing or nature of ED's next steps with respect to this contract.

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.

Our refinancing loan products leverage our more than 45 years of experience. We have seen that borrowers who graduate gain the benefit of their investment in education with higher levels of employment, higher incomes and stronger financial health. Our loan products are focused on helping consumers refinance their education loans at the lower rates they have earned. We believe our product offerings, digital marketing strategies and origination platform provide a unique competitive advantage. At December 31, 2019, Navient held $6.4 billion of Private Education Refinance Loans, having originated $4.9 billion in 2019.

In 2019, we launched an in-school loan product that leverages our current infrastructure and digital capabilities. We created a minimum viable product that could be enhanced and grown over time. In 2020, Navient will expand its product offerings to high quality borrowers throughout the United States.

Navient's total portfolio of Private Education Loans as of December 31, 2019 was $22.2 billion. We expect this portfolio to have an amortization period in excess of 20 years, with a 5-year remaining weighted average life. Navient's goal is to maximize the amount and optimize the timing of the cash flows generated by its Private Education Loan portfolio. We bear the full credit risk of the borrower and any cosigner on our Private Education Loans. Navient believes the credit risk of the Private Education Loans it owns is well managed through the rigorous underwriting practices and risk-based pricing applied when the loans were originated, the continued high levels of qualified cosigners, our internal servicing and risk mitigation practices, and our careful use of forbearance and loan modification programs. Navient believes that these elements and practices reduce the risk of payment interruptions and defaults on its Private Education Loan portfolio. As of December 31, 2019, approximately 59% of the Private Education Loans held by Navient were funded to term with non-recourse, long-term securitization debt.

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.

Other Segment

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

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

Employees

At December 31, 2019, we had approximately 5,800 employees. None of our employees are covered by collective bargaining agreements.

Supervision and Regulation

The Dodd-Frank Act

The Dodd-Frank Act was adopted to reform and strengthen regulation and supervision of the U.S. financial services industry. The Dodd-Frank Act contains comprehensive provisions that govern the practices and oversight of financial institutions (including large non-bank financial institutions) and other participants in the financial markets. It imposed additional regulations, requirements and oversight on almost every aspect of the U.S. financial services industry, including increased capital and liquidity requirements, limits on leverage and enhanced supervisory authority. Some of these provisions apply to Navient and its various businesses and securitization vehicles.

The Consumer Financial Protection Act established the Consumer Financial Protection Bureau ("CFPB"), which has authority to write regulations under federal consumer financial protection laws and to directly or indirectly enforce those laws and examine financial institutions for compliance. The CFPB is authorized to impose fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. It also has authority to prevent unfair, deceptive or abusive practices. Since its creation, the CFPB has been active in its supervision, examination and enforcement of financial services companies. In January 2017, the CFPB filed a lawsuit against Navient alleging several unfair, deceptive or abusive practices, and other violations of consumer protection statutes. Additional information on the CFPB lawsuit is included in Item 3. "Legal Proceedings" in this Form 10-K.

The Dodd-Frank Act also authorizes state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act's general prohibition against unfair, deceptive and abusive practices. The Attorneys General of the State of Illinois, the State of Washington, the Commonwealth of Pennsylvania, the State of California and the State of Mississippi have also filed lawsuits against Navient and some of its subsidiaries containing similar alleged violations of consumer protection laws as those alleged in the CFPB lawsuit as well as several additional areas. We refer to the Illinois, Washington, Pennsylvania, California and Mississippi Attorneys General collectively as the "State Attorneys General." Additional information on the State Attorneys General lawsuits is included in Item 3. "Legal Proceedings" in this Form 10-K.

Regulatory Outlook

A number of prominent themes appear to be emerging from these actions:

- Even if the CFPB takes a less active role in enforcement, the number and configuration of regulators, particularly the State Attorneys General and various state legislators, is likely to change which may add to the complexity, cost and unpredictability of timing for resolution of particular regulatory issues.
- The regulatory, compliance and risk control structures of financial institutions subject to enforcement actions by state and federal regulators are frequently cited, regardless of whether past practices have been changed, and enforcement orders have often included detailed demands for increased compliance, audit and board supervision, as well as the use of third-party consultants or monitors to recommend further changes or monitor remediation efforts.
- Issues first identified with respect to one consumer product class or distribution channel are sometimes applied to other product classes or channels.

Navient is subject to oversight from several regulatory entities. We expect that the regulators overseeing our businesses will continue to be active and that consumer protection regulations, standards, supervision, examination and enforcement practices will continue to evolve in both detail and scope. This evolution has added and may continue to significantly add to Navient's compliance, servicing and operating costs. We have invested in compliance through multiple steps including realignment of Navient's compliance management system to a servicing, collections and business services business model; dedicated compliance resources for certain topics (such as the Servicemembers Civil Relief Act ("SCRA"); the Telephone Consumer Protection Act ("TCPA"); unfair, deceptive, or abusive acts and practices ("UDAAP"); and third-party vendor management) to focus on consumer expectations; formation of business support operations to enhance risk, control and compliance functions in each business area; additional regulatory training for front-line employees to ensure obligations are understood and followed during interactions with customers, as well as additional regulatory training for our board of directors to enhance their ability to oversee the Company's risk framework and compliance as it and the regulatory environment changes; and expanded oversight and analysis of complaint trends to identify and remediate, if necessary, areas of potential consumer harm.

Despite these increased activities, our current operations and compliance processes may not satisfy evolving regulatory standards. Past practices or products may continue to be the focus of examinations, inquiries or lawsuits.

As described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations —Risk Management," Navient has implemented a coordinated, formal enterprise risk management system aimed at reducing business and regulatory risks.

Listed below are some of the most significant recent and pending regulatory changes that have the potential to affect Navient.

Education Loan Servicing and Consumer Lending. The CFPB has been active in the education loan industry and undertook a number of initiatives in recent years relative to the private education loan market and education loan servicing. In addition, several states have enacted various state servicing and licensing requirements beginning in 2017, including Illinois, Washington, California and Connecticut. We anticipate that these state activities will continue. It is possible that more states will propose or pass similar or different requirements on either holders of education loans or their servicers. Depending on the nature of these laws or rules, they may impose additional or different requirements than Navient faces at the federal level.

Debt Collection Supervision. The CFPB also maintains supervisory authority over larger consumer debt collectors. The CFPB recently updated its regulatory agenda making the likelihood and timing of any new debt collection regulation uncertain. The issuance of the CFPB's rules does not preempt the various and varied levels of state consumer and collection regulations to which the activities of Navient's subsidiaries are currently subject. Navient also utilizes third-party debt collectors to collect defaulted and charged-off education loans and will continue to be responsible for oversight of their procedures and controls.

Oversight of Derivatives. The Dodd-Frank Act created a comprehensive new regulatory framework for derivatives transactions, to be implemented by the Commodity Futures Trading Commission ("CFTC"), other prudential regulators and the SEC. This framework, among other things, subjects certain swap participants to new capital and margin requirements, recordkeeping and business conduct standards and imposes registration and regulation of swap dealers and major swap participants. The scope of potential exemptions continues to be defined through agency rulemakings. Even where Navient or a securitization trust sponsored by Navient qualifies for an exemption, many of its derivatives counterparties are subject to capital, margin and business conduct requirements and therefore Navient's business may be impacted. Where Navient or the securitization trusts it sponsors do not qualify for an exemption, Navient or an existing or future securitization trust sponsored by Navient may be unable to enter into new swaps to hedge interest rate or currency risk or the costs associated with such swaps may increase. With respect to existing securitization trusts, an inability to amend, novate or otherwise materially modify existing swap contracts could result in a downgrade of its outstanding asset-backed securities. As a result, Navient's business, ability to access the capital markets for financing and costs may be impacted by these regulations.

Other Significant Sources of Regulation

Many aspects of Navient's businesses are subject to other federal and state regulation and administrative oversight. Some of the most significant of these are described below.

Higher Education Act. Navient is subject to the HEA and its education loan operations are periodically reviewed by ED and Guarantors. As a servicer of federal education loans, Navient is subject to ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured education loans. In connection with its servicing operations on behalf of Guarantor clients, Navient must comply with ED regulations that govern Guarantor activities as well as agreements for reimbursement between ED and our Guarantor clients.

The Higher Education Act Reauthorization Bill (H.R. 4508 "Prosper Act") is currently under consideration by the House of Representatives. The HEA is the primary law that authorizes federal student aid programs for higher education. While the HEA is required to be reviewed and "reauthorized" by Congress every five years, Congress has not reauthorized the HEA since 2008, choosing to temporarily extend the Act each year since 2013. We cannot predict whether or when legislation will be passed or how it would impact us.

Federal Financial Institutions Examination Council. As a third-party service provider to financial institutions, Navient is also subject to periodic examination by the Federal Financial Institutions Examination Council ("FFIEC"). FFIEC is a formal interagency body of the U.S. government empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Federal Reserve Banks (the "FRB"), the Federal Deposit Insurance Corporation (the "FDIC"), the National Credit Union Administration, the Office of the Comptroller of the Currency and the CFPB and to make recommendations to promote uniformity in the supervision of financial institutions.

Consumer Protection and Privacy. Navient's education loan servicing business is subject to federal and state consumer protection, privacy and related laws and regulations and is subject to examination by the CFPB. Some of the more significant federal laws and regulations include:

- various laws governing unfair, deceptive or abusive acts or practices;
- the Truth-In-Lending Act and Regulation Z, which governs disclosures of credit terms to consumer borrowers;
- the Fair Credit Reporting Act and Regulation V, which governs the use and provision of information to consumer reporting agencies;
- the Equal Credit Opportunity Act and Regulation B, which prohibit discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the SCRA, which applies to all debts incurred prior to commencement of active military service (including education loans) and limits the amount of interest, including certain fees or charges that are related to the obligation or liability; and
- the TCPA, which governs communication methods that may be used to contact customers.

Navient's business processing services businesses are subject to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal statutes are the Fair Debt Collection Practices Act and additional provisions of the acts listed above, as well as the HEA and the various laws and regulations that govern government contractors. These activities are also subject to state laws and regulations similar to the federal laws and regulations listed above.

Item 1A. Risk Factors

We employ an enterprise risk management philosophy and framework which seeks to identify the most significant risks impacting our business and provides a process for evaluating and quantifying such risks. Our Enterprise Risk and Compliance Committee monitors approved risk limits and thresholds to ensure our businesses are operating within approved risk parameters. Our Risk Appetite Framework segments our risk across nine risk domains: (1) credit; (2) market; (3) funding and liquidity; (4) compliance; (5) legal; (6) operational; (7) reputational/political; (8) governance; and (9) strategy. The risk factors enumerated in this section are presented in a manner that is consistent with this overall risk framework.

Based on current conditions, we believe that the following list identifies the most significant risk factors that could affect our financial condition, results of operations or cash flows. These risks and risk domains are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions or results of operations in future periods or are not identified because they are common to all businesses. In addition, our reaction to future developments as well as our competitors' and regulators' reactions to these developments may affect our future results.

CREDIT RISK.

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

Our success is largely dependent upon the expected future creditworthiness of our customers, especially with respect to our education loans. Our research consistently indicates that borrower unemployment rates and the failure of in-school borrowers to graduate or otherwise complete their education are two of the most significant macroeconomic factors that affect loan performance. Any material changes in graduation or completion rates could increase or decrease delinquencies and defaults. Additionally, modifications to the original repayment terms in the form of loan forbearance, deferment, grace periods and the use of payment modification programs, including income-based repayment programs, can individually and cumulatively impact the performance of our loan portfolios. Modifications to private loans may lower the potential return on investment and may have the related effect of delaying defaults which would otherwise have become apparent in the performance of our portfolios. A deterioration in the economy could adversely affect the credit quality of our borrowers, resulting in an increased occurrence of defaults and/or requiring more frequent use of these loan modification tools. Higher credit-related losses and weaker credit quality could negatively affect our business, financial condition and results of operations and limit our funding options, including our access to the capital markets.

Defaults on education loans held by us, particularly Private Education Loans, could adversely affect our earnings.

FFELP Loans are insured or guaranteed by state or not-for-profit agencies and are also protected by contractual rights to recovery from the United States pursuant to guaranty agreements among ED and these agencies. These guarantees generally cover at least 97% of a FFELP Loan's principal and accrued interest upon default and, in limited circumstances, 100% of the loan's principal and accrued interest. We are exposed to credit risk on the non-guaranteed portion of the FFELP Loans in our portfolio. In addition, under certain circumstances, if we fail to service FFELP Loans in compliance with HEA we may jeopardize the insurance, guarantees and federal support we receive on these loans. A small percentage of our FFELP Loan portfolio has become permanently uninsured as a result of these regulations and we anticipate this will continue to a limited extent in the future. Under such circumstances, we bear the full credit exposure on such previously insured loans.

We bear the full credit exposure on the loans in our Consumer Lending portfolio. We believe that delinquencies are an important indicator of the potential future credit performance for Private Education Loans. Our delinquencies as a percentage of Private Education Loans in repayment were 4.6% at December 31, 2019. For a complete discussion of our loan delinquencies, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition – Private Education Loan Portfolio Performance."

Future defaults could be higher than anticipated due to a variety of factors outside of our control, such as downturns in the economy, regulatory changes and other unforeseen future trends. According to Company-sponsored independent research, young adults who stopped attending college before earning a degree or certificate are among those most likely to have trouble making payments. Losses on Private Education Loans are also impacted by various risk characteristics that may be specific to individual loans. Loan status (in-school, grace, forbearance, repayment and delinquency), loan seasoning (number of months in which a payment has been made by a customer), underwriting criteria (e.g., credit scores), and existence of a cosigner are all factors that can impact the likelihood of default. The type of school may also play a significant role in loan performance. Additionally, general economic and employment conditions, including employment rates for recent college graduates, can have a significant impact on loan delinquency and default rates. If actual loan performance is worse than currently estimated, it could materially affect our estimate of the allowance for loan losses and the related provision for loan losses in our statements of income and as a result adversely affect our results of operations.

The Company recently adopted an accounting standard update that will result in a significant change in how we recognize credit losses.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments — Credit Losses," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, we will be required to measure and recognize an allowance for loan losses that estimates remaining expected credit losses for financial assets held at the reporting date. This will result in us presenting certain financial assets carried at amortized cost, such as our loans held for investment, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, the adoption of the CECL model will materially affect how we determine our allowance for loan losses and will require us to significantly increase our allowance, which will reduce shareholders' equity and capital. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses, such increase could adversely affect our business, financial condition and results of operations. In addition, the evaluation of our expected credit losses is inherently subjective and requires estimates that may be subject to significant changes.

The new CECL standard became effective for us on January 1, 2020. See "Note 2 – Significant Accounting Policies" for further discussion of the new standard and the expected impact as of the January 1, 2020 adoption date.

Our Consumer Lending segment exposes us to credit underwriting risks based upon the credit model we use to forecast loss rates. If we are unable to effectively forecast loss rates, it can materially adversely affect our operating results.

In the fourth quarter of 2017, we acquired Earnest, a leading financial technology and education finance company. Earnest is now one of the leading providers of education refinance loans. In 2019, Earnest entered the "in-school" lending market. We underwrite new Private Education Loans within our Consumer Lending segment based upon our analysis of extensive credit criteria. Criteria reviewed in underwriting consumer loans may include any or all of the following: (i) verified employment or offer of employment, income and assets, which are generally verified through connected accounts; (ii) career experience, stability of employment, and specialization; (iii) qualifying credit history, taking into account credit score; (iv) debt to income ratio; (v) demonstrated ability to pay through free cash flow calculations; (vi) attendance at or graduation from an eligible post-secondary school; (vii) savings; and (viii) individual data points gathered from accounts connected in the application process, such as late fees, overdraft fees, and credit card interest. We define free cash flow generally as after-tax monthly income of a borrower minus the sum of rent or mortgage payments, student loan payments and any other fixed expenses of such borrower.

We do not rely on any single factor in making our underwriting decisions. Each of the above factors is reviewed and weighted depending on the individual borrower's or co-borrower's circumstances at the time the underwriting decision is made. If our underwriting process does not effectively forecast our losses, our operating results, cash flow or financial condition may be materially adversely affected.

MARKET, FUNDING & LIQUIDITY RISK.

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

The capital markets have from time to time experienced periods of significant volatility. This volatility can dramatically and adversely affect financing costs when compared to historical norms or make funding unavailable at any costs. Additional factors that could make financing more expensive or unavailable to us include, but are not limited to, financial losses, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry generally, counterparty availability, negative credit rating actions with respect to us, asset-backed securities sponsored by us or the U.S. federal government, changes affecting our assets, the ability of existing or future Navient-sponsored securitization trusts to hedge interest rate and currency risk, corporate and regulatory actions, absolute and comparative interest rate changes, general economic conditions and the legal, regulatory and tax environments governing funding transactions, including existing or future securitization and derivatives transactions. If financing is difficult, expensive or unavailable, our results of operations, cash flow or financial condition could be materially and adversely affected.

The transition away from the LIBOR reference rate to an alternative reference rate may create uncertainty in the capital markets and may negatively impact the value of existing LIBOR based financial instruments.

The London Interbank Offered Rate, or LIBOR, serves as a global benchmark for determining interest rates on commercial and consumer loans, bonds, derivatives and numerous other financial instruments. LIBOR is the reference rate for most of our student loans, consumer loans, bonds, asset-backed securities ("ABS"), other financing facilities, and derivatives ("financial instruments"). On July 27, 2017, the Chief Executive Officer of the United Kingdom Financial Conduct Authority (the "FCA") announced that by the end of 2021, LIBOR would no longer be sustained through the FCA's efforts to compel banks' participation in setting the benchmark. The FCA's intention is that after 2021, it will no longer be necessary for the FCA to ask, or to require, banks to submit contributions to LIBOR. The FCA does not intend to sustain LIBOR using its influence or legal powers beyond that date. It is possible that the ICE Benchmark Administration Limited (the "IBA"), which took over administration of LIBOR on February 1, 2014, may be willing and able to produce LIBOR reference rates after 2021. However, at this time, we are unable to predict if LIBOR reference rates will stop being available or when that may occur. We are also unable to predict whether or when an alternative reference rate will become a standard global benchmark and suitable replacement for LIBOR. We are therefore unable to predict what the replacement reference rate or rates will be for our existing financial instruments that are currently indexed to LIBOR, the extent to which our financial instruments will transition to the same replacement reference rate, or the timing of a transition. As of December 31, 2019, we have approximately $250 billion notional of financial instruments indexed to LIBOR. Most of these financial instruments do not include provisions clearly specifying a method for transitioning from LIBOR to an alternative benchmark rate, and it is not yet known how courts or regulators will view the transition away from LIBOR to an alternative benchmark rate. As a result, it is difficult to predict the impact that a cessation of LIBOR would have on the value and performance of our existing financial instruments. These uncertainties regarding the possible cessation of LIBOR or their resolution could have a material adverse impact on our funding costs, net interest margin, loan and other asset values, asset-liability management strategies, and other aspects of our business and financial results.

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

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

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

Future initiatives by ED, or by Congress or future laws, executive orders or other policy statements to encourage or force consolidation, abolish existing or create additional income-based repayment or debt forgiveness programs or establish other policies and programs including but not limited to those proposed by several presidential campaigns could affect prepayments on education loans. We cannot predict if or when or in what form any of these future actions may occur. Prepayment rates can also be impacted by student loan refinancing. Refinance products offered by our Earnest subsidiary and our competitors may increase the repayment rate on our FFELP Loans and Private Education Loans.

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

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

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

Our Floor Income is dependent on the future interest rate environment and therefore is variable, which may adversely affect our earnings.

FFELP Loans disbursed before April 1, 2006 generally earn interest at the higher of either the borrower rate, which is fixed over a period of time, or a floating rate based on a Special Allowance Payment or SAP formula set by ED. We have generally financed our FFELP Loans with floating rate debt whose interest is matched closely to the floating nature of the applicable SAP formula. Historically, these loans have been indexed to either the Treasury bill, commercial paper or one-month LIBOR rates. If a decline in interest rates causes the borrower rate to exceed the SAP formula rate, we will continue to earn interest on the loan at the fixed borrower rate while the floating rate interest on our debt will continue to decline. The additional spread earned between the fixed borrower rate and the SAP formula rate is referred to as "Floor Income." The replacement of LIBOR as a benchmark rate may have a further detrimental impact on our LIBOR-indexed debt if rates suddenly rise as new market borrowing activity transfers to other benchmark rates. Depending on the type of FFELP Loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate on July 1 of each year. For loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time; for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with legislation enacted in 2006, holders of FFELP Loans are required to rebate Floor Income to ED for all FFELP Loans disbursed on or after April 1, 2006.

Floor Income can be volatile as market rates and the rates on the underlying education loans move up and down. Subject to prevailing market conditions, we generally hedge this risk by using derivatives in an effort to lock in a portion of our Floor Income over the term of the contract. A rise in interest rates will reduce the amount of Floor Income received on the FFELP Loans not presently hedged with derivatives, which will compress our net interest margins. Additionally, net interest margins can be negatively impacted by unusual variances between one-month and three-month LIBOR.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs or limit our access to the capital markets.

As of December 31, 2019, Moody's, S&P and Fitch rated our long-term unsecured debt below investment grade. In addition, the capital markets for sub-investment grade companies are not as liquid as those involving investment grade entities. These factors have resulted in a higher cost of funds for us and have caused our senior unsecured debt to trade with greater volatility.

Our unsecured debt totaled $9.5 billion at December 31, 2019. We utilize the unsecured debt markets to help fund our business and refinance outstanding debt. The amount, type and cost of this funding directly affects the cost of operating our business and growing our assets and is dependent upon outside factors, including our credit rating from rating agencies. There can be no assurance that our credit ratings will not be reduced further. A reduction in the credit ratings of our senior unsecured debt could adversely affect our liquidity, increase borrowing costs, limit access to the capital markets and place incremental pressure on net interest income.

Adverse market conditions or an inability to effectively manage our liquidity risk could negatively impact our ability to meet our liquidity and funding needs, which could materially and adversely impact our results of operations, cash flow or financial condition.

We must effectively manage our liquidity risk. We require liquidity to meet cash requirements such as day-to-day operating expenses, required payments of principal and interest on borrowings, and distributions to stockholders. We expect to fund our ongoing liquidity needs, including the repayment of senior unsecured notes that mature in 2020, primarily through our current cash, investments and unencumbered FFELP Loan and Private Education Refinance Loan portfolios, the predictable operating cash flows provided by operating activities, the repayment of principal on unencumbered education loan assets, and the distribution of overcollateralization from our securitization trusts. We may also draw down on our secured FFELP Loan and Private Education Loan facilities, issue term ABS, enter into additional Private Education Loan ABS repurchase facilities to finance the Residual Interests in existing Private Education Loan ABS trusts or issue additional unsecured debt. we may maintain too much liquidity, which can be costly, or may be too illiquid, which could result in financial distress during times of financial stress or capital market disruptions.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements, which may have a negative impact on our net interest income and net income.

Net interest income will be the primary source of cash flow generated by our portfolios of FFELP Loans and Private Education Loans. At the present, interest earned on FFELP Loans and variable rate Private Education Loans is primarily indexed to one-month LIBOR or Prime Rate, respectively, but our debt is primarily indexed to rates other than one-month LIBOR and Prime Rate.

The different interest rate characteristics of our loan portfolios and the liabilities funding these loan portfolios result in basis risk and repricing risk. It is not economically feasible to hedge all of our exposure to such risks. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. There have been situations in the past in which we experienced widening spreads between one-month and three-month LIBOR and the cost of hedging this variance was prohibitive. We cannot provide any assurance that such a situation will not reoccur which will reduce our net interest margins and net income. In these circumstances, our earnings could be materially adversely affected.

Our use of derivatives to manage interest rate and foreign currency sensitivity exposes us to credit and market risk that could have a material adverse effect on our earnings and liquidity.

We strive to maintain an overall strategy that uses derivatives to minimize the economic effect of interest rate and/or foreign currency changes. However, developing an effective strategy for dealing with these movements is complex, and no strategy can completely avoid the risks associated with these fluctuations. For example, our education loan portfolio is subject to prepayment risk that could result in being under- or over-hedged, which could result in material losses. In addition, our use of derivatives in our risk management activities could expose us to mark-to-market losses if interest rates or foreign currencies move in a materially different way than was expected when we entered into the related derivative contracts. As a result, there can be no assurance that hedging activities using derivatives will effectively manage our interest rate or foreign currency sensitivity, have the desired beneficial impact on our results of operations or financial condition or not adversely impact our liquidity and earnings.

Our use of derivatives also exposes us to market risk and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates, foreign exchange rates and market liquidity. Our Floor Income Contracts and some of the basis swaps we use to manage earnings variability caused by different reset characteristics on interest-earning assets and interest-bearing liabilities do not qualify for hedge accounting treatment. Therefore, the change in fair value, called the "mark-to-market," of these derivative instruments is included in our statement of income without a corresponding mark-to-market of the economically hedged item. A decline in the fair value of these derivatives could have a material adverse effect on our reported earnings. In addition, a change in the mark-to-market value of these instruments may cause us to have to post more collateral to our counterparty or to a clearing house. If these values change significantly, the increased collateral posting requirement could have a material adverse impact on our liquidity.

Credit risk is the risk that a counterparty will not perform its obligations under a contract. Credit risk is limited to the loss of the fair value gain in a derivative that the counterparty or clearinghouse owes or will owe in the future to us. If a counterparty or clearinghouse fails to perform its obligations, we could, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, we might not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment.

Our securitization trusts, which we consolidate on our balance sheet, had $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. A failure by a swap counterparty to perform its obligations could, if the swap has a positive fair value to us and was not adequately collateralized, materially and adversely affect our earnings.

REGULATORY, COMPLIANCE & LEGAL RISK.

Our businesses are subject to a wide variety of laws, rules, regulations and government policies that may change in significant ways, and changes to such laws and regulations or changes in existing regulatory guidance or their interpretation or enforcement could materially adversely impact our business and results of operations.

Our businesses are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, rules, regulations and policies. There can be no assurance that these laws, rules, regulations and policies will not be changed in ways that will require us to modify our business models or objectives or in ways that affect our returns on investment by restricting existing activities or services, change how our companies operate or the characteristics of our assets, subjecting them to escalating costs or prohibiting them outright.

The CFPB has authority with respect to our loan servicing business. It has authority to write regulations under federal consumer financial protection laws and to directly or indirectly enforce those laws and examine us for compliance. The CFPB also has examination and enforcement authority with respect to various federal consumer financial laws for some providers of consumer financial products and services, including us. New rules if implemented, could have a material effect on our loan servicing, consumer lending or asset recovery businesses and may result in significant capital expenditures to develop systems that enable us to comply with the new regulations.

The CFPB is authorized to impose monetary penalties, collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. The CFPB has authority to prevent unfair, deceptive or abusive acts or practices and to ensure that all consumers have access to fair, transparent and competitive markets for consumer financial products and services. The review of products and practices to prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB. The ultimate impact of this heightened scrutiny is uncertain, but it has resulted in, and could continue to result in, changes to pricing, practices, products and procedures. It has also resulted in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

In addition, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations implemented under Title X of the Dodd-Frank Act, the Dodd-Frank Act empowers State Attorneys General and state regulators, under certain circumstances to bring civil actions to remedy violations of state law. If the CFPB or one or more State Attorneys General or state regulators believe that we have violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have a material adverse effect on us or our business. Since the CFPB filed its action against us in January of 2017, the Attorneys General of Illinois, Washington, Pennsylvania, Mississippi and California have filed separate actions alleging various violations of state and federal consumer protection laws.

Loans serviced under the FFELP are subject to the HEA and related laws, rules, regulations and policies. Our servicing operations are designed and monitored to comply with the HEA, related regulations and program guidance; however, ED could determine that we are not in compliance for a variety of reasons, including that we misinterpreted ED guidance or incorrectly applied the HEA and its related laws, rules, regulations and policies. Failure to comply could result in fines, the loss of the insurance and related federal guarantees on affected FFELP Loans, expenses required to cure servicing deficiencies, suspension or termination of our right to participate as a FFELP servicer, negative publicity and potential legal claims. The imposition of significant fines, the loss of the insurance and related federal guarantees on a material number of FFELP Loans, the incurrence of additional expenses and/or the loss of our ability to participate as a FFELP servicer could individually or in the aggregate have a material, negative impact on our business, financial condition or results of operations.

Our businesses are also subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection, and is subject to numerous state and federal laws and regulations. Several states have passed or proposed student loan servicing rules or legislation and several other have imposed license requirements.

Imposition of new laws, rules or regulations or the failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions including but not limited to termination or non-renewal of contracts.

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

We are now, and may in the future be subject, to inquiries and audits from state and federal regulators as well as litigation from private plaintiffs. In recent years, we have entered into consent orders and other settlements. We have provided monetary and other relief in connection with the resolution of some of these actions and settlements. We have also enhanced our procedures and controls, expanded the risk and control functions within each line of business, invested in technology and hired additional risk, control and compliance personnel.

If our risk and control procedures and processes fail to meet the heightened expectations of our regulators and other government agencies, we could be required to enter into further orders and settlements, provide additional monetary relief, or accept material regulatory restrictions on our businesses, which could adversely affect our operations and, in turn, our financial results.

We expect heightened regulatory scrutiny and governmental investigations and enforcement actions to continue for us and for the financial services industry as a whole. Such actions can have significant consequences for a financial institution such as ours, including loss of customers and business and the inability to operate certain businesses.

Due to the uncertainty engendered by these new regulations, guidance and actions, coupled with the likelihood of additional changes or additions to the local, state and federal statutes, regulations and practices applicable to our business, we are not able to estimate the ultimate impact of changes in law on our financial results, business operations or strategies. We believe that the cost of responding to and complying with these evolving laws and regulations, as well as any guidance from enforcement actions, will continue to increase, as will the risk of penalties and fines from any enforcement actions that may be imposed on our businesses. Our profitability, results of operations, financial condition, cash flows or future business prospects could be materially and adversely affected as a result.

Our framework for managing risks may not be effective in mitigating the risk of loss.

Our enterprise risk management framework seeks to mitigate risk and appropriately balance risk and returns. We have established processes and procedures intended to identify, measure, monitor, control and report the types of risk to which we are subject. We seek to monitor and control risk exposure through a framework of policies, procedures, limits and reporting requirements. Management of risks in some cases depends upon the use of analytical and forecasting models. If the models we use to mitigate these risks are inadequate, we may incur increased losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. If our risk management framework does not effectively identify or mitigate risks, we could suffer unexpected losses, and our results of operations, cash flow or financial condition could be materially adversely affected.

We are subject to various legal proceedings and some of these legal proceedings or other contingencies may materially adversely affect our business, financial condition or results from operations.

We are subject to a variety of legal proceedings in virtually every part of our business, including the legal proceedings described in the Legal Proceedings section of this Annual Report. While we believe we have adopted appropriate legal and risk management and compliance programs, the diverse nature of our operations, including operations of business we have recently acquired, means that legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time. Some of these legal proceedings or other contingencies may materially adversely affect our business, financial condition or results from operations.

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect our reported assets, liabilities, income, revenue or expenses.

The preparation of our consolidated financial statements requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, income, revenue or expenses during the reporting periods. Incorrect estimates and assumptions by management could adversely affect our reported amounts of assets, liabilities, income, revenue and expenses during the reporting periods. If we make incorrect assumptions or estimates, our reported financial results may be over or understated, which could materially and adversely affect our business, financial condition and results of operations.

OPERATIONAL RISKS.

If we do not effectively and continually align our cost structure with our business operations, our results of operations and financial condition could be materially adversely affected.

We continually need to align our cost structure with our business operations. The ability to properly size our cost structure is dependent upon a number of variables, including our ability to successfully execute on our business plans and growth initiatives and future legislative or regulatory changes. If we undertake cost reductions based on our business plan, those reductions could be too dramatic and could cause disruptions in our business, reductions in the quality of the services we provide or cause us to fail to comply with applicable regulatory standards. Alternatively, we may fail to implement, or be unable to achieve, necessary cost savings commensurate with our business and prospects. In either case, our business, results of operations and financial condition could be adversely affected.

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

A failure of our operating systems or infrastructure could disrupt our business. Our business is dependent on the ability to process and monitor large numbers of daily transactions in compliance with contractual, legal and regulatory standards and our own product specifications, both currently and in the future. In 2018, we entered into a strategic agreement with First Data, now part of Fiserv, to become the primary provider of technology solutions for servicing our federal education loans in addition to the technology role they already played with respect to Private Education Loans. We, however, still maintain the technology solutions for our other lines of business as well as our customer interactive infrastructure. As our processing demands and loan portfolios change, both in volume and in terms and conditions, our ability to develop and maintain our operating systems and infrastructure may become increasingly challenging. There is no assurance that we have adequately or efficiently developed, maintained, acquired or scaled such systems and infrastructure or will do so in the future.

The servicing, financial, accounting, data processing and other operating systems and facilities that support our business may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to timely process transactions. Any such failure could adversely affect our ability to service our clients and result in financial loss or liability to our clients, disrupt our business, and result in regulatory action or cause reputational damage.

Despite the plans and facilities we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business. This may include a disruption involving electrical, communications, Internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding efforts to maintain business continuity, a disruptive event impacting our processing locations could adversely affect our business, financial condition and results of operations.

We depend on secure information technology, and a breach of our information technology systems could result in significant losses, disclosure of confidential customer information and reputational damage, which would adversely affect our business.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our computer systems and networks. Although we take protective measures we deem reasonable and appropriate, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. These technologies, systems and networks, and those of third parties, may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our customers' confidential, proprietary and other information, or otherwise disrupt our business operations or those of our customers or other third parties. Information security risks for institutions that handle large numbers of financial transactions on a daily basis such as Navient have generally increased in recent years, in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. In addition, our increased use of mobile and cloud technologies could heighten these and other operational risks, and any failure by mobile or cloud technology service providers to adequately safeguard their systems and prevent cyber-attacks could disrupt our operations and result in misappropriation, corruption or loss of confidential or propriety information. Moreover, the loss of confidential customer identification information could harm our reputation, result in the termination of contracts by our existing customers and subject us to liability under state, federal and international laws that protect confidential personal data, resulting in increased costs, loss of revenues and substantial penalties. The recently enacted California Consumer Privacy Act ("CCPA") took effect in January 2020 and provides for enhanced consumer protections for California residents and statutory fines for data security breaches or other CCPA violations.

If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through, our computer systems and networks could be jeopardized or could cause interruptions or malfunctions in our operations that could result in significant losses or reputational damage. We routinely transmit and receive personal, confidential and proprietary information, some of it through third parties. We maintain secure transmission capability and work to ensure that third parties follow similar procedures. Nevertheless, an interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm. In the event personal, confidential or other information is jeopardized, intercepted, misused or mishandled, we may need to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to fines, penalties, litigation and settlement costs and financial losses that may either not be insured against or not be fully covered through insurance. If one or more of such events occur, our business, financial condition or results of operations could be significantly and adversely affected.

We depend on third parties for a wide array of services, systems and information technology applications, and a breach or violation of law by one of these third parties could disrupt our business or provide our competitors with an opportunity to enhance their position at our expense.

We depend on third parties for a wide array of services, systems and information technology applications. Third-party vendors are significantly involved in many aspects of our software and systems development, servicing systems, the timely transmission of information across our data communication network, and for other telecommunications, processing, remittance and technology-related services in connection with our servicing or payment services businesses. In addition to technology applications, we also utilize various third-party debt collectors in the collection of defaulted Private Education Loans and in other areas. If a service provider fails to provide the services required or expected, or fails to meet applicable contractual or regulatory requirements such as service levels or compliance with applicable laws, the failure could negatively impact our business by adversely affecting our ability to process customers' transactions in a timely and accurate manner, otherwise hampering our ability to serve our customers, or subjecting us to litigation and regulatory risk for matters as diverse as poor vendor oversight or improper release or protection of personal information. Such a failure could also adversely affect the perception of the reliability of our networks and services and the quality of our brands, which could materially adversely affect our business and results of operations.

Our work with government clients exposes us to additional risks inherent in the government contracting environment.

Our clients include federal, state and local governmental entities. This work carries various risks inherent in the government contracting process. These risks include, but are not limited to, the following:

- Government contractors are sometimes affected by the political or budgetary processes of the United States government. Sometimes the political process leads to government shutdown of all parts of the federal or state government. This can lead to temporary work stoppages or payment delays. Contracts may be cancelled or altered due to political or policy priorities.

- Government entities in the United States often reserve the right to audit contract costs and conduct inquiries and investigations of business practices. These entities also conduct reviews and investigations and make inquiries regarding systems, including systems of third parties, used in connection with the performance of the contracts. Negative findings from audits, investigations or inquiries could affect the contractor's future revenues and profitability by preventing them, by operation of law or in practice, (i) from receiving new government contracts for some period of time or (ii) from being paid at the rate they believe is warranted.

- If improper or illegal activities are found in the course of government audits or investigations, the contractor may become subject to various civil and criminal penalties, including those under the civil U.S. False Claims Act. Additionally, we may be subject to administrative sanctions, which may include termination or non-renewal of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. Due to the inherent limitations of internal controls, it may not be possible to detect or prevent all improper or illegal activities.

The occurrences or conditions described above could affect not only our business with the particular government entities involved, but also our business or potential future business with other entities of the same or other governmental bodies or with commercial clients, and could have a material adverse effect on our business or our results of operations.

If we are unable to attract and retain professionals with strong leadership skills, our business, results of operations and financial condition may be materially adversely affected.

Our success is dependent, in large part, on our ability to attract and retain personnel with the knowledge and skills to lead our business. Experienced personnel in our industry are in high demand, and competition for talent is very high. We must hire, retain and motivate appropriate numbers of talented people with diverse skills in order to serve our clients, respond quickly to rapid and ongoing technology, industry and macroeconomic developments, and grow and manage our business. As our business evolves, we must also hire and retain an increasing number of professionals with different skills and professional expectations than those of the professionals we have historically hired and retained. If we are unable to successfully integrate, motivate and retain these professionals, our ability to continue to secure work in those industries and for our services and solutions may suffer.

Our business could be negatively impacted as a result of stockholder activism, including a proxy contest or an unsolicited takeover proposal.

We have been and may continue to be the subject of actions taken by activist stockholders. In 2019, an activist stockholder sought to nominate four director candidates to stand for election as directors at our 2019 annual meeting of stockholders. While we strive to maintain constructive, ongoing communications with all of our stockholders, and welcome their views and opinions with the goal of enhancing value for all stockholders, we may be subject to actions or proposals from other activist stockholders that may not align with our business strategies or the interests of our other stockholders. Responding to such actions may be costly and time-consuming, disrupt our business and operations, or divert the attention of our board of directors, management, and employees from the pursuit of our business strategies. In 2019, we incurred $13 million in expenses as a result of the activist stockholder. Such activities could interfere with our ability to execute our strategic plan.

Even if we are successful in a proxy contest or in defending against any unsolicited takeover attempt, our business could be adversely affected by any such proxy contest or unsolicited takeover attempt because:

- perceived uncertainties as to future direction may result in the loss of potential acquisitions, collaborations or other strategic opportunities, and may make it more difficult to attract and retain qualified personnel and business partners;

- if individuals are elected or appointed to our board of directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders; and

- if individuals are elected or appointed to our board of directors who do not agree with our strategic plan, the ability of our board of directors to function effectively could be adversely affected, which could in turn adversely affect our business, operating results and financial condition.

Uncertainties related to, or the results of, such actions could cause our stock price to experience periods of volatility. The occurrence of any of the foregoing events could materially adversely affect our business.

We cannot predict, and no assurances can be given, as to the outcome or timing of any matters relating to the foregoing actions by stockholders or the ultimate impact on our business, liquidity, financial condition or results of operations, and any of these matters or any further actions by this or other stockholders may impact and result in volatility or stagnation of the price of our stock.

REPUTATIONAL/POLITICAL RISK.

Federal funding constraints and spending policy changes triggered by associated federal spending deadlines and ongoing lawmaker and regulatory efforts to change the student lending sector may result in disruption of federal payments for services we provide to the government, which could materially and adversely affect our business strategy or future business prospects.

We receive payments from the federal government on our FFELP Loan portfolio and for other services it provides, including servicing loans under the Direct Student Loan Program ("DSLP"), providing default aversion and contingency collections to ED, and providing performance-based services to the IRS to support its national recovery program. Payments for these services may be affected by various factors, including the following:

- The Budget Act: The Budget Act enacted on December 26, 2013, Direct Loan Servicing eliminated funding for the Direct Loan servicing performed by not-for-profit servicers. The Budget Act also requires that all servicing funding be provided through the annual appropriations process which is subject to certain limitations. Although the payments for our DSLP servicing contract are already funded from annual appropriations, the requirement to fund all servicing from the limited appropriated funding could have an effect on our future business in ways we cannot predict at this time.

- Other Higher Education Legislation: As Congress and the current Administration consider the reauthorization of the Higher Education Act, they may consider legislation that would reduce the payments to Guarantors or change the consolidation program in a way that would incentivize education loan borrowers to refinance their existing education loans, both private and federal. Such reforms could reduce our cash flows from servicing and interest income as well as our net interest margin.

ED has also announced its intention to replace the current servicing contracts with various third parties including our Direct Loan servicing contract. In late 2019, ED informed us and other student loan servicers that these contracts were renewed for an additional one-year period with two 6-month extension options while the procurement for replacement services continues.

It is possible that the administration and Congress in the future could engage in a prolonged debate linking the federal deficit, debt ceiling and other budget issues. If U.S. lawmakers in the future fail to reach agreement on these issues, the federal government could stop or delay payment on its obligations, including those on services we provide. Further, legislation to address the federal deficit and spending could impose proposals that would adversely affect FFELP and DSLP-related servicing businesses. A protracted reduction, suspension or cancellation of the demand for the services we provide, or proposed changes to the terms or pricing of services provided under existing contracts with the federal government, including our contract with ED, could have a material adverse effect on our revenues, cash flows, profitability and business outlook, and, as a result, could materially adversely affect our business, financial condition and results of operations. We cannot predict how or what programs or policies will be impacted by any actions that the Administration, Congress or the federal government may take.

Changes in laws, rules or regulations may have a significant adverse effect on our financial position or businesses. Many of our businesses operate in highly regulated industries and are subject to various laws, rules or regulations. We are also subject to income taxes in many jurisdictions, both federal and state. Any changes to these laws, rules or regulations could have material impacts on our business, financial condition, results of operations or cash flow.

Reputational risk and social factors may impact our results and damage our brand.

Negative public opinion or damage to our brand could occur as a result of actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, security breaches (including the use and protection of customer information), corporate governance, and sales and marketing, and from actions taken by regulators or other persons in response to such conduct. Such conduct could fall short of our customers' and the public's heightened expectations of companies of our size with rigorous data, privacy and compliance practices, and could further harm our reputation. In addition, third parties with whom we have important relationships may take actions over which we have limited control that could negatively impact perceptions about us or the financial services industry. The proliferation of social media may increase the likelihood that negative public opinion from any of the events discussed above will impact our reputation and business.

RISKS ASSOCIATED WITH OUR SPIN-OFF.

Navient owes obligations, including service and indemnification obligations, to SLM BankCo under various transaction agreements that were executed as part of the Spin-Off. These obligations could be materially disruptive to Navient's business or subject it to substantial liabilities, including contingent liabilities and liabilities that are presently unknown.

In connection with the Spin-Off from SLM BankCo, Navient, SLM Corporation and SLM BankCo entered into various agreements.

The separation and distribution agreement between Navient, SLM Corporation and SLM BankCo provides for, among other things, indemnification obligations designed to make Navient financially responsible for substantially all liabilities that may exist whether incurred prior to or after the Spin-Off, relating to the business activities of SLM Corporation prior to the Spin-Off, other than those arising out of the consumer banking business and expressly assumed by SLM BankCo in the separation and distribution agreement. If Navient is required to indemnify SLM BankCo under the circumstances set forth in the separation and distribution agreement, Navient may be subject to substantial liabilities including liabilities that are accrued, contingent or otherwise and regardless of whether the liabilities were known or unknown at the time of the Spin-Off. SLM BankCo is party to various claims, litigation and legal, regulatory and other proceedings resulting from ordinary business activities relating to its current and former operations. Previous business activities of SLM BankCo, including originations and acquisitions of various classes of consumer loans outside of Sallie Mae Bank, may also result in liability due to future laws, rules, interpretations or court decisions which purport to have retroactive effect, and such liability could be significant. SLM BankCo may also be subject to liabilities related to past activities of acquired businesses. It is inherently difficult, and in some cases impossible, to estimate the probable losses associated with contingent and unknown liabilities of this nature, but future losses may be substantial and may be borne by Navient in accordance with the terms of the separation and distribution agreement.

GOVERNANCE RISK.

Certain provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated by-laws may prevent or delay an acquisition of us, which could decrease the trading price of our common stock.

Certain provisions of Delaware law and of our amended and restated certificate of incorporation and second amended and restated by-laws are intended to deter coercive takeover practices and inadequate takeover bids by, among other things, encouraging prospective acquirers to negotiate directly with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- limitations on the ability of our stockholders to call a special meeting such that stockholder-requested special meetings will only be called upon the request of the holders of at least one-third of ours capital stock issued and outstanding and entitled to vote at an election of directors;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of our board of directors to issue one or more series of preferred stock without stockholder approval;
- the inability of our stockholders to fill vacancies on our board of directors;
- the requirement that the affirmative vote of the holders of at least 75% in voting power of our stock entitled to vote thereon is required for stockholders to amend our amended and restated by-laws; and
- the inability of our stockholders to cumulate their votes in the election of directors.

In addition, our amended and restated certificate of incorporation makes it subject to Section 203 of the Delaware General Corporation Law. Section 203 generally provides that, with limited exceptions, persons who acquire, or are affiliated with a person that acquires, 15% or more of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the time at which that person or its affiliates becomes the holder of 15% or more of the corporation’s outstanding voting stock. Being subject to Section 203 could cause a delay in or completely prevent a change of control that stockholders may favor.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of us and our stockholders.

Stockholders’ percentage ownership in Navient may be diluted in the future.

In the future, stockholders’ percentage ownership in Navient may be diluted as a result of equity issuances for acquisitions, capital market transactions or otherwise, including future equity awards that we may grant to our directors, officers and employees. If made, these awards will have a dilutive effect on our earnings per share, which could adversely affect the market price of shares of our common stock.

In addition, our amended and restated certificate of incorporation permits us to issue, without the approval of our stockholders, one or more series of preferred stock. Our board of directors generally may determine the rights of preferred stockholders including their powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock with respect to dividends and distributions. If our board were to approve the issuance of preferred stock in the future, the terms of one or more series of such preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant the holders of preferred stock the right to elect some number of our directors in all circumstances or upon the happening of specified events, or the right to veto specified transactions. Similarly, we could grant the preferred stockholders certain repurchase or redemption rights or liquidation preferences that could affect the value of the common stock.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our shareholders, which could limit our shareholders’ ability to obtain a favorable judicial forum for disputes with us.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our shareholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the General Corporation Law of the State of Delaware (“DGCL”) or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. By becoming a shareholder in our company, holders of our common stock will be deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation related to choice of forum. The choice of forum provision in our amended and restated certificate of incorporation may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

STRATEGIC RISK.

Legislation passed by Congress in 2010 ended new loan originations under the FFELP program and no new FFELP Loans are being originated, and, as a result, net income on our existing FFELP Loan portfolio is declining over time. We may not be able to develop revenue streams to fully replace the declining revenue from FFELP Loans.

In 2010, Congress passed legislation ending the origination of education loans under the FFELP program. Since then, all federal education loans have been originated through the DSLP of the ED. While the 2010 law did not alter or affect the terms and conditions of existing FFELP Loans, it significantly impacted the education loan industry. As a result of this legislation, net income on our FFELP Loan portfolio is anticipated to decline over time as those existing FFELP Loans are paid down, refinanced or repaid after default.

Acquisitions or strategic investments that we pursue may not be successful and could harm our business and financial condition.

Our growth strategy has included making opportunistic acquisitions of, or material investments in, loan portfolios and complementary businesses and products.

All acquisitions of companies, operations or loan portfolios involve financial risks as well as operational risks. There may be additional risks if we enter into a line of business in which we have limited experience or which operates in a legal, regulatory or competitive environment with which we are not familiar. The expected benefits of acquisitions and investments also may not be realized for various reasons, including the loss of key personnel, customers or vendors. If we fail to integrate or realize the expected benefits of our acquisitions or investments, we may lose the return on these acquisitions or investments or incur additional transaction costs, and our business and financial condition may be harmed as a result.

Our businesses operate in competitive environments and could lose market share and revenues if competitors compete more aggressively or effectively.

We compete with for-profit and not-for-profit servicing, asset recovery and business processing businesses, many with strong records of performance. We compete based on price, effectiveness and customer service metrics. To the extent our competitors compete aggressively or more effectively than us, we could lose market share to them or Our service offerings may not prove to be profitable. Our business and financial condition may be harmed as a result.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table lists the principal facilities owned by us as of December 31, 2019:

Location	Function	Business Segment(s)	Approximate Square Feet
Fishers, IN(1)	Loan Servicing and Data Center	Federal Education Loans; Consumer Lending; Other	450,000
Wilkes-Barre, PA	Loan Servicing Center	Federal Education Loans; Consumer Lending	133,000
Muncie, IN	Processing Center	Business Processing	75,400
Big Flats, NY(2)	Pioneer Credit Recovery — Processing Center	Federal Education Loans; Business Processing	60,000
Arcade, NY	Pioneer Credit Recovery — Processing Center	Federal Education Loans; Business Processing	46,000
Perry, NY	Pioneer Credit Recovery — Processing Center	Federal Education Loans; Business Processing	45,000

The following table lists the principal facilities leased by us as of December 31, 2019:

Location	Function	Business Segment(s)	Approximate Square Feet
Hendersonville, TN	Xtend Healthcare — Revenue Cycle Management	Business Processing; Other	92,000
Reston, VA(3)	Administrative Offices	Federal Education Loans; Consumer Lending; Business Processing; Other	90,000
Newark, DE(4)	Operations Center and Administrative Offices	Federal Education Loans; Consumer Lending; Business Processing; Other	86,000
Austin, TX	Gila MSB — Business Processing	Business Processing; Other	55,000
Wilmington, DE	Headquarters	Federal Education Loans; Consumer Lending; Business Processing; Other	46,000
Herndon, VA(3)	Administrative Offices	Federal Education Loans; Consumer Lending; Business Processing; Other	43,000
San Francisco, CA	Earnest — Loan Originations	Consumer Lending; Other	36,000
Milwaukee, WI	Duncan Solutions — Business Processing	Business Processing; Other	35,000
Moorestown, NJ	Pioneer Credit Recovery —Processing Center	Federal Education Loans; Business Processing	30,000
Guaynabo, PR	Gila MSB Puerto Rico — Business Processing	Business Processing; Other	21,000
Irving, TX	Duncan Solutions — Business Processing	Business Processing; Other	21,000
Salt Lake City, UT	Earnest — Loan Originations	Consumer Lending; Other	14,000

(1) Approximately 38,000 square feet leased to Fiserv (previously First Data) beginning April 2019.

(2) GRC and PCR occupied building through July 2019 when GRC business was sold; PCR sole occupant since August 2019.

(3) Navient relocated from Reston, VA to Herndon, VA leased premises on November 25, 2019. Reston lease expired on 1/31/20 and included approximately 32,000 square feet sublet to Sallie Mae Bank.

(4) Navient relocated from Newark to Wilmington, DE leased premises on December 31, 2019. Newark lease expires 2/29/20.

None of the facilities that we own is encumbered by a mortgage. We believe that our headquarters, loan servicing centers, data center and other business processing centers are generally adequate to meet our long-term needs and business goals. Our headquarters is currently in leased space at 123 Justison Street, Wilmington, Delaware, 19801.

Item 3. Legal Proceedings

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

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

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

Certain Cases

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

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

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

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

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

Under the terms of the Separation and Distribution Agreement between the Company and SLM BankCo, Navient 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. We have 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.

Item 4. Mine Safety Disclosures

N/A

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the NASDAQ under the symbol NAVI. As of January 31, 2020, there were 193,333,131 shares of our common stock outstanding and 293 holders of record.

The following table presents the high and low sales prices for Navient's common stock for each quarter within the two most recent fiscal years.

	Sales Price	
	High	Low
2019		
1st Quarter (Jan 1 — Mar 31, 2019)	$ 12.90	$ 8.64
2nd Quarter (May 1 — Jun 30, 2019)	$ 14.01	$ 11.69
3rd Quarter (Jul 1 — Sep 30, 2019)	$ 15.67	$ 12.24
4th Quarter (Oct 1 — Dec 31, 2019)	$ 14.64	$ 11.31
2018		
1st Quarter (Jan 1 — Mar 31, 2018)	$ 14.87	$ 12.60
2nd Quarter (May 1 — Jun 30, 2018)	$ 15.03	$ 12.38
3rd Quarter (Jul 1 — Sep 30, 2018)	$ 14.48	$ 12.91
4th Quarter (Oct 1 — Dec 31, 2018)	$ 13.91	$ 8.23

We paid quarterly cash dividends on our common stock of $0.16 per share for each quarter of 2018 and 2019.

Issuer Purchases of Equity Securities The following table provides information relating to our purchases of shares of our common stock in the three months ended December 31, 2019.

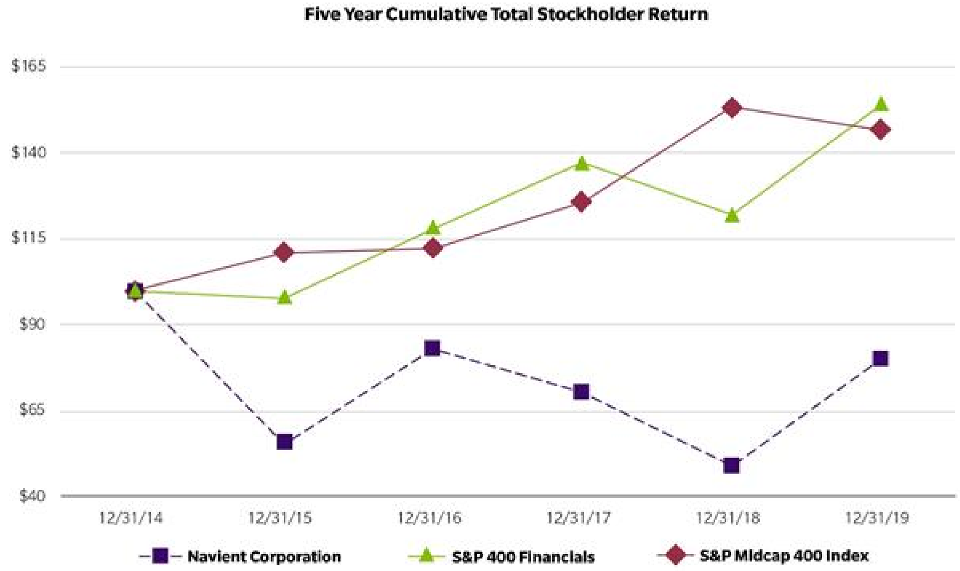
(In millions, except per share data)	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs(2)
Period:				
Oct 1 – Oct 31, 2019	2.6	$ 12.41	2.5	$ 1,047
Nov 1 – Nov 30, 2019	2.3	14.32	2.0	$ 1,018
Dec 1 – Dec 31, 2019	1.3	14.00	1.3	$ 1,001
Total fourth quarter	6.2	$ 13.44	5.8	

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

(2) In September 2018, the board authorized a $500 million share repurchase program and in October 2019, the board approved an additional $1 billion multi-year share repurchase program.

Stock Performance

The following performance graph compares the yearly dollar change in our cumulative total shareholder return on our common stock to that of the S&P 400 Financials and the S&P Midcap 400 Index. The graph assumes a base investment of $100 at December 31, 2014 and reinvestment of dividends through December 31, 2019.



Company/Index	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Navient Corporation	$ 100.0	$ 55.3	$ 83.1	$ 70.6	$ 49.1	$ 80.0
S&P 400 Financials	$ 100.0	$ 97.8	$ 118.1	$ 137.3	$ 122.0	$ 154.0
S&P Midcap 400 Index	$ 100.0	$ 105.1	$ 136.4	$ 155.4	$ 130.5	$ 164.9

Source: Bloomberg Total Return Analysis

Item 6. Selected Financial Data.

Selected Financial Data 2015-2019
(Dollars in millions, except per share amounts)

The following table sets forth our selected financial and other operating information prepared in accordance with GAAP. The selected financial data in the table is derived from our consolidated financial statements. The data should be read in conjunction with the consolidated financial statements, related notes, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	2019	2018	2017	2016	2015
Operating Data:					
Net interest income	$ 1,185	$ 1,240	$ 1,412	$ 1,705	$ 2,221
Net income:					
Continuing operations, net of tax	$ 597	$ 395	$ 292	$ 681	$ 983
Discontinued operations, net of tax	—	—	—	—	1
Net income[(1)]	$ 597	$ 395	$ 292	$ 681	$ 984
Basic earnings per common share:					
Continuing operations	$ 2.59	$ 1.52	$ 1.06	$ 2.15	$ 2.62
Discontinued operations	—	—	—	—	—
Total[(1)]	$ 2.59	$ 1.52	$ 1.06	$ 2.15	$ 2.62
Diluted earnings per common share:					
Continuing operations	$ 2.56	$ 1.49	$ 1.04	$ 2.12	$ 2.58
Discontinued operations	—	—	—	—	—
Total[(1)]	$ 2.56	$ 1.49	$ 1.04	$ 2.12	$ 2.58
Dividends per common share	$ .64	$ .64	$ .64	$ .64	$ .64
Return on common stockholders' equity	18%	11%	8%	18%	25%
Net interest margin	1.24%	1.17%	1.24%	1.38%	1.64%
Return on assets	.63%	.37%	.26%	.55%	.73%
Dividend payout ratio	25%	43%	62%	30%	25%
Average equity/average assets	3.39%	3.34%	3.04%	2.90%	2.82%
Balance Sheet Data:					
Education loans, net	$ 86,820	$ 94,498	$ 105,122	$ 111,070	$ 122,796
Total assets	$ 94,903	$ 104,176	$ 114,991	$ 121,136	$ 134,046
Total borrowings	$ 90,198	$ 98,941	$ 109,783	$ 114,702	$ 127,403
Total Navient Corporation stockholders' equity	$ 3,336	$ 3,519	$ 3,454	$ 3,699	$ 3,909
Book value per common share	$ 15.49	$ 14.22	$ 13.13	$ 12.72	$ 11.22

(1) Results include $208 million reduction to our deferred tax asset ("DTA Remeasurement Loss") recorded in 2017 due to the "Tax Cuts and Jobs Act" ("TCJA"). See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Financial Measures – Income Tax Expense" for further discussion.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis also contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in "Forward-Looking and Cautionary Statements" and Item 1A. "Risk Factors" in this Annual Report on Form 10-K.

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows. The discussion that follows is primarily focused on 2019 versus 2018 results. Discussion and analysis of 2018 results compared to 2017 is included under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC on February 26, 2019.

Selected Historical Financial Information and Ratios

(In millions, except per share data)	Years Ended December 31, 2019	2018	2017
GAAP Basis			
Net income[1]	$ 597	$ 395	$ 292
Diluted earnings per common share[1]	$ 2.56	$ 1.49	$ 1.04
Weighted average shares used to compute diluted earnings per share	233	264	281
Net interest margin, Federal Education Loans segment	.78%	.73%	.81%
Net interest margin, Consumer Lending segment	3.36%	3.32%	3.38%
Return on assets	.63%	.37%	.26%
Ending FFELP Loans, net	$ 64,575	$ 72,253	$ 81,703
Ending Private Education Loans, net	22,245	22,245	23,419
Ending total education loans, net	$ 86,820	$ 94,498	$ 105,122
Average FFELP Loans	$ 68,271	$ 76,971	$ 84,989
Average Private Education Loans	22,512	23,281	23,762
Average total education loans	$ 90,783	$ 100,252	$ 108,751
Core Earnings Basis[2]			
Net income[1]	$ 607	$ 519	$ 251
Diluted earnings per common share[1]	$ 2.60	$ 1.96	$ .89
Adjusted diluted earnings per common share[3]	$ 2.64	$ 2.09	$ 1.79
Weighted average shares used to compute diluted earnings per share	233	264	281
Net interest margin, Federal Education Loans segment	.83%	.83%	.79%
Net interest margin, Consumer Lending segment	3.30%	3.24%	3.33%
Return on assets	.64%	.49%	.22%
Ending FFELP Loans, net	$ 64,575	$ 72,253	$ 81,703
Ending Private Education Loans, net	22,245	22,245	23,419
Ending total education loans, net	$ 86,820	$ 94,498	$ 105,122
Average FFELP Loans	$ 68,271	$ 76,971	$ 84,989
Average Private Education Loans	22,512	23,281	23,762
Average total education loans	$ 90,783	$ 100,252	$ 108,751

(1) Results include a $208 million and $224 million DTA Remeasurement Loss in 2017 on a GAAP and Core Earnings basis, respectively, in connection with the enactment of the TCJA in December 2017. See "Key Financial Measures – Income Tax Expense" for further discussion.

(2) Core Earnings are non-GAAP financial measures. For an explanation and reconciliation of Core Earnings, see the section titled "Non-GAAP Financial Measures – Core Earnings."

(3) Adjusted diluted Core Earnings per share, a non-GAAP financial measure, excludes (1) $12 million, $42 million and $43 million of net restructuring and regulatory-related expenses in 2019, 2018 and 2017, respectively, and (2) the $224 million DTA Remeasurement Loss in 2017. Regulatory expenses for 2019 are net of $30 million in insurance reimbursements for covered costs related to such matters.

Overview

The following discussion and analysis presents a review of our business and operations as of and for the year ended December 31, 2019. We monitor and assess our ongoing operations and results based on the following four reportable operating segments: Federal Education Loans, Consumer Lending, Business Processing and Other.

Federal Education Loans Segment

In this segment, Navient holds and acquires FFELP Loans and performs servicing and asset recovery services on its own loan portfolio, federal education loans owned by ED and other institutions. 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.

Consumer Lending Segment

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

Business Processing Segment

In this segment, Navient performs revenue cycle management and business processing services for over 500 non-education related government and healthcare clients. 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.

Other

This 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.

Key Financial Measures

Our operating results are primarily driven by net interest income, provisions for loan losses and expenses incurred in our education loan portfolios; the revenues and expenses generated by our servicing, asset recovery and business processing businesses; gains and losses on loan sales and debt repurchases; and income tax expense. A brief summary of our key financial measures is listed below.

Net Interest Income

The most significant portion of our earnings is generated by the spread earned between the interest income we receive on assets in our education loan portfolios and the interest expense on debt funding these loans. We report these earnings as net interest income. Net interest income in our Federal Education Loans and Consumer Lending segments are driven by significantly different factors.

Federal Education Loans Segment

Net interest income on the FFELP Loans will be the primary source of net income generated by this segment. We expect this portfolio to have an amortization period in excess of 20 years with a 7-year remaining weighted average life. Interest earned on our FFELP Loans is primarily indexed to daily one-month LIBOR and our cost of funds is primarily indexed to rates other than daily one-month LIBOR, creating the possibility of basis and repricing risk related to these assets. The Federal Education Loans segment's Core Earnings net interest margin was 0.83% in 2019, unchanged from 2018. At December 31, 2019, 90% of our FFELP Loan portfolio was funded to term with non-recourse, long-term securitization debt. As of December 31, 2019, we had $64.6 billion of FFELP Loans outstanding, compared with $72.3 billion outstanding at December 31, 2018.

A source of variability in net interest income could be Floor Income we earn on certain FFELP Loans. Pursuant to the terms of the FFELP, certain FFELP Loans can earn interest at the stated fixed rate of interest as underlying debt interest rate expense remains variable. We refer to this additional spread income as "Floor Income." Floor Income can be volatile since it is dependent on interest rate levels. We frequently hedge this volatility with derivatives which lock in the value of the Floor Income over the term of the contract.

Consumer Lending Segment

Net interest income on the Private Education Loans will be the primary source of net income generated by this segment. We expect this portfolio to have an amortization period in excess of 20 years with a 5-year remaining weighted average life. Interest earned on our Private Education Refinance Loans is generally fixed rate with the related cost of funds generally fixed rate as well. Interest earned on the remaining Private Education Loans is generally indexed to either Prime or one-month LIBOR rates and our cost of funds is primarily indexed to one-month or three-month LIBOR, creating the possibility of basis and repricing risk related to these assets. The Consumer Lending segment's Core Earnings net interest margin was 3.30% in 2019 compared with 3.24% in 2018. At December 31, 2019, 59% of our Private Education Loan portfolio was funded to term with non-recourse, long-term securitization debt. As of December 31, 2019, we had $22.2 billion of Private Education Loans outstanding, unchanged from December 31, 2018.

Provisions for Loan Losses

Management estimates and maintains an allowance for loan losses at a level sufficient to cover charge-offs expected over the next two years, plus an additional allowance to cover life-of-loan expected losses for loans classified as a troubled debt restructuring ("TDR"). The provision for loan losses increases the related allowance for loan losses. Generally, the provision for loan losses rises when future charge-offs are expected to increase and falls when future charge-offs are expected to decline. Our loss exposure and resulting provision for loan losses is relatively small for FFELP Loans because we generally bear a maximum of 3% loss exposure on defaults. We bear the full credit exposure on our Private Education Loans. Our provision for FFELP Loan losses in our Federal Education Loans segment was $30 million in 2019 compared with $70 million in 2018. The provision for loan losses in our Consumer Lending segment is impacted by risk characteristics, such as school type, loan status (in-school, grace, forbearance, repayment and delinquency), loan seasoning (number of months a payment has been made by a customer), underwriting criteria (e.g., credit scores), existence of a cosigner and the current economic environment. Our provision for Private Education Loan losses in our Consumer Lending segment was $226 million in 2019 compared with $299 million in 2018.

Charge-Offs and Delinquencies

When we conclude a loan is uncollectible, the unrecoverable portion of the loan is charged against the allowance for loan losses in the applicable segment. Charge-off data provides relevant information with respect to the performance of our loan portfolios. Management focuses on delinquencies as well as the progression of loans from early to late stage delinquency. Excluding the $21 million and $32 million of charge-offs on the receivable for partially charged-off loans in 2019 and 2018, respectively, that occurred as a result of changing the charge-off rate from 80.5% to 81% in third-quarter 2019 and from 79% to 80.5% in third-quarter 2018, the Consumer Lending segment's charge-offs decreased to $364 million in 2019, down $7 million from $371 million in 2018. Delinquencies are a very important indicator of the potential future credit performance. Private Education Loan delinquencies decreased to $1.0 billion in 2019, down $290 million from 2018. The Federal Education Loans segment's delinquencies increased to $6.3 billion in 2019, up $232 million from 2018. FFELP Loan charge-offs decreased to $42 million in 2019 compared with $54 million in 2018.

Servicing, Asset Recovery and Business Processing Revenues

We earn servicing revenues from servicing education loans which is primarily driven by the underlying volume of loans we are servicing on behalf of others. We earn asset recovery revenue primarily related to default aversion and post-default collection work we perform on education loans and on various receivables on behalf of our federal, state, court and municipal clients. The fees we recognize are primarily driven by our success in collecting or rehabilitating defaulted or delinquent loans and receivables. We also earn business processing revenue related to transaction processing we perform on behalf of our municipal, public authority and healthcare clients. The fees we recognize are primarily driven by the number of transactions processed.

Other Income / (Loss)

In managing our loan portfolios and funding sources, we periodically engage in sales of loans and the repurchase of our outstanding debt. In each case, depending on market conditions, we may incur gains or losses from these transactions that affect our results from operations.

Operating Expenses

The operating expenses reported for our Federal Education Loans, Consumer Lending and Business Processing segments are those that are directly attributable to the generation of revenues by those segments. We include unallocated shared services expenses as well as restructuring/other reorganization costs in our Other segment. Unallocated shared services expenses primarily include executive management, the board of directors, accounting, finance, legal, human resources, compliance and risk management, regulatory-related costs and stock-based compensation expense and certain 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.

Income Tax Expense

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 required 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 was 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 and $224 million for Core Earnings, which is reflected as incremental income tax expense in 2017. This non-cash remeasurement adjustment is included in the Other segment. Income tax expense in 2019 and 2018 was significantly benefitted as our corporate federal statutory tax rate was 21% compared to 35% in previous years.

2019 Summary of Results

We report financial results on a GAAP basis and also present certain Core Earnings performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these Core Earnings measures to monitor our business performance. See “Non-GAAP Financial Measures — Core Earnings” of this Item 7 for a further discussion and a complete reconciliation between GAAP net income and Core Earnings.

2019 GAAP net income was $597 million ($2.56 diluted earnings per share), compared with $395 million ($1.49 diluted earnings per share) in the prior year. See “Consolidated Earnings Summary – GAAP Basis” for a discussion of the primary contributors to the change in GAAP earnings between periods.

Core Earnings for the year were $607 million ($2.60 diluted Core Earnings per share), compared with $519 million ($1.96 diluted Core Earnings per share) for 2018. Full-year 2019 and 2018 adjusted diluted Core Earnings per share were $2.64 and $2.09, respectively, excluding restructuring and regulatory-related expenses of $12 million and $42 million, respectively. Regulatory costs for 2019 are net of $30 million in insurance reimbursements for covered costs related to such matters. See “Reportable Segment Earnings Summary – Core Earnings Basis” for a discussion of the primary contributors to the change in Core Earnings between periods.

Highlights of 2019 include:

- FFELP Loan charge-offs decreased 22% from the prior year;
- asset recovery revenue in our Federal Education Loans segment increased $67 million (41%) from the prior year;
- originated $4.9 billion of Private Education Loans, a 75% increase from $2.8 billion in 2018;
- Private Education Loan delinquency rate declined 22% from the prior year;
- In our Business Processing segment, EBITDA[1] increased 11% from $44 million to $49 million with an EBITDA margin of 19%;
- contingent collections receivables inventory in our Business Processing segment increased 3% to $14.9 billion from 2018;
- repurchased 34.5 million common shares for $440 million;
- approved a new $1 billion multi-year share repurchase program;
- paid $147 million in common dividends;
- issued $2.7 billion of FFELP asset-backed securities (“ABS”) and $4.1 billion of Private Education Loan ABS; and
- retired $2.0 billion of senior unsecured debt.

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

Results of Operations

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

GAAP Consolidated Statements of Income

	Years Ended December 31,			Increase (Decrease)			
				2019 vs. 2018		2018 vs. 2017	
(Dollars in millions, except per share amounts)	2019	2018	2017	$	%	$	%
Interest income							
FFELP Loans	$ 2,847	$ 3,027	$ 2,693	$ (180)	(6)%	$ 334	12%
Private Education Loans	1,731	1,778	1,634	(47)	(3)	144	9
Other loans	2	6	13	(4)	(67)	(7)	(54)
Cash and investments	93	97	43	(4)	(4)	54	126
Total interest income	4,673	4,908	4,383	(235)	(5)	525	12
Total interest expense	3,488	3,668	2,971	(180)	(5)	697	23
Net interest income	1,185	1,240	1,412	(55)	(4)	(172)	(12)
Less: provisions for loan losses	258	370	426	(112)	(30)	(56)	(13)
Net interest income after provisions for loan losses	927	870	986	57	7	(116)	(12)
Other income (loss):							
Servicing revenue	240	274	290	(34)	(12)	(16)	(6)
Asset recovery and business processing revenue	488	430	475	58	13	(45)	(9)
Other income	45	17	9	28	165	8	89
Gains on sales of loans and investments	16	—	3	16	100	(3)	(100)
Gains (losses) on debt repurchases	45	19	(3)	26	137	22	(733)
Gains (losses) on derivative and hedging activities, net	22	(38)	22	60	158	(60)	(273)
Total other income	856	702	796	154	22	(94)	(12)
Expenses:							
Operating expenses	984	984	966	—	—	18	2
Goodwill and acquired intangible assets impairment and amortization expense	30	47	23	(17)	(36)	24	104
Restructuring/other reorganization expenses	6	13	29	(7)	(54)	(16)	(55)
Total expenses	1,020	1,044	1,018	(24)	(2)	26	3
Income before income tax expense	763	528	764	235	45	(236)	(31)
Income tax expense	166	133	472	33	25	(339)	(72)
Net income	$ 597	$ 395	$ 292	$ 202	51%	$ 103	35%
Basic earnings per common share	$ 2.59	$ 1.52	$ 1.06	$ 1.07	70%	$ .46	43%
Diluted earnings per common share	$ 2.56	$ 1.49	$ 1.04	$ 1.07	72%	$ .45	43%
Dividends per common share	$ .64	$ .64	$ .64	$ —	—%	$ —	—%

Consolidated Earnings Summary — GAAP basis

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

For the year ended December 31, 2019, net income was $597 million, or $2.56 diluted earnings per common share, compared with net income of $395 million, or $1.49 diluted earnings per common share, for the year ended December 31, 2018.

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

- Net interest income decreased by $55 million, primarily as a result of the continued natural paydown of the FFELP and non-refinance Private Education Loan portfolios, which was partially offset by the growth in the Private Education Refinance Loan portfolio and improved cost of funds primarily in the Private Education Loan portfolio.
- Provisions for loan losses decreased $112 million:
  - The provision for FFELP loan losses decreased $40 million primarily due to a higher temporary charge-off estimate in the year-ago period as a result of an elevated use of disaster forbearance at the end of 2017 and other factors. Outstanding FFELP Loans decreased $7.7 billion from the year-ago period.
  - The provision for Private Education Loan losses decreased $73 million. Loan delinquencies greater than 90 days decreased by $175 million and forbearances decreased by $72 million compared with the year-ago period. Outstanding non-refinance Private Education Loans decreased $3.2 billion from the year-ago period.
- Servicing revenue decreased $34 million due to a $12 million gain on the sale of third-party guarantor servicing contracts in the year-ago period. The remaining decrease is primarily the result of the natural paydown of the FFELP Loan portfolio serviced for third parties.
- Asset recovery and business processing revenue increased by $58 million primarily due to higher account resolution.
- Other income increased $28 million primarily due to a decrease in foreign currency translation losses. The foreign currency translation gains (losses) relate to a portion of our foreign currency denominated debt that does not receive hedge accounting treatment. These gains (losses) are partially offset by the "gains (losses) on derivative and hedging activities, net" line item on the income statement related to the derivatives used to economically hedge these debt instruments.
- Net gains on sales of loans increased by $16 million, due to the $16 million gain on sale of $412 million of Private Education Refinance Loans in second-quarter 2019.
- Net gains on debt repurchases increased by $26 million. We repurchased $1.2 billion of debt at a $45 million gain in 2019 compared to $2.8 billion repurchased at a $19 million gain in the year-ago period. Debt repurchase activity fluctuates based on market fundamentals and our liability management strategy. As a result, gains or losses on our debt repurchase activity may vary in future periods.
- Net gains on derivative and hedging activities increased $60 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which impact the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments fluctuate based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may vary significantly in future periods.
- Excluding net regulatory-related costs of $6 million and $29 million, respectively, operating expenses were $978 million and $955 million in 2019 and 2018, respectively. On an adjusted basis, expenses were $25 million lower primarily as a result of ongoing cost-saving initiatives across the Company. Adjusted 2019 expenses exclude $13 million of costs associated with proxy contest matters and $20 million of transition services costs. Adjusted 2018 expenses exclude the release of a $40 million reserve related to the resolution of a contingency, a $9 million one-time fee paid to convert $3 billion of Private Education Loans from a third-party servicer to Navient's servicing platform and $16 million of transition services costs. Regulatory costs in the current year are net of $30 million in insurance reimbursements for covered costs related to such matters.
- Acquired intangible asset impairment and amortization expense decreased $17 million primarily as the result of the notice of termination of a contract in our government services reporting unit in the year-ago period which resulted in $16 million of impairment on the related intangible asset.
- During 2019 and 2018, the Company incurred $6 million and $13 million, respectively, of restructuring/other reorganization expenses in connection with an effort to reduce costs and improve operating efficiency. These charges were due primarily to severance-related costs.

- The effective income tax rate decreased from 25% to 22% primarily due to an increase in the value of state deferred tax assets and a decrease in state unrecognized tax benefits in the current period.

We repurchased 34.5 million and 17.4 million shares of our common stock during the years ended December 31, 2019 and 2018, respectively. As a result of repurchases, our average outstanding diluted shares decreased by 31 million common shares (or 12%) from the year-ago period.

Non-GAAP Financial Measures

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

1. Core Earnings

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

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

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

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

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

The following tables show Core Earnings for each reportable segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP and reported in "Note 16 — Segment Reporting."

	Year Ended December 31, 2019								
						Adjustments			
(Dollars in millions)	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassi-fications	Additions/ (Subtractions)	Total Adjustments[1]	Total GAAP
Interest income:									
Education loans	$ 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:

	Year Ended December 31, 2019		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	$ (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.

(Dollars in millions)	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Adjustments: Reclassi-fications	Adjustments: Additions/ (Subtractions)	Adjustments: Total Adjustments[(1)]	Total GAAP
	Year Ended December 31, 2018								
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)	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
	Year Ended December 31, 2018		
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.

	Year Ended December 31, 2017								
						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	$ 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:

	Year Ended December 31, 2017		
(Dollars in millions)	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.

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

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

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

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

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

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

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Core Earnings derivative adjustments:			
Gains (losses) on derivative and hedging activities, net, included in other income	$ 22	$ (38)	$ 22
Plus: Gains (losses) on fair value hedging activity included in interest expense	21	—	—
Total gains (losses)	43	(38)	22
Plus: Reclassification of settlement expense (income) on derivative and hedging activities, net(1)	41	22	77
Mark-to-market gains (losses) on derivative and hedging activities, net(2)	84	(16)	99
Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings	(68)	(70)	(55)
Other derivative accounting adjustments(3)	(11)	(4)	1
Total net impact of derivative accounting	$ 5	$ (90)	$ 45

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Reclassification of settlements on derivative and hedging activities:			
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (8)	$ (17)	$ (69)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	6	8	(8)
Net realized gains (losses) on terminated derivative contracts reclassified to other income	(39)	(13)	—
Total reclassifications of settlements on derivative and hedging activities	$ (41)	$ (22)	$ (77)

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Floor Income Contracts	$ (15)	$ 32	$ 150
Basis swaps	—	28	(6)
Foreign currency hedges	65	(82)	(25)
Other	34	6	(20)
Total mark-to-market gains (losses) on derivative and hedging activities, net	$ 84	$ (16)	$ 99

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

Cumulative Impact of Derivative Accounting under GAAP compared to Core Earnings

As of December 31, 2019, derivative accounting has decreased GAAP equity by approximately $235 million as a result of cumulative net mark-to-market losses (after tax) recognized under GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these after-tax mark-to-market net gains and losses related to derivative accounting.

	Years Ended December 31,		
(Dollars in millions)	**2019**	**2018**	**2017**
Beginning impact of derivative accounting on GAAP equity	$ (34)	$ 5	$ (90)
Net impact of net mark-to-market gains (losses) under derivative accounting(1)	(201)	(39)	95
Ending impact of derivative accounting on GAAP equity	$ (235)	$ (34)	$ 5

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

	Years Ended December 31,		
(Dollars in millions)	**2019**	**2018**	**2017**
Total pre-tax net impact of derivative accounting recognized in net income(2)	$ 5	$ (90)	$ 45
Tax and other impacts of derivative accounting adjustments	(2)	12	(5)
Change in mark-to-market gains (losses) on derivatives, net of tax recognized in other comprehensive income	(204)	39	55
Net impact of net mark-to-market gains (losses) under derivative accounting	$ (201)	$ (39)	$ 95

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

Hedging Embedded Floor Income

Net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods. As of December 31, 2019, the remaining amortization term of the net floor premiums was approximately 4 years. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

In addition to using Floor Income Contracts, we also use pay-fixed interest rate swaps to hedge the embedded Floor Income within FFELP Loans. These interest rate swaps qualify as GAAP hedges and are accounted for as cash flow hedges of variable rate debt. For GAAP, mark-to-market gains and losses on these hedges are recorded in accumulated other comprehensive income. Hedged Floor Income from these cash flow hedges that has not been recognized into Core Earnings and GAAP as of the respective period-ends is presented in the table below. This hedged Floor Income will be recognized in Core Earnings and GAAP in future periods and is presented net of tax. As of December 31, 2019, the remaining hedged period is approximately 5 years. Historically, we have used pay-fixed interest rate swaps on a periodic basis to hedge embedded Floor Income and depending upon market conditions and pricing, we may enter into swaps in the future. The balance of unrecognized hedged Floor Income will increase as we enter into new swaps and decline as revenue is recognized.

(Dollars in millions)	December 31, 2019	December 31, 2018	December 31, 2017
Unamortized net Floor premiums (net of tax)	$ (76)	$ (124)	$ (168)
Unrecognized hedged Floor Income related to pay-fixed interest rate swaps (net of tax)	(476)	(615)	(703)
Total hedged Floor Income, net of tax(1)(2)	$ (552)	$ (739)	$ (871)

(1) $(717) million, $(959) million and $(1.1) billion on a pre-tax basis as of December 31, 2019, 2018 and 2017, respectively.

(2) Of the $552 million as of December 31, 2019, approximately $191 million, $164 million and $105 million will be recognized as part of Core Earnings in 2020, 2021 and 2022, respectively.

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Core Earnings goodwill and acquired intangible asset adjustments	$ (30)	$ (47)	$ (23)

2. Tangible Net Asset Ratio

This ratio measures the amount of assets available to retire the Company's unsecured debt. Management and Navient's equity investors, credit rating agencies and debt capital investors use this ratio to monitor and make decisions about the appropriate level of unsecured funding. The tangible net asset ratio is calculated as:

(Dollars in billions)	December 31, 2019	December 31, 2018
GAAP assets	$ 94.9	$ 104.2
Less:		
Goodwill and acquired intangible assets	.8	.8
Secured debt	80.7	87.8
Other liabilities, adjustments for the impact of derivative accounting under GAAP and unamortized net floor premiums	.9	1.1
Tangible net assets	$ 12.5	$ 14.5
Divided by:		
Unsecured debt (par)	$ 9.6	$ 11.6
Tangible net asset ratio	1.30x	1.25x

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

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Pre-tax income	$ 43	$ 38	$ 25
Plus:			
Depreciation and amortization expense[1]	6	6	3
EBITDA	$ 49	$ 44	$ 28
Divided by:			
Total revenue	$ 258	$ 267	$ 212
EBITDA margin	19%	17%	13%

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

Reportable Segment Earnings Summary — Core Earnings Basis

Federal Education Loans Segment

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017	% Increase (Decrease) 2019 vs. 2018	2018 vs. 2017
Interest income:					
FFELP Loans	$ 2,907	$ 3,080	$ 2,679	(6)%	15%
Other loans	1	4	13	(75)	(69)
Cash and investments	50	46	29	9	59
Total interest income	2,958	3,130	2,721	(5)	15
Total interest expense	2,376	2,467	2,022	(4)	22
Net interest income	582	663	699	(12)	(5)
Less: provision for loan losses	30	70	44	(57)	59
Net interest income after provision for loan losses	552	593	655	(7)	(9)
Other income (loss):					
Servicing revenue	229	262	280	(13)	(6)
Asset recovery and business processing revenue	230	163	263	41	(38)
Other income	28	24	3	17	700
Gains on sales of loans and investments	—	—	3	—	(100)
Total other income	487	449	549	8	(18)
Direct operating expenses	359	298	316	20	(6)
Income before income tax expense	680	744	888	(9)	(16)
Income tax expense	155	164	321	(5)	(49)
Core Earnings	$ 525	$ 580	$ 567	(9)%	2%

Highlights of 2019 vs. 2018

- Core Earnings were $525 million compared to $580 million in 2018.
- Net interest income decreased $81 million primarily due to the continued natural paydown of the portfolio.
- Provision for loan losses decreased $40 million. Charge-offs declined 22% to $42 million from 2018.
- Total other income increased $38 million primarily due to a $67 million (41%) increase in asset recovery revenue, primarily as a result of higher account resolution.
- On an adjusted basis, expenses increased $17 million primarily due to the increase in asset recovery revenue. Adjusted 2019 expenses exclude $20 million of transition services costs and adjusted 2018 expenses exclude $16 million of transition services costs and the release of a $40 million reserve related to the resolution of a contingency.
- The Company acquired $445 million of FFELP Loans in 2019.

Core Earnings key performance metrics are as follows:

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Segment net interest margin	.83%	.83%	.79%
FFELP Loans:			
FFELP Loan spread	.89%	.90%	.87%
Provision for loan losses	$ 30	$ 70	$ 42
Charge-offs	$ 42	$ 54	$ 49
Charge-off rate	.07%	.09%	.07%
Total delinquency rate	11.7%	10.2%	12.7%
Greater than 90-day delinquency rate	5.8%	5.3%	6.2%
Forbearance rate	12.2%	12.3%	11.2%
(Dollars in billions)			
Number of accounts serviced for ED (in millions)	5.6	5.9	6.1
Total federal loans serviced	$ 287	$ 292	$ 296
Contingent collections receivables inventory	$ 19.0	$ 28.3	$ 15.0

Segment Net Interest Margin

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

	Years Ended December 31, 2019	2018	2017
FFELP Loan yield	3.79%	3.57%	2.69%
Hedged Floor Income	.42	.40	.38
Unhedged Floor Income	.05	.03	.08
FFELP Loan net yield	4.26	4.00	3.15
FFELP Loan cost of funds	(3.37)	(3.10)	(2.28)
FFELP Loan spread	.89	.90	.87
Other interest-earning asset spread impact	(.06)	(.07)	(.08)
Core Earnings basis segment net interest margin(1)	.83%	.83%	.79%
Core Earnings basis segment net interest margin(1)	.83%	.83%	.79%
Adjustment for GAAP accounting treatment(2)	(.05)	(.10)	.02
GAAP-basis segment net interest margin(1)	.78%	.73%	.81%

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
FFELP Loans	$ 68,271	$ 76,971	$ 84,989
Other interest-earning assets	2,297	2,640	3,376
Total FFELP Loan Core Earnings basis interest-earning assets	$ 70,568	$ 79,611	$ 88,365

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

The Company acquired $445 million of FFELP Loans in 2019. As of December 31, 2019, our FFELP Loan portfolio totaled $64.6 billion, comprised of $21.7 billion of FFELP Stafford Loans and $42.9 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios as of December 31, 2019 was 5 years and 7 years, respectively, assuming a Constant Prepayment Rate ("CPR") of 8% and 4%, respectively.

Floor Income

The following table analyzes on a Core Earnings basis the ability of the FFELP Loans in our portfolio to earn Floor Income after December 31, 2019 and 2018, based on interest rates as of those dates.

(Dollars in billions)	December 31, 2019	December 31, 2018
Education loans eligible to earn Floor Income	$ 64.0	$ 71.6
Less: post-March 31, 2006 disbursed loans required to rebate Floor Income	(29.1)	(32.7)
Less: economically hedged Floor Income	(17.9)	(19.9)
Education loans eligible to earn Floor Income after rebates and economically hedged	$ 17.0	$ 19.0
Education loans earning Floor Income	$ 9.1	$ 1.8

The following table presents a projection of the average balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has been economically hedged with derivatives for the period January 1, 2020 to December 31, 2024.

(Dollars in billions)	2020	2021	2022	2023	2024
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged	$ 17.7	$ 12.6	$ 11.0	$ 6.5	$ .9

FFELP Provision for Loan Losses

The provision for FFELP Loan losses was $30 million in 2019, down $40 million from 2018 due to a higher temporary charge-off estimate in the year-ago period as a result of an elevated use of disaster forbearance at the end of 2017 and other factors. Outstanding FFELP Loans decreased $7.7 billion from the year-ago period.

Servicing Revenue

Servicing revenue decreased $33 million in 2019 due to a $12 million gain on the sale of third-party guarantor servicing contracts in 2018. The remaining decrease is primarily the result of the natural paydown of the FFELP Loan portfolio serviced for third parties.

The Company services loans for approximately 5.6 million customer accounts under its ED servicing contract as of December 31, 2019, compared with 5.9 million and 6.1 million customer accounts serviced as of December 31, 2018 and 2017, respectively. Third-party loan servicing fees in 2019, 2018 and 2017 included $147 million, $148 million and $150 million, respectively, of servicing revenue related to the ED servicing contract.

Asset Recovery and Business Processing Revenue

Asset recovery and business processing revenue increased $67 million in 2019 compared to 2018 primarily as a result of higher account resolution.

Operating Expenses

Operating expenses for the Federal Education Loans segment include costs incurred to acquire FFELP Loans and perform servicing and asset recovery activities on our FFELP Loan portfolio, federal education loans held by ED and other institutions. On an adjusted basis, expenses were $17 million higher in 2019 compared with 2018 primarily as a result of increased asset recovery revenue. Adjusted 2019 expenses exclude $20 million in transition services costs and adjusted 2018 expenses exclude $16 million in transition services costs and the release of a $40 million contingency reserve.

Consumer Lending Segment

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

	Years Ended December 31,			% Increase (Decrease)	
(Dollars in millions)	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Interest income:					
Private Education Loans	$ 1,731	$ 1,778	$ 1,634	(3)%	9%
Other Loans	1	2	—	(50)	100
Cash and investments	16	13	5	23	160
Interest income	1,748	1,793	1,639	(3)	9
Interest expense	980	1,013	825	(3)	23
Net interest income	768	780	814	(2)	(4)
Less: provision for loan losses	228	300	382	(24)	(21)
Net interest income after provision for loan losses	540	480	432	13	11
Other income (loss):					
Servicing revenue	11	12	10	(8)	20
Other income	1	—	—	100	—
Gains on sales of loans	16	—	—	100	—
Total other income	28	12	10	133	20
Direct operating expenses	156	169	156	(8)	8
Income before income tax expense	412	323	286	28	13
Income tax expense	96	71	103	35	(31)
Core Earnings	$ 316	$ 252	$ 183	25%	38%

Highlights of 2019 vs. 2018

- Originated $4.9 billion of Private Education Loans, a 75% increase from $2.8 billion in 2018.
- Core Earnings were $316 million compared to $252 million in 2018.
- Net interest income decreased $12 million primarily due to the continued natural paydown of the non-refinance Private Education Loan portfolio, which was partially offset by the growth in the Private Education Refinance Loan portfolio and improved cost of funds.
- Provision for Private Education Loan losses decreased $73 million. Private Education Loan performance results include:
    - Excluding the $21 million and $32 million, respectively, related to the change in the portion of the loan amount charged off at default, charge-offs were $364 million, down $7 million from $371 million in 2018.
    - Private Education Loan delinquencies greater than 90-days: $439 million, down $175 million from $614 million in 2018.
    - Private Education Loan delinquencies greater than 30-days: $1.0 billion, down $290 million from $1.3 billion in 2018.
    - Private Education Loan forbearances: $604 million, down $72 million from $676 million in 2018.
- Gains on sales of loans increased by $16 million due to the $16 million gain on sale of $412 million of Private Education Refinance Loans in second-quarter 2019.
- Adjusted expenses were $4 million lower primarily as a result of ongoing cost-saving initiatives across the Company. Adjusted 2018 expenses exclude a $9 million one-time fee paid to convert $3 billion of Private Education Loans from a third-party servicer to Navient’s servicing platform.

Core Earnings key performance metrics are as follows:

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Segment net interest margin	3.30%	3.24%	3.33%
Private Education Loans (including Refinance Loans):			
Private Education Loan spread	3.52%	3.49%	3.54%
Provision for loan losses	$ 226	$ 299	$ 382
Charge-offs(1)	$ 364	$ 371	$ 443
Charge-off rate(1)	1.7%	1.7%	2.0%
Total delinquency rate	4.6%	5.9%	5.8%
Greater than 90-day delinquency rate	2.0%	2.8%	2.6%
Forbearance rate	2.7%	3.0%	3.8%
Private Education Refinance Loans:			
Charge-offs	$ 3	$ .2	$ —
Greater than 90-day delinquency rate	—%	—%	—%
Average balance of Private Education Refinance Loans	$ 4,669	$ 1,902	$ 121
Ending balance of Private Education Refinance Loans	$ 6,423	$ 3,212	$ 761
Private Education Refinance Loan originations	$ 4,893	$ 2,800	$ 233

(1) Excludes the $21 million and $32 million of charge-offs in 2019 and 2018, respectively, on the receivable for partially charged-off loans that occurred as a result of changing the charge-off rate from 80.5% to 81% and 79% to 80.5% in third-quarters 2019 and 2018, respectively.

Segment Net Interest Margin

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

	Years Ended December 31, 2019	2018	2017
Private Education Loan yield	7.69%	7.64%	6.88%
Private Education Loan cost of funds	(4.17)	(4.15)	(3.34)
Private Education Loan spread	3.52	3.49	3.54
Other interest-earning asset spread impact	(.22)	(.25)	(.21)
Core Earnings basis segment net interest margin(1)	3.30%	3.24%	3.33%
Core Earnings basis segment net interest margin(1)	3.30%	3.24%	3.33%
Adjustment for GAAP accounting treatment(2)	.06	.08	.05
GAAP basis segment net interest margin(1)	3.36%	3.32%	3.38%

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017
Private Education Loans	$ 22,512	$ 23,281	$ 23,762
Other interest-earning assets	772	824	651
Total Private Education Loan Core Earnings basis interest-earning assets	$ 23,284	$ 24,105	$ 24,413

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

As of December 31, 2019, our Private Education Loan portfolio totaled $22.2 billion. The weighted-average life of this portfolio as of December 31, 2019 was 5 years assuming a CPR of 9%.

Private Education Loan Provision for Loan Losses

Allowance for Private Education Loan Losses

Our allowance for Private Education Loan losses does not include Purchased Credit Impaired ("PCI") loans as those loans are separately reserved for, as needed. No allowance for loan losses has been established for these loans as of December 31, 2019. Related to the $2.8 billion of Purchased Non-Credit Impaired Loans acquired in 2017 at a discount, there is no allowance for loan losses established as of December 31, 2019, as the remaining purchased discount associated with the Private Education Loans of $268 million as of December 31, 2019 remains greater than the incurred losses. However, in accordance with our policy, there was $14 million, $16 million and $9 million of both charge-offs and provision recorded for Purchased Non-Credit Impaired Loans in 2019, 2018 and 2017, respectively.

	Years Ended December 31,		
(Dollars in millions)	**2019**	**2018**	**2017**
Allowance at beginning of period	$ 1,201	$ 1,297	$ 1,351
Provision for Private Education Loan losses:			
Purchased Non-Credit Impaired Loans, acquired at a discount	14	16	9
Remaining loans	212	283	373
Total provision	226	299	382
Charge-offs:			
Net adjustment resulting from the change in the charge-off rate(1)	(21)	(32)	—
Net charge-offs remaining(2)	(364)	(371)	(443)
Total charge-offs(2)	(385)	(403)	(443)
Reclassification of interest reserve(3)	7	8	7
Loan sales	(1)	—	—
Allowance at end of period	$ 1,048	$ 1,201	$ 1,297
Net charge-offs as a percentage of average loans in repayment, excluding the net adjustment resulting from the change in the charge-off rate (annualized)(1)	1.7%	1.7%	2.0%
Net adjustment resulting from the change in the charge-off rate as a percentage of average loans in repayment (annualized)(1)	.1%	.1%	—%
Allowance coverage of net charge-offs (annualized)	2.7	3.0	2.9
Allowance as a percentage of ending total loans	4.4%	5.0%	5.1%
Allowance as a percentage of ending loans in repayment	4.7%	5.5%	5.7%
Ending total loans(4)	$ 23,910	$ 24,205	$ 25,640
Average loans in repayment	$ 21,859	$ 22,312	$ 22,342
Ending loans in repayment	$ 22,089	$ 22,037	$ 22,924

(1) In 2018, the portion of the loan amount charged off at default increased from 79% to 80.5% and in 2019, it increased from 80.5% to 81%. These changes 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.

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

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

In establishing the allowance for Private Education Loan losses as of December 31, 2019, we considered several factors with respect to our Private Education Loan portfolio. Excluding the $21 million and $32 million related to changing the charge-off rate on defaulted loans, charge-offs decreased $7 million. Loan delinquencies greater than 90 days decreased by $175 million and forbearances decreased by $72 million compared with 2018. Outstanding non-Refinance Private Education Loans decreased $3.2 billion from 2018. These factors primarily resulted in the $73 million decrease in provision.

Operating Expenses

Operating expenses for our Consumer Lending segment include costs incurred to originate, acquire, service and collect on our consumer loan portfolio. On an adjusted basis, expenses in 2019 were $4 million lower than 2018 primarily as a result of ongoing cost-saving initiatives across the Company. Adjusted 2018 expenses exclude a $9 million one-time fee paid to convert $3 billion of Private Education Loans from a third-party servicer to Navient's servicing platform.

Business Processing Segment

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

(Dollars in millions)	Years Ended December 31, 2019	2018	2017	% Increase (Decrease) 2019 vs. 2018	2018 vs. 2017
Business processing revenue	$ 258	$ 267	$ 212	(3)%	26%
Direct operating expenses	215	229	187	(6)	22
Income before income tax expense	43	38	25	13	52
Income tax expense	10	8	9	25	(11)
Core Earnings	$ 33	$ 30	$ 16	10%	88%

Highlights of 2019 vs. 2018

- Core Earnings were $33 million compared to $30 million in 2018.
- EBITDA was $49 million, up 11% from 2018 with the EBITDA margin increasing 12% from 17% in 2018 to 19% in 2019.
- The increase in Core Earnings and EBITDA is primarily from reduced expenses in connection with efficiency initiatives.
- Revenue declined $9 million from 2018 primarily as a result of contract terminations.
- Contingent collections receivables inventory increased 3% to $14.9 billion from 2018 as a result of new placements.

Key segment metrics are as follows:

(Dollars in billions)	As of December 31, 2019	2018	2017
Revenue from government services	$ 154	$ 174	$ 134
Revenue from healthcare services	104	93	78
Total fee revenue	$ 258	$ 267	$ 212
EBITDA(1)	$ 49	$ 44	$ 28
EBITDA Margin(1)	19%	17%	13%
Contingent collections receivables inventory (in billions)	$ 14.9	$ 14.4	$ 11.4

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

Other Segment

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

	Years Ended December 31,			% Increase (Decrease)	
(Dollars in millions)	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Net interest loss after provision for loan losses	$ (134)	$ (154)	$ (134)	(13)%	15%
Other income (loss):					
Other income	14	6	16	133	(63)
Gains (losses) on debt repurchases	33	9	(3)	267	(400)
Total other income	47	15	13	213	15
Expenses:					
Unallocated shared services expenses:					
Unallocated information technology costs	80	98	116	(18)	(16)
Unallocated corporate costs	174	190	191	(8)	(1)
Total unallocated shared services expenses	254	288	307	(12)	(6)
Restructuring/other reorganization expenses	6	13	29	(54)	(55)
Total expenses	260	301	336	(14)	(10)
Loss before income tax expense (benefit)	(347)	(440)	(457)	(21)	(4)
Income tax expense (benefit)	(80)	(97)	58	(18)	(267)
Core Earnings (loss)	$ (267)	$ (343)	$ (515)	(22)%	(33)%

Net Interest Loss after Provision for Loan Losses

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

Gains (Losses) on Debt Repurchases

We repurchased $1.2 billion and $2.8 billion of unsecured debt in 2019 and 2018, respectively. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Unallocated Shared Services Expenses

Unallocated shared services expenses are comprised of costs primarily related to 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. On an adjusted basis, expenses were $235 million in 2019 compared to $259 million in 2018. This $24 million decrease is primarily a result of ongoing cost-savings initiatives across the Company. Adjusted expenses exclude $6 million and $29 million of regulatory-related costs in 2019 and 2018, respectively, and $13 million of costs associated with proxy contest matters in 2019.

Restructuring/Other Reorganization Expenses

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

Income Tax Expense

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 required 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 was 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 and $224 million for Core Earnings, which is reflected as incremental income tax expense in 2017. This non-cash remeasurement adjustment is included in the Other segment. Because the federal corporate income tax rate was reduced from 35% to 21%, we have experienced a significant reduction in our income tax expense in 2019 and 2018.

Financial Condition

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

Average Balance Sheets — GAAP

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

	Years Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Loans	$ 68,271	4.17%	$ 76,971	3.93%	$ 84,989	3.17%
Private Education Loans	22,512	7.69	23,281	7.64	23,762	6.88
Other loans	28	8.55	75	7.68	130	10.33
Cash and investments	4,549	2.04	5,447	1.77	5,159	.82
Total interest-earning assets	95,360	4.90%	105,774	4.64%	114,040	3.84%
Non-interest-earning assets	3,357		3,601		3,852	
Total assets	$ 98,717		$ 109,375		$ 117,892	
Average Liabilities and Equity						
Short-term borrowings	$ 6,944	4.31%	$ 4,833	4.61%	$ 3,194	3.85%
Long-term borrowings	86,924	3.67	99,195	3.47	109,088	2.61
Total interest-bearing liabilities	93,868	3.72%	104,028	3.52%	112,282	2.65%
Non-interest-bearing liabilities	1,487		1,663		2,004	
Equity	3,362		3,684		3,606	
Total liabilities and equity	$ 98,717		$ 109,375		$ 117,892	
Net interest margin		1.24%		1.17%		1.24%

Rate/Volume Analysis — GAAP

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

	Increase	Change Due To	
(Dollars in millions)	(Decrease)	Rate	Volume
2019 vs. 2018			
Interest income	$ (235)	$ 266	$ (501)
Interest expense	(180)	191	(371)
Net interest income	$ (55)	$ 75	$ (130)
2018 vs. 2017			
Interest income	$ 525	$ 859	$ (334)
Interest expense	697	928	(231)
Net interest income	$ (172)	$ (69)	$ (103)

Summary of our Education Loan Portfolio

Ending Education Loan Balances, net

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

(Dollars in millions)	December 31, 2018 FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total education loan portfolio:					
In-school(1)	$ 59	$ —	$ 59	$ 31	$ 90
Grace, repayment and other(2)	24,249	47,422	71,671	23,500	95,171
Total, gross	24,308	47,422	71,730	23,531	95,261
Unamortized premium/(discount)	377	222	599	(759)	(160)
Receivable for partially charged-off loans	—	—	—	674	674
Allowance for loan losses	(44)	(32)	(76)	(1,201)	(1,277)
Total education loan portfolio	$ 24,641	$ 47,612	$ 72,253	$ 22,245	$ 94,498
% of total FFELP	34%	66%	100%		
% of total	26%	50%	76%	24%	100%

(Dollars in millions)	December 31, 2017 FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total education loan portfolio:					
In-school(1)	$ 88	$ —	$ 88	$ 54	$ 142
Grace, repayment and other(2)	27,949	53,060	81,009	24,826	105,835
Total, gross	28,037	53,060	81,097	24,880	105,977
Unamortized premium/(discount)	407	259	666	(924)	(258)
Receivable for partially charged-off loans	—	—	—	760	760
Allowance for loan losses	(35)	(25)	(60)	(1,297)	(1,357)
Total education loan portfolio	$ 28,409	$ 53,294	$ 81,703	$ 23,419	$ 105,122
% of total FFELP	35%	65%	100%		
% of total	27%	51%	78%	22%	100%

(1) Loans for customers still attending school and are not yet required to make payments on the loan.
(2) Includes loans in deferment or forbearance.

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

(Dollars in millions)	December 31, 2015 FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total education loan portfolio:					
In-school(1)	$ 259	$ —	$ 259	$ 216	$ 475
Grace, repayment and other(2)	36,016	59,118	95,134	27,299	122,433
Total, gross	36,275	59,118	95,393	27,515	122,908
Unamortized premium/(discount)	627	460	1,087	(531)	556
Receivable for partially charged-off loans	—	—	—	881	881
Allowance for loan losses	(48)	(30)	(78)	(1,471)	(1,549)
Total education loan portfolio	$ 36,854	$ 59,548	$ 96,402	$ 26,394	$ 122,796
% of total FFELP	38%	62%	100%		
% of total	30%	48%	78%	22%	100%

(1) Loans for customers still attending school and are not yet required to make payments on the loan.
(2) Includes loans in deferment or forbearance.

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

(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
	Year Ended December 31, 2019				
Total	$ 23,198	$ 45,073	$ 68,271	$ 22,512	$ 90,783
% of FFELP	34%	66%	100%		
% of total	25%	50%	75%	25%	100%

(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
	Year Ended December 31, 2018				
Total	$ 26,612	$ 50,359	$ 76,971	$ 23,281	$ 100,252
% of FFELP	35%	65%	100%		
% of total	27%	50%	77%	23%	100%

(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
	Year Ended December 31, 2017				
Total	$ 30,462	$ 54,527	$ 84,989	$ 23,762	$ 108,751
% of FFELP	36%	64%	100%		
% of total	28%	50%	78%	22%	100%

Education Loan Activity

	Year Ended December 31, 2019				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Beginning balance	$ 24,641	$ 47,612	$ 72,253	$ 22,245	$ 94,498
Acquisitions (originations and purchases)(1)	210	226	436	4,975	5,411
Capitalized interest and premium/discount amortization	754	775	1,529	337	1,866
Refinancings and consolidations to third parties	(1,432)	(1,618)	(3,050)	(618)	(3,668)
Repayments and other	(2,450)	(4,143)	(6,593)	(4,694)	(11,287)
Ending balance	$ 21,723	$ 42,852	$ 64,575	$ 22,245	$ 86,820

	Year Ended December 31, 2018				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Beginning balance	$ 28,409	$ 53,294	$ 81,703	$ 23,419	$ 105,122
Acquisitions (originations and purchases)	408	344	752	2,900	3,652
Capitalized interest and premium/discount amortization	871	856	1,727	395	2,122
Refinancings and consolidations to third parties	(1,925)	(2,065)	(3,990)	(792)	(4,782)
Repayments and other	(3,122)	(4,817)	(7,939)	(3,677)	(11,616)
Ending balance	$ 24,641	$ 47,612	$ 72,253	$ 22,245	$ 94,498

	Year Ended December 31, 2017				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Beginning balance	$ 32,319	$ 55,411	$ 87,730	$ 23,340	$ 111,070
Acquisitions (originations and purchases)	1,195	4,358	5,553	3,670	9,223
Capitalized interest and premium/discount amortization	916	968	1,884	376	2,260
Refinancings and consolidations to third parties	(2,561)	(2,711)	(5,272)	(692)	(5,964)
Repayments and other	(3,460)	(4,732)	(8,192)	(3,275)	(11,467)
Ending balance	$ 28,409	$ 53,294	$ 81,703	$ 23,419	$ 105,122

(1) Includes the origination of $1.0 billion of Private Education Refinance Loans that refinanced FFELP and Private Education Loans that were on our balance sheet.

Education Loan Allowance for Loan Losses Activity

(Dollars in millions)	December 31, 2019 FFELP Loans	December 31, 2019 Private Education Loans	December 31, 2019 Total Portfolio	December 31, 2018 FFELP Loans	December 31, 2018 Private Education Loans	December 31, 2018 Total Portfolio	December 31, 2017 FFELP Loans	December 31, 2017 Private Education Loans	December 31, 2017 Total Portfolio
Beginning balance	$ 76	$ 1,201	$ 1,277	$ 60	$ 1,297	$ 1,357	$ 67	$ 1,351	$ 1,418
Less:									
Net adjustment resulting from the change in the charge-off rate(1)	—	(21)	(21)	—	(32)	(32)	—	—	—
Net charge-offs remaining(2)	(42)	(364)	(406)	(54)	(371)	(425)	(49)	(443)	(492)
Total net charge-offs	(42)	(385)	(427)	(54)	(403)	(457)	(49)	(443)	(492)
Loan sales	—	(1)	(1)	—	—	—	—	—	—
Plus:									
Provision for loan losses	30	226	256	70	299	369	42	382	424
Reclassification of interest reserve(3)	—	7	7	—	8	8	—	7	7
Ending balance	$ 64	$ 1,048	$ 1,112	$ 76	$ 1,201	$ 1,277	$ 60	$ 1,297	$ 1,357
Percent of total	6%	94%	100%	6%	94%	100%	4%	96%	100%
Troubled debt restructuring(4)	$ —	$ 9,594	$ 9,594	$ —	$ 10,326	$ 10,326	$ —	$ 10,890	$ 10,890

(Dollars in millions)	December 31, 2016 FFELP Loans	December 31, 2016 Private Education Loans	December 31, 2016 Total Portfolio	December 31, 2015 FFELP Loans	December 31, 2015 Private Education Loans	December 31, 2015 Total Portfolio
Balance at beginning of period	$ 78	$ 1,471	$ 1,549	$ 93	$ 1,916	$ 2,009
Less:						
Net adjustment resulting from the change in the charge-off rate(1)	—	—	—	—	(330)	(330)
Net charge-offs remaining(2)	(54)	(513)	(567)	(61)	(659)	(720)
Total net charge-offs	(54)	(513)	(567)	(61)	(989)	(1,050)
Loan sales	—	—	—	—	(5)	(5)
Plus:						
Provision for loan losses	43	383	426	46	538	584
Reclassification of interest reserve(3)	—	10	10	—	11	11
Ending balance	$ 67	$ 1,351	$ 1,418	$ 78	$ 1,471	$ 1,549
Percent of total	5%	95%	100%	5%	95%	100%
Troubled debt restructuring(4)	$ —	$ 11,119	$ 11,119	$ —	$ 10,898	$ 10,898

(1) In 2019, 2018 and 2015, the portion of the loan amount charged off at default on Private Education Loans increased from 80.5% to 81%, from 79% to 80.5% and from 73% to 79%, respectively. These changes resulted in a $21 million, $32 million and $330 million reduction to the balance of the receivable for partially charged-off loans in 2019, 2018 and 2015, respectively.

(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 collected and any shortfalls in what was actually collected 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) Represents the recorded investment of loans identified as troubled debt restructuring.

FFELP Loan Portfolio Performance

FFELP Loan Delinquencies and Forbearance

	FFELP Loan Delinquencies December 31,					
	2019		2018		2017	
(Dollars in millions)	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 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.

Allowance for FFELP Loan Losses

	Years Ended December 31,		
(Dollars in millions)	2019	2018	2017
Allowance at beginning of period	$ 76	$ 60	$ 67
Provision for FFELP Loan losses	30	70	42
Charge-offs	(42)	(54)	(49)
Allowance at end of period	$ 64	$ 76	$ 60
Charge-offs as a percentage of average loans in repayment	.07%	.09%	.07%
Allowance coverage of charge-offs	1.5	1.4	1.2
Allowance as a percentage of ending total loans, gross	.10%	.11%	.07%
Allowance as a percentage of ending loans in repayment	.12%	.13%	.09%
Ending total loans, gross	$ 64,094	$ 71,730	$ 81,097
Average loans in repayment	$ 55,978	$ 62,927	$ 68,318
Ending loans in repayment	$ 53,538	$ 59,551	$ 67,853

Private Education Loan Portfolio Performance

Private Education Loan Delinquencies and Forbearance

	Private Education Loan Delinquencies					
	December 31,					
	2019		2018		2017	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment(1)	$ 629		$ 818		$ 1,061	
Loans in forbearance(2)	604		676		895	
Loans in repayment and percentage of each status:						
Loans current	21,083	95.4%	20,741	94.1%	21,590	94.2%
Loans delinquent 31-60 days(3)	349	1.6	415	1.9	471	2.0
Loans delinquent 61-90 days(3)	218	1.0	267	1.2	266	1.2
Loans delinquent greater than 90 days(3)	439	2.0	614	2.8	597	2.6
Total Private Education Loans in repayment	22,089	100%	22,037	100%	22,924	100%
Total Private Education Loans, gross	23,322		23,531		24,880	
Private Education Loan unamortized discount	(617)		(759)		(924)	
Total Private Education Loans	22,705		22,772		23,956	
Private Education Loan receivable for partially charged-off loans	588		674		760	
Private Education Loan allowance for losses	(1,048)		(1,201)		(1,297)	
Private Education Loans, net	$ 22,245		$ 22,245		$ 23,419	
Percentage of Private Education Loans in repayment		94.7%		93.7%		92.1%
Delinquencies as a percentage of Private Education Loans in repayment		4.6%		5.9%		5.8%
Loans in forbearance as a percentage of loans in repayment and forbearance		2.7%		3.0%		3.8%
Percentage of Private Education Loans with a cosigner		47%		56%		63%

(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.

Allowance for Private Education Loan Losses

See "Reportable Segment Earnings Summary – Core Earnings Basis – Consumer Lending Segment – Private Education Loan Provision for Loan Losses" for discussion.

Receivable for Partially Charged-Off Private Education Loans

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

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

	Years Ended December 31,		
(Dollars in millions)	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	$ 588	$ 674	$ 760

(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. In addition, in 2019 and 2018, the portion of the loan amount charged off at default increased from 80.5% to 81% and 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.

Liquidity and Capital Resources

Funding and Liquidity Risk Management

The following "Liquidity and Capital Resources" discussion concentrates on our Federal Education Loans and Consumer Lending segments. Our Business Processing and Other segments require minimal capital and funding.

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

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

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change, from time to time, based on our financial performance, industry and market dynamics and other factors. Other factors that influence our credit ratings include the ratings agencies' assessment of the general operating environment, our relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices. A negative change in our credit rating could have a negative effect on our liquidity because it might raise the cost and availability of funding and potentially require additional cash collateral or restrict cash currently held as collateral on existing borrowings or derivative collateral arrangements. It is our objective to improve our credit ratings so that we can continue to efficiently access the capital markets even in difficult economic and market conditions. We have unsecured debt that totaled $9.5 billion at December 31, 2019. Three credit rating agencies currently rate our long-term unsecured debt at below investment grade.

We expect to fund our ongoing liquidity needs, including the repayment of $1.1 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash, investments and unencumbered FFELP Loan and Private Education Refinance Loan portfolios, the predictable operating cash flows provided by operating activities ($1.0 billion in 2019), the repayment of principal on unencumbered education loan assets, and the distribution of overcollateralization from our securitization trusts. We may also, depending on market conditions and availability, draw down on our secured FFELP Loan and Private Education Loan facilities, issue term ABS, enter into additional Private Education Loan ABS repurchase facilities, or issue additional unsecured debt.

We originate Private Education Loans. We also have purchased and may purchase, in future periods, Private Education Loan and FFELP Loan portfolios from third parties. Those originations and purchases are part of our ongoing liquidity needs. We repurchased 34.5 million common shares for $440 million in 2019 and have $1 billion of remaining share repurchase authority as of December 31, 2019.

Sources of Liquidity and Available Capacity

Ending Balances

(Dollars in millions)	December 31, 2019	December 31, 2018
Sources of primary liquidity:		
Total unrestricted cash and liquid investments	$ 1,233	$ 1,286
Unencumbered FFELP Loans	319	332
Unencumbered Private Education Refinance Loans	414	246
Total GAAP and Core Earnings basis	$ 1,966	$ 1,864

Average Balances

	Years Ended December 31,		
(Dollars in millions)	2019	2018	2017
Sources of primary liquidity:			
Total unrestricted cash and liquid investments	$ 1,261	$ 1,672	$ 1,234
Unencumbered FFELP Loans	433	705	960
Unencumbered Private Education Refinance Loans	670	290	60
Total GAAP and Core Earnings basis	$ 2,364	$ 2,667	$ 2,254

Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under our FFELP Loan asset-backed commercial paper (“ABCP”) facilities will vary and be subject to each agreement’s borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of December 31, 2019 and 2018, the maximum additional capacity under these facilities was $867 million and $752 million, respectively. For the years ended December 31, 2019, 2018 and 2017, the average maximum additional capacity under these facilities was $1.3 billion, $2.0 billion and $2.8 billion, respectively. As of December 31, 2019, the maturity dates of these facilities ranged from November 2020 to April 2021.

Liquidity may also be available from our Private Education Loan ABCP facilities. Maximum borrowing capacity under these facilities will vary and be subject to each agreement’s borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered Private Education Loans. As of December 31, 2019 and 2018, the maximum additional capacity under these facilities was $384 million and $635 million, respectively. For the years ended December 31, 2019, 2018 and 2017, the average maximum additional capacity under these facilities was $1.0 billion, $714 million and $373 million, respectively. As of December 31, 2019, the maturity dates of these facilities ranged from June 2020 to December 2021.

At December 31, 2019, we had a total of $5.6 billion of unencumbered tangible assets inclusive of those listed in the table above as sources of primary liquidity. Total unencumbered education loans comprised $3.0 billion of our unencumbered tangible assets of which $2.6 billion and $319 million related to Private Education Loans and FFELP Loans, respectively. In addition, as of December 31, 2019, we had $7.5 billion of encumbered net assets (i.e., overcollateralization) in our various financing facilities (consolidated variable interest entities). Since the fourth quarter of 2015, we have closed on $4.2 billion of Private Education Loan ABS repurchase facilities with $2.3 billion outstanding as of December 31, 2019. These repurchase facilities are collateralized by Residual Interests in previously issued Private Education Loan ABS trusts. These are examples of how we can effectively finance previously encumbered assets to generate additional liquidity in addition to the unencumbered assets we traditionally have encumbered in the past. Additionally, these repurchase facilities had a cost of funds lower than that of a new unsecured debt issuance.

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

(Dollars in billions)	December 31, 2019	December 31, 2018
Net assets of consolidated variable interest entities (encumbered assets) — FFELP Loans	$ 4.3	$ 4.6
Net assets of consolidated variable interest entities (encumbered assets) — Private Education Loans	3.2	4.8
Tangible unencumbered assets(1)	5.6	5.7
Senior unsecured debt	(9.5)	(11.5)
Mark-to-market on unsecured hedged debt(2)	(.4)	(.1)
Other liabilities, net	(.6)	(.7)
Total tangible equity — GAAP Basis(1)	$ 2.6	$ 2.8

(1) At December 31, 2019 and 2018, excludes goodwill and acquired intangible assets, net, of $757 million and $786 million, respectively.

(2) At December 31, 2019 and 2018, there were $332 million and $51 million, respectively, of net gains (losses) on derivatives hedging this debt in unencumbered assets, which partially offset these gains (losses).

2019 Financing Transactions

During 2019, Navient issued $2.7 billion in FFELP Loan ABS, $1.1 billion in Private Education Loan ABS and $3.0 billion in Private Education Refinance Loan ABS.

Shareholder Distributions

During 2019, we paid $147 million in common stock dividends ($0.64 per share).

We repurchased 34.5 million shares of common stock for $440 million in 2019. In September 2018, our board of directors authorized a $500 million share repurchase program and in October 2019, the board approved an additional $1 billion multi-year share repurchase program. There is $1 billion of remaining share repurchase authority outstanding at December 31, 2019. Since the Spin-Off in April 2014, we have repurchased 219 million shares for $3.2 billion.

Recent First-Quarter 2020 Transactions

In January 2020, we issued $700 million in unsecured debt at an all-in cost of funds of 1-month LIBOR plus 3.58%.

On January 27, 2020, Navient entered into an agreement and repurchased 20.3 million shares of common stock owned by certain Canyon Partners, LLC affiliates at a purchase price of $14.77 per share. The price of the shares repurchased from Canyon's affiliates equals the closing price of Navient stock on Jan. 27, 2020. Upon the completion of the sale, Canyon no longer held any Navient stock.

Counterparty Exposure

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

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

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

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

The table below highlights exposure related to our derivative counterparties at December 31, 2019.

(Dollars in millions)	Corporate Contracts	Securitization Trust Contracts
Exposure, net of collateral	$ 12	$ —
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	100%	—%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	96%	—%

Core Earnings Basis Borrowings

The following tables present the ending balances, average balances and average interest rates of our Core Earnings basis borrowings. The average interest rates include derivatives that are economically hedging the underlying debt but may not qualify for hedge accounting treatment (see "Non-GAAP Financial Measures – Core Earnings — Derivative Accounting – Reclassification of Settlements on Derivative and Hedging Activities" of this Item 7).

Ending Balances

	December 31, 2019			December 31, 2018			December 31, 2017		
(Dollars in millions)	Short Term	Long Term	Total	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	$ 1,306	$ 12,624	$ 13,930
Total unsecured borrowings	1,052	8,461	9,513	817	10,674	11,491	1,306	12,624	13,930
Secured borrowings:									
FFELP Loan securitizations(2)	72	59,735	59,807	—	66,318	66,318	—	71,208	71,208
Private Education Loan securitizations(3)	2,120	11,430	13,550	300	12,985	13,285	686	12,646	13,332
FFELP Loan ABCP facilities	2,783	617	3,400	2,927	2,625	5,552	1,536	6,830	8,366
Private Education Loan ABCP facilities	2,114	1,513	3,627	1,114	1,266	2,380	684	1,710	2,394
Other(4)	338	—	338	267	—	267	538	—	538
Total secured borrowings	7,427	73,295	80,722	4,608	83,194	87,802	3,444	92,394	95,838
Core Earnings basis borrowings	8,479	81,756	90,235	5,425	93,868	99,293	4,750	105,018	109,768
Adjustment for GAAP accounting treatment	4	(41)	(37)	(3)	(349)	(352)	21	(6)	15
GAAP basis borrowings	$ 8,483	$ 81,715	$ 90,198	$ 5,422	$ 93,519	$ 98,941	$ 4,771	$ 105,012	$ 109,783

(1) Includes principal amount of $1.1 billion, $817 million and $1.3 billion of short-term debt as of December 31, 2019, 2018 and 2017, respectively. Includes principal amount of $8.5 billion, $10.8 billion and $12.7 billion of long-term debt as of December 31, 2019, 2018 and 2017, respectively.

(2) Includes $72 million, $0 and $0 of short-term debt related to the FFELP Loan ABS repurchase facilities ("FFELP Loan Repurchase Facilities") as of December 31, 2019, 2018 and 2017, respectively. Includes $231 million, $244 million and $0 of long-term debt related to the FFELP Loan Repurchase Facilities as of December 31, 2019, 2018 and 2017, respectively.

(3) Includes $2.1 billion, $300 million and $686 million of short-term debt related to the Private Education Loan ABS repurchase facilities ("Private Education Loan Repurchase Facilities") as of December 31, 2019, 2018 and 2017, respectively. Includes $194 million, $2.0 billion and $1.3 billion of long-term debt related to the Private Education Loan Repurchase Facilities as of December 31, 2019, 2018 and 2017, respectively.

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

Secured borrowings comprised 89% and 88% of our Core Earnings basis debt outstanding at December 31, 2019 and 2018, respectively.

Average Balances

	Years Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Unsecured borrowings:						
Senior unsecured debt	$ 10,798	6.63%	$ 13,109	6.25%	$ 14,005	5.32%
Total unsecured borrowings	10,798	6.63	13,109	6.25	14,005	5.32
Secured borrowings:						
FFELP Loan securitizations(1)	62,636	3.21	69,200	2.94	72,628	2.13
Private Education Loan securitizations(2)	13,740	4.06	13,247	4.13	13,563	3.27
FFELP Loan ABCP facilities	4,128	3.42	5,834	2.97	10,053	2.00
Private Education Loan ABCP facilities	2,259	3.67	2,346	3.68	1,575	2.64
Other(3)	307	3.59	292	3.34	458	2.53
Total secured borrowings	83,070	3.37	90,919	3.14	98,277	2.28
Core Earnings basis borrowings	$ 93,868	3.75%	$ 104,028	3.53%	$ 112,282	2.66%
Core Earnings basis borrowings	$ 93,868	3.75%	$ 104,028	3.53%	$ 112,282	2.66%
Adjustment for GAAP accounting treatment	—	(.03)	—	(.01)	—	(.01)
GAAP basis borrowings	$ 93,868	3.72%	$ 104,028	3.52%	$ 112,282	2.65%

(1) Includes $285 million, $40 million and $0 of debt related to the FFELP Loan Repurchase Facilities for the years ended December 31, 2019, 2018 and 2017, respectively.

(2) Includes $2.6 billion, $2.4 billion and $1.5 billion of debt related to the Private Education Loan Repurchase Facilities for the years ended December 31, 2019, 2018 and 2017, respectively.

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

Contractual Cash Obligations

The following table provides a summary of our contractual principal obligations associated with long-term notes at December 31, 2019. For further discussion of these obligations, see "Note 6 — Borrowings."

(Dollars in millions)	1 Year or Less	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Long-term notes:					
Senior unsecured debt	$ —	$ 3,180	$ 2,853	$ 2,428	$ 8,461
Secured borrowings(1)	6,768	14,931	11,873	39,723	73,295
Total contractual cash obligations(2)	$ 6,768	$ 18,111	$ 14,726	$ 42,151	$ 81,756

(1) Includes $71.2 billion of long-term notes issued by consolidated VIEs in conjunction with our securitization transactions and included in long-term notes in the consolidated balance sheet. Timing of obligations is estimated based on our current projection of prepayment speeds of the securitized assets.

(2) The aggregate principal amount of debt that matures in each period is $6.8 billion, $18.2 billion, $14.9 billion and $42.5 billion, respectively. Specifically excludes derivative market value adjustments of $(41) million for long-term notes. Interest obligations on notes are predominantly variable in nature, resetting monthly and quarterly based on LIBOR.

Unrecognized tax benefits were $67 million and $79 million for 2019 and 2018, respectively. For additional information, see "Note 14 — Income Taxes."

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). "Note 2 — Significant Accounting Policies" includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. Actual results may differ from these estimates under varying assumptions or conditions. On a quarterly basis, management evaluates its estimates, particularly those that include the most difficult, subjective or complex judgments and are often about matters that are inherently uncertain. The most significant judgments, estimates and assumptions relate to the following critical accounting policies that are discussed in more detail below.

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 accretable 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. The most significant assumptions and estimates used to recognize interest income and determine if a valuation allowance is required are default rates, recovery rates and prepayment speeds. The default rate and recovery rate assumptions are derived in the same manner as they are for the TDR loans that are a part of the Private Education Loan allowance for loan losses discussed below. The prepayment speed assumptions are derived in the same manner as discussed in the "Premium and Discount Amortization" section that follows.

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," using the same prepayment speed assumption methodology discussed in the "Premium and Discount Amortization" section that follows. 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 unpaid principal balance of $2.8 billion at a discount of $424 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 as of December 31, 2019 remains greater than the incurred losses. The incurred losses are derived in the same manner that the Private Education Loan allowance for loan losses is derived below.

Private Education Loan Allowance for Loan Losses

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 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.

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.

Adoption of ASU No. 2016-13, “Financial Instruments – Credit Losses” as of January 1, 2020

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. See "Note 2 – Significant Accounting Policies" for further discussion of this new standard as well as the estimated impact of transition as of the January 1, 2020 effective date.

Our modeling of current expected credit losses utilizes historical loan repayment experience from 2008 forward and identifies loan variables that are significantly predictive. We model losses at the loan level by applying model estimates to our existing loan portfolios. As loan repayment experience and/or the composition of our existing loan portfolios change, we expect changes in our loss estimates that will impact our allowance for loan losses.

Additionally, our modeling of current expected credit losses has evaluated the historical repayment behavior of our portfolios in response to economic conditions and we will utilize forecasts of these economic conditions where applicable. Generally, the economic forecasts that we will utilize are most variable for the next few years. After this "reasonable and supportable" period, the economic forecasts will transition to longer-term views consistent with historical trends. As forecasts change, we expect changes in our loss estimates that will impact our allowance for loan losses.

Premium and Discount Amortization

The Company has a net unamortized discount balance of $72 million, or 0.08%, in connection with its $88 billion education loan portfolio as of December 31, 2019. The most judgmental estimate for premium and discount amortization on education loans is the 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 loans that are refinanced, consolidated and other early payoff activity. These activities are generally affected by changes in our business strategy, changes in our competitors' business strategies, legislative changes including the ability to consolidate, interest rates and changes to the current economic and credit environment. When we determine the CPR we begin with historical prepayment rates. 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 adjustment may be needed to those historical prepayment rates.

In the past (prior to 2008), the consolidation of FFELP Loans and Private Education Loans significantly affected our CPRs and updating those assumptions often resulted in material adjustments to our amortization expense. As a result of the passage of the Health Care and Education Reconciliation Act of 2010 ("HCERA"), there is no longer the ability to consolidate loans under the FFELP although there are other consolidation options with ED and private refinancing options with Navient and other lenders. As a result, we expect CPRs related to our FFELP Loans to remain relatively stable over time, unless there is a legislative change by ED or by Congress to encourage or force consolidation. Some education loan companies offer private education loans to refinance a borrower's loan (both FFELP and Private Education Loans) and we anticipate more entrants to offer similar products. In 2017, we began to refinance FFELP and Private Education Loans as well. These products and expectations are built into the CPR assumption we use for FFELP and Private Education Loans. However, it is difficult to accurately project the timing and level at which this activity will continue and our assumption may need to be updated by a material amount in the future based on changes in the economy, marketplace and legislation.

In 2019 there was a net $11 million increase in net interest income due to a cumulative adjustment related to an increase in prepayment speed assumptions used to amortize loan premiums and discounts. The FFELP Stafford Loan Constant Prepayment Rate ("CPR") assumption was increased from 7% to 8%, the FFELP Consolidation Loan CPR assumption remained at 4% and the Private Education Loan CPR assumption was increased from 8% to 9%. These CPR assumption increases were primarily a result of increased voluntary payoffs primarily due to an improving economy as well as increased loan refinance activity and third-party consolidation activity.

Goodwill and Intangible Assets

In determining annually (or more frequently if required) whether goodwill is 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. Qualitative factors considered in conjunction with a qualitative analysis include: (1) the amount of cushion that existed the last time a quantitative Step 1 valuation was performed, (2) macroeconomic factors (economy), (3) industry specific factors (growth or deterioration of the market; regulatory/political developments), (4) cost factors (margins), (5) financial performance of the reporting unit itself, (6) other specific items (litigation, change in management or key personnel) and (7) a sustained decrease in our share price. There can be significant judgment involved in assessing these qualitative factors. If, based on a qualitative analysis, we determine it is "more-likely-than-not" that the fair value of a reporting unit is less than its carrying amount, then we will also complete a quantitative impairment analysis. We may also not perform a qualitative analysis and proceed directly to a quantitative impairment analysis. A quantitative goodwill impairment analysis consists of a comparison of the fair value of the reporting unit to the carrying value. If the carrying value of the reporting unit exceeds the fair value (what we believe a third party would pay for such reporting unit), a goodwill impairment analysis will be performed to measure the amount of impairment loss, if any. There are significant judgments involved in determining the fair value of a reporting unit, including assumptions regarding estimates of future revenues, expenses, net income and cash flows from existing and new business activities, the appropriate market multiples, discount rates and growth rates to apply and the appropriate control premium to apply to arrive at the final fair value. The reporting units for which we must estimate the fair value are not publicly traded and for some reporting units there may not be directly comparable market data available to aid in its valuation. In the fourth quarter of 2019, with the assistance of a third-party appraisal firm, we completed a quantitative goodwill impairment analysis of all our reporting units that contained goodwill. We determined the fair value of the reporting units as part of our impairment testing and concluded such reporting units were not impaired as the resulting fair values of the reporting units were substantially greater than their respective carry value. We determined the fair value by using three different valuation approaches that were weighted appropriately by reporting unit: (1) a discounted cashflow approach using market discount rates (2) a market multiple approach that applied market multiples related to revenue and EBITDA to the respective measures of these reporting units. The market multiples were derived from similar publicly-traded companies and (3) a comparable sales approach (values derived based on similar publicly-traded companies that sold during the year).

Fair Value Measurement

The most significant assumptions used in fair value measurements, including those related to credit and liquidity risk, are as follows:

1. **Derivatives** — When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposure for each counterparty is adjusted based on market information available for that specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to us related to our derivatives, we fully collateralize the exposure, minimizing the adjustment necessary to the derivative valuations for our own credit risk. Trusts that contain derivatives are not required to post collateral to counterparties as the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty's exposure to the trusts. Adjustments related to credit risk reduced the overall value of our derivatives by $11 million as of December 31, 2019. We also take into account changes in liquidity when determining the fair value of derivative positions. We adjusted the fair value of certain less liquid positions downward by approximately $12 million as of December 31, 2019, related primarily to basis swaps indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives. In addition, certain cross-currency interest rate swaps hedging foreign currency denominated reset rate and amortizing notes in our trusts contain extension features that coincide with the remarketing dates of the notes. The valuation of the extension feature requires significant judgment based on internally developed inputs.
2. **Education Loans** — Our FFELP Loans and Private Education Loans are accounted for at cost or at the lower of cost or fair value if the loan is held-for-sale. The fair values of our education loans are disclosed in "Note 12 — Fair Value Measurements." For both FFELP Loans and Private Education Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, capital levels, and the required return on capital. In addition, the Floor Income component of our FFELP Loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management's qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions) or are obtained through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to validate the model. In most cases, these are either infrequent or not observable.

For further information regarding the effect of our use of fair values on our results of operations, see "Note 12 — Fair Value Measurements."

Risk Management

Our Approach

The consumer lending, loan servicing, asset recovery and business processing services Navient provides, as well as the financial markets in which Navient operates, continue to undergo dramatic competitive, technological and regulatory changes. Identifying, understanding and effectively managing the risks inherent in our business are critical to our continued success. Navient assigns risk oversight, management and assessment responsibilities at various levels within our organization and continuously coordinates these activities and responsibilities across our organization. We maintain comprehensive risk management practices to identify, measure, monitor, evaluate, control and report on our significant risks and we routinely evaluate these practices to determine whether they are functioning properly and can be improved.

Risk Management Philosophy

Navient's risk management philosophy is to ensure all significant risk inherent in our business is identified, measured, monitored, evaluated, controlled and reported. In furtherance of these goals, Navient

- maintains a comprehensive and uniform risk management framework;
- follows a "three lines of defense" structure based upon: (1) accountability and ownership at the business area level for risks inherent in their activities (first line of defense); (2) supporting areas, such as Human Resources, Legal, Compliance, Finance and Accounting, Information-Technology and Information Security, monitor, guide and advise the business areas in their respective areas of expertise (second line of defense); and (3) Internal Audit independently reviews both business and support areas to ensure compliance with applicable laws, regulations and internal policies and procedures (third line of defense);
- provides appropriate reporting tools to management and our board of directors and their respective committees; and
- trains our employees on our risk management processes and philosophy.

Risk Oversight, Roles and Responsibilities

The Navient board of directors and its standing committees oversee our strategic direction, including setting our risk management philosophy, tolerance and parameters; and assessing the risks our businesses face as well as the risk management practices our management team develops and implements. We escalate to our board of directors any significant departures from established tolerances and parameters and review new and emerging risks with them.

Responsibility for risk management is assigned at several different levels of our organization, including our board of directors and its committees. Each business area within our organization is primarily responsible for managing its specific risks following processes and procedures developed in collaboration with our executive management team and internal risk management partners. In addition, our Human Resources, Legal, Compliance, Finance and Accounting, Information-Technology and Information Security support areas are responsible for providing our business areas with the training, systems and specialized expertise necessary to properly perform their risk management responsibilities.

Board of Directors. Our board of directors, directly and through its standing committees, is responsible for overseeing our strategic direction and risk management approach. It approves our annual business plan, periodically reviews our strategic approach and priorities and spends significant time considering our capital requirements and our dividend and share repurchase levels and activities. Standing committees of our board of directors include Executive, Audit, Compensation and Personnel, Nominations and Governance, and Finance and Operations. Charters for each committee providing their specific responsibilities and areas of risk oversight are published on our website together with the names of the directors serving on these committees.

Chief Executive Officer. Our Chief Executive Officer is responsible for establishing our risk management culture and ensuring business areas operate within risk parameters and in accordance with our annual business plan.

Chief Risk and Compliance Officer. Our Chief Risk and Compliance Officer is responsible for ensuring proper oversight, management and reporting to our board of directors and management regarding our risk management practices, the timely escalation and complete resolution of any significant risk issues and for instilling our risk management culture in our people and our practices, ensuring business areas operate within risk parameters and in accordance with our annual business plan.

Enterprise Risk and Compliance Committee. Our Enterprise Risk and Compliance Committee is an executive management-level committee chaired by our Chief Risk and Compliance Officer where senior management reviews our significant risks, receives periodic reports on adherence to agreed risk parameters, prioritizes and provides direction on mitigation of our risks and closure of issues and supervises the continued evolution of our enterprise risk management program. This committee also oversees regulatory compliance risk management activities including compliance regulatory training, compliance regulatory change management, compliance and operational risk assessment, transactional testing and monitoring, customer complaint monitoring, policies and procedures, our privacy and information sharing practices, Sarbanes-Oxley compliance, and our Code of Business Conduct. Lastly, this committee evaluates risks associated with new or modified business and makes recommendations regarding proposed business initiatives based on their inherent risks and controls. In addition to the Chair, committee membership includes our Chief Executive Officer, the heads of Asset Management and Servicing, Business Processing Solutions and Consumer Lending, our Chief Financial Officer, Chief Legal Officer, Chief Information Officer and Chief Audit Officer. The committee meets at least four times per year, usually in advance of each regularly scheduled board of directors meeting and more frequently if needed to address emerging risks and specific issues.

Credit and Loan Loss Committee. Our Credit and Loan Loss Committee is an executive management-level committee chaired by our Chief Risk and Compliance Officer to oversee our credit and portfolio management monitoring and strategies, the sufficiency of our loan loss reserves, and current or emerging issues affecting delinquency and default trends which may result in adjustments in our allowances for loan losses.

Disclosure Committee. Our Disclosure Committee reviews our periodic SEC reporting documents, earnings releases and related disclosure policies and procedures, and evaluates whether modified or additional disclosures are required.

Critical Accounting Assumptions Committee. Our Critical Accounting Assumptions Committee oversees critical accounting assumptions, as well as key judgments and estimates involved in preparing our financial statements. These include assumptions about matters such as default, recovery and prepayment rates.

Asset and Liability Committee. Our Asset and Liability Committee oversees our investment portfolio and strategy and our compliance with our investment policy.

Information-Technology and Operations Management Committee. Our Information-Technology and Operations Management Committee oversees our business area operations and the activities of our Information-Technology support area, including Information Security.

Human Resources Committee. Our Human Resources Committee ensures that human resources projects and activities are properly reviewed and approved prior to implementation, and that the prioritization of human resources projects is appropriate for and responsive to the business, human capital and risk management needs of our company.

Incentive Compensation Plan Committee. Our Incentive Compensation Plan Committee defines the approach and practices utilized to effectively govern all Incentive Compensation Plans in order to achieve business results while preventing unreasonable risk taking.

Internal Audit Risk Assessment

Navient's Internal Audit function monitors the Company's various risk management and compliance efforts, identifies areas that may require increased focus and resources, and reports its findings and recommendations to executive management and the Audit Committee of our board of directors. Internal Audit performs an annual risk assessment evaluating the risk of all significant components of our company and uses the results to develop an annual risk-based internal audit plan as well as a multi-year rotational audit schedule. The risk assessment process includes detailed measures of risk and formalized identification of auditable components of our company to ensure Internal Audit's efforts are both properly focused and comprehensive.

Risk Appetite Framework

Navient's Risk Appetite Framework establishes the level of risk we are willing to accept within each risk category in pursuit of our business strategy. Our Audit Committee of the board of directors reviews our Risk Appetite Framework annually, helping to ensure consistency in our business decisions, monitoring and reporting. Our management-level Enterprise Risk and Compliance Committee monitors approved risk limits and thresholds to ensure our businesses are operating within approved risk limits. Through ongoing monitoring of risk exposures, management identifies potential risks and develops appropriate responses and mitigation strategies.

Risk Categories

Our Risk Appetite Framework segments Navient's risks across nine domains: (1) credit; (2) market; (3) funding and liquidity; (4) compliance; (5) legal; (6) operational; (7) reputational/political; (8) governance; and (9) strategy.

Credit Risk. Credit risk is the risk to earnings or capital resulting from an obligor's failure to meet the terms of any contract with us or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance.

Navient has credit or counterparty risk exposure with borrowers and cosigners of our Private Education Loans and Private Education Refinance Loans, the various counterparties with whom we have entered into derivative or other similar contracts and the various entities with whom we make investments. Credit and counterparty risks are overseen by our Chief Risk and Compliance Officer, our Loss Forecasting staff and the management-level Credit and Loan Loss Committee. Our Chief Risk and Compliance Officer reports regularly to our board of directors and both the Finance and Operations and Audit Committees of the board on these issues.

The credit risk related to our Private Education Loans and Private Education Refinance Loans is managed within a credit risk infrastructure which includes: (i) a well-defined underwriting, asset quality and collection policy framework; (ii) an ongoing monitoring and review process of portfolio concentration and trends; (iii) assignment and management of credit and loss forecasting authorities and responsibilities; and (iv) establishment of an allowance for loan losses that covers estimated losses based upon portfolio and economic analysis.

Credit risk related to derivative contracts is managed by reviewing counterparties for credit strength on an ongoing basis and through our credit policies, which place limits on our exposure with any single counterparty and, in most cases, require collateral to secure the position. Credit and counterparty risk associated with derivatives is measured based on the replacement cost if counterparties in a gain position fail to perform under the terms of the contract.

Market Risk. Market risk is the risk to earnings or capital resulting from changes in market conditions, such as interest rates, index mismatches, credit spreads, commodity prices or volatilities. Navient is exposed to various types of market risk, in particular the risk of loss resulting in a mismatch between the maturity/duration of assets and liabilities, interest rate risk and other risks that arise through the management of our investment, debt and education loan portfolios. Market risk exposure is managed primarily through our management-level Asset and Liability Committee, which is responsible for all market risks associated with managing our assets and liabilities and recommending limits to be included in our risk appetite and investment structure. These activities are closely tied to those related to the management of our funding and liquidity risks. The Finance and Operations Committee of our board of directors periodically reviews and approves the investment, asset and liability management policies, establishes and monitors various tolerances or other risk measurements, as well as contingency funding plans developed and administered by our Asset and Liability Committee. The Finance and Operations Committee and our Chief Financial Officer report to the full board of directors on matters of market risk management.

Funding and Liquidity Risk. Funding and liquidity risk is the risk to earnings, capital or the conduct of our business arising from the inability to meet our obligations when they become due without incurring unacceptable losses, such as the ability to fund liability maturities or invest in future asset growth and business operations at reasonable market rates. Our primary liquidity risks are any mismatch between the maturity of our assets and liabilities and the servicing of our indebtedness.

Navient's Finance department oversees our funding and liquidity management activities and is responsible for planning and executing our funding activities and strategies, analyzing and monitoring our liquidity risk, maintaining excess liquidity and accessing diverse funding sources depending on current market conditions. Funding and liquidity risks are overseen and recommendations approved primarily through our management-level Asset and Liability Committee. The Finance and Operations Committee of our board of directors periodically reviews and approves our funding and liquidity positions and the contingency funding plan developed and administered by our Asset and Liability Committee. The Finance and Operations Committee also receives regular reports on our performance against funding and liquidity plans at each of its meetings.

Operational Risk. Operational risk is the risk to earnings or the conduct of our business resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk is pervasive, existing in all business areas, functional units, legal entities and geographic locations, and it includes information technology risk, cybersecurity risk, physical security risk on tangible assets, third-party vendor risk, legal risk, compliance risk and reputational risk.

The Finance and Operations Committee of our board of directors receives operations reports (including operating metrics and performance against annual plan) from the heads of Asset Management and Servicing, Business Processing Solutions and Consumer Lending, our Chief Financial Officer and Chief Information Officer at each regularly scheduled meeting. The Finance & Operations Committee also receives business development updates regarding our various business initiatives providing information and metrics about each key component of our business operations. The Finance and Operations Committee of our board of directors also receives periodic information security and cyber security updates and reviews operational and systems-related matters to ensure their implementation produces no significant internal control issues.

Operational risk exposures are managed through a combination of business area management (first line of defense), support area oversight and expertise (second line of defense) and enterprise-wide oversight including periodic, independent and objective review and assessment by Internal Audit (third line of defense). Our heads of Asset Management and Servicing, Business Processing Solutions and Consumer Lending are responsible for all of our business operations (servicing, consumer lending, asset recovery and business processing services, and our Chief Information Officer is responsible for our information technology systems and processes). Management-level committees, comprised of senior managers and subject matter experts, including our Enterprise Risk and Compliance Committee, Credit and Loan Loss Committee, Information-Technology and Operations Management Committee, Human Resources Committee, and Incentive Compensation Plan Committee, focus on particular aspects of operational risk.

Compliance, Legal and Governance Risk. Compliance risk is the risk to earnings or capital or reputation arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Legal risk is the risk to earnings, capital or reputation manifested by claims made through the legal system and may arise from a product or service, a transaction, a business relationship, property (real, personal or intellectual), conduct of an employee or change in law or regulation. Governance risk is the risk of not establishing and maintaining a control environment that aligns with stakeholder and regulatory expectations, including tone at the top and board performance. These risks are inherent in all of our businesses. Compliance, legal and governance risk are subsets of operational risk but are recognized as a separate and complementary risk category given their importance in our business. We can be exposed to these risks in key areas such as our consumer lending, asset recovery or loan servicing businesses if compliance with legal and regulatory requirements is not properly implemented, maintained, documented or tested, or when an oversight program does not include appropriate audit and control features.

The Audit Committee of our board of directors oversees our monitoring and control of legal and compliance risks and the qualifications of employees overseeing these risk management functions. The Audit Committee annually reviews our Compliance Plan and significant breaches of our Code of Business Conduct and receives regular reports from executive management responsible for the regulatory and compliance risk management functions. The board of directors and the Audit Committee receive reports on significant litigation and regulatory matters at each regularly scheduled meeting.

Reputational/Political Risk. Reputational risk is the risk to earnings or capital arising from damage to our reputation in the view of, or loss of the trust of, customers and the general public. Political risk is the closely related risk to earnings or capital arising from damage to our relationships with governmental entities, regulators and political leaders and candidates. These risks can arise due to both our own acts and omissions (both real and perceived), and the acts and omissions of other industry participants or other third parties, and they are inherent in all of our businesses. Reputational risk and political risk are managed through a combination of business area management (first line of defense), support area oversight and expertise (second line of defense) and enterprise-wide oversight including periodic, independent and objective review and assessment by Internal Audit (third line of defense). Our Nominations and Governance Committee oversees our reputational and political risk and regularly receives reports on these matters.

Strategic Risk. Strategic risk is the risk to earnings or capital arising from our potential inability to successfully carry out our strategy. This risk can arise due to both our own acts or omissions, and the acts or omissions of other industry participants or other third parties, and it is inherent in all of our businesses. Strategic risk is managed through a combination of business area management (first line of defense), support area oversight and expertise (second line of defense) and enterprise-wide oversight including periodic, independent and objective review and assessment by Internal Audit (third line of defense).

Common Stock

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.

Our shareholders have authorized the issuance of 1.125 billion shares of common stock (par value of $0.01). 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 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."

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

Dividend and Share Repurchase Program

In 2019, 2018 and 2017, we paid full-year common stock dividends of $0.64 per share.

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.

On January 27, 2020, Navient entered into an agreement and repurchased 20.3 million shares of common stock owned by certain Canyon Partners, LLC affiliates at a purchase price of $14.77 per share. The price of the shares repurchased from Canyon's affiliates equals the closing price of Navient stock on Jan. 27, 2020. Upon the completion of the sale, Canyon no longer held any Navient stock.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity Analysis

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at December 31, 2019 and December 31, 2018, based upon a sensitivity analysis performed by management assuming a hypothetical increase and decrease in market interest rates of 100 basis points. The earnings sensitivities assume an immediate increase and decrease in market interest rates of 100 basis points and are applied only to financial assets and liabilities, including hedging instruments, that existed at the balance sheet date and do not take into account any new assets, liabilities or hedging instruments that may arise over the next 12 months. In prior years our interest rate sensitivity analysis assumed a hypothetical increase in market interest rates of 100 basis points and 300 basis points. We changed to a hypothetical increase and decrease of 100 basis points primarily due to (1) interest rates increasing from historical low levels in the previous years which results in the revised presentation aligning with what we think reasonably possible changes in interest rates over the next year could be and (2) the scenario better aligns and makes us more comparable with how other financial institutions prepare their disclosures.

	As of December 31, 2019 Impact on Annual Earnings If: Interest Rates:		As of December 31, 2018 Impact on Annual Earnings If: Interest Rates:	
(Dollars in millions, except per share amounts)	**Increase 100 Basis Points**	**Decrease 100 Basis Points**	**Increase 100 Basis Points**	**Decrease 100 Basis Points**
Effect on Earnings:				
Change in pre-tax net income before mark-to -market gains (losses) on derivative and hedging activities	$ (43)	$ 69	$ (10)	$ 32
Mark-to-market gains (losses) on derivative and hedging activities	96	(203)	(25)	(48)
Increase (decrease) in income before taxes	$ 53	$ (134)	$ (35)	$ (16)
Increase (decrease) in net income after taxes	$ 41	$ (103)	$ (27)	$ (12)
Increase (decrease) in diluted earnings per common share	$ .19	$ (.48)	$ (.11)	$ (.05)

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

	At December 31, 2018				
		Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Decrease of 100 Basis Points	
(Dollars in millions)	Fair Value	$	%	$	%
Effect on Fair Values:					
Assets					
Education Loans	$ 95,032	$ (184)	—%	$ 286	—%
Other earning assets	5,488	—	—	—	—
Other assets	4,190	168	4	142	3
Total assets gain/(loss)	$ 104,710	$ (16)	—%	$ 428	—%
Liabilities					
Interest-bearing liabilities	$ 97,591	$ (437)	—%	$ 474	—%
Other liabilities	1,688	242	14	137	8
Total liabilities (gain)/loss	$ 99,279	$ (195)	—%	$ 611	1%

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate education loan portfolio with floating rate debt and our fixed rate education loan portfolio with fixed rate debt. However, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets. In addition, due to the ability of some FFELP Loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the education loan earns at the fixed borrower rate and the funding remains floating. During 2019 and 2018, certain FFELP Loans were earning Floor Income and we locked in a portion of that Floor Income through the use of derivative contracts. The result of these hedging transactions was to fix the relative spread between the education loan asset rate and the variable rate liability.

In the preceding tables, under the scenario where interest rates increase or decrease by 100 basis points, the change in pre-tax net income before the mark-to-market gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our unhedged loans being in a fixed-rate mode due to Floor Income, while being funded with variable rate debt in low interest rate environments; and (ii) a portion of our fixed rate assets being funded with variable rate liabilities. Both items will generally cause income to decrease when interest rates increase and income to increase when interest rates decrease. The decrease in income in 2019 when interest rates increase 100 basis points is due primarily to item (i) above. In particular, the primary factor relates to FFELP Stafford loans containing an annual reset floor feature that began earning floor income in the third quarter of 2019 but were not earning floor income in 2018 because of the higher rate environment at that time. If interest rates increase 100 basis point these loans will no longer earn floor income. The increase in income in 2019 when interest rates decrease 100 basis points relates in part to these same FFELP Stafford loans with the annual reset floor feature that will earn more floor income as interest rates fall further in a lower rate environment in 2019 as compared to 2018.

In the preceding tables, under the scenario where interest rates increase or decrease by 100 basis points, the change in mark-to-market gains (losses) on derivative and hedging activities in 2019 and 2018 is primarily due to (i) the notional amount and remaining term of our derivative portfolio and related hedged debt and (ii) the interest rate environment. The increase in the mark-to-market income in 2019 as compared to 2018 when interest rates increase 100 basis points is due to additional pay fix/receive variable trading swaps that are used to economically hedge originations of fixed rate refinance loans, a smaller notional amount of receive fix/pay variable trading swaps, and the impact of a lower interest rate environment in 2019 on derivative contracts that hedge floor income. The decrease in the mark-to-market income in 2019 as compared to 2018 when interest rates decrease 100 basis points is due to these same subsets of our derivative portfolio that will lose value in a falling rate environment.

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

Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of December 31,2019. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the “gains (losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

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

GAAP Basis

Index (Dollars in billions)	Frequency of Variable Resets	Assets	Funding(1)	Funding Gap
3-month Treasury bill	weekly	$ 3.0	$ —	$ 3.0
3-month Treasury bill	annual	.2	—	.2
Prime	annual	.2	—	.2
Prime	quarterly	2.2	—	2.2
Prime	monthly	7.5	—	7.5
3-month LIBOR	quarterly	.4	30.3	(29.9)
3-month LIBOR	daily	—	2.6	(2.6)
1-month LIBOR	monthly	4.6	35.2	(30.6)
1-month LIBOR	daily	60.9	—	60.9
CMT/CPI Index	monthly/quarterly	—	—	—
Non-Discrete reset(2)	monthly	—	8.4	(8.4)
Non-Discrete reset(3)	daily/weekly	4.0	.3	3.7
Fixed Rate(4)		11.9	18.1	(6.2)
Total		$ 94.9	$ 94.9	$ —

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

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

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

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

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

Core Earnings Basis

Index (Dollars in billions)	Frequency of Variable Resets	Assets	Funding(1)	Funding Gap
3-month Treasury bill	weekly	$ 3.0	$ —	$ 3.0
3-month Treasury bill	annual	.2	—	.2
Prime	annual	.2	—	.2
Prime	quarterly	2.2	—	2.2
Prime	monthly	7.5	—	7.5
3-month LIBOR	quarterly	.4	—	.4
3-month LIBOR	daily	—	1.0	(1.0)
1-month LIBOR	monthly	4.6	66.6	(62.0)
1-month LIBOR	daily	60.9	—	60.9
Non-Discrete reset(2)	monthly	—	8.4	(8.4)
Non-Discrete reset(3)	daily/weekly	4.0	.3	3.7
Fixed Rate(4)		11.6	18.3	(6.7)
Total		$ 94.6	$ 94.6	$ —

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

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

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

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

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

Weighted Average Life

The following table reflects the weighted average life for our earning assets and liabilities at December 31, 2019.

(Averages in Years)	Weighted Average Life
Earning assets	
Education loans	6.2
Other loans	3.1
Cash and investments	.1
Total earning assets	5.9
Borrowings	
Short-term borrowings	.7
Long-term borrowings	6.0
Total borrowings	5.5

Item 8. Financial Statements and Supplementary Data

Reference is made to the financial statements listed under the heading "(a) 1.A Financial Statements" of Item 15 hereof, which financial statements are incorporated by reference in response to this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Nothing to report.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2019. Based on this evaluation, our chief principal executive and principal financial officers concluded that, as of December 31, 2019, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our chief principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, our management used the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment and those criteria, management concluded that, as of December 31, 2019, our internal control over financial reporting is effective.

KPMG LLP, an independent registered public accounting firm, audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, as stated in their report which appears below.

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.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Nothing to report.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The information contained in the 2020 Proxy Statement, including information appearing in the sections titled "Proposal 1 — Election of Directors," "Executive Officers," "Other Matters — Delinquent Section 16(a) Reports, if applicable" and "Corporate Governance" in the 2020 Proxy Statement, is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the 2020 Proxy Statement, including information appearing in the sections titled "Executive Compensation" and "Director Compensation" in the 2020 Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained in the 2020 Proxy Statement, including information appearing in the sections titled "Ownership of Common Stock" and "Ownership of Common Stock by Directors and Executive Officers" in the 2020 Proxy Statement, is incorporated herein by reference.

The table below presents information as of December 31, 2019, relating to our equity compensation plans or arrangements pursuant to which grants of options, restricted stock, restricted stock units, stock units or other rights to acquire shares may be granted from time to time.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights (1)	Weighted Average Exercise Price of Outstanding Options and Rights	Average Remaining Life (Years) of Options Outstanding	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders:				
Navient Corporation 2014 Omnibus Incentive Plan:				
Traditional options	—	$ —	—	
Net-Settled Options	851,202	13.61	1.6	
RSUs	2,879,657	—	—	
PSUs	1,448,715	—	—	
Total	5,179,574	13.61	1.6	16,652,752
ESPP(2)	—	—	—	2,050,117
Total approved by security holders	5,179,574	$ 13.61	1.6	18,702,869
Total not approved by security holders	—	$ —	—	—

(1) Upon exercise of a net-settled option, optionees are entitled to receive the after-tax spread shares only. The spread shares equal the gross number of options granted less shares for the option cost. Accordingly, this column reflects the net-settled option spread shares issuable at December 31, 2019, where provided. PSUs granted in 2017 vest after a three-year performance period (2017-2019), with the potential payout ranging from 0% to 150% of the target award. Based on the Company's actual performance during the three-year performance period relative to pre-established performance goals, these PSUs will vest at 109% of the target amount and will be settled in shares of the Company's common stock two business days after the Company files its form 10-K for the year ended December 31, 2019. These 2017 PSUs are shown above as outstanding on December 31, 2019, based on the final achieved amount (i.e., 109% of the target amount).

(2) Number of shares available for issuance under the Navient Corporation ESPP as of December 31, 2019. The ESPP was approved on April 8, 2014 by the company now known as SLM Corporation, then our sole shareholder. The ESPP became effective May 1, 2014. The Company amended the ESPP effective November 1, 2015 to alter the offering period for employees of recently acquired subsidiaries. The Company again amended the ESPP on April 4, 2019, subject to shareholder approval, to increase the shares available for issuance under the plan by 2 million shares. This amendment was approved by the Company's shareholders on June 6, 2019.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained in the 2020 Proxy Statement, including information appearing under "Other Matters — Certain Relationships and Transactions" and "Corporate Governance" in the 2020 Proxy Statement, is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information contained in the 2020 Proxy Statement, including information appearing under "Independent Registered Public Accounting Firm" in the 2020 Proxy Statement, is incorporated herein by reference.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements

A. The following consolidated financial statements of Navient Corporation and the Report of the Independent Registered Public Accounting Firm thereon are included in Item 8 above:

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

We will furnish at cost a copy of any exhibit filed with or incorporated by reference into this Annual Report on Form 10-K. Oral or written requests for copies of any exhibits should be directed to the Secretary.

Item 16. Form 10-K Summary

N/A

4. Appendices

Appendix A — Federal Family Education Loan Program

(b) Exhibits

2.1	The Agreement and Plan of Merger, dated as of October 16, 2014, between Navient Corporation and Navient, LLC (incorporated by reference to Exhibit 2.1 to Navient Corporation's Current Report on Form 8-K filed on October 17, 2014).
3.1	Amended and Restated Certificate of Incorporation of Navient Corporation (incorporated by reference to Exhibit 3.1 of Amendment No. 3 to Navient Corporation's Registration Statement on Form 10 (File No. 001-36228) filed on March 27, 2014).
3.2	Second Amended and Restated By-Laws of Navient Corporation adopted April 4, 2018 (incorporated by reference to Exhibit 3.1 to Navient Corporation's Current Report on Form 8-K filed on April 9, 2018.
4.1	The Second Supplemental Indenture, dated as of October 16, 2014, between Navient Corporation and Deutsche Trust Company Limited, as trustee (incorporated by reference to Exhibit 4.1 to Navient Corporation's Current Report on Form 8-K filed on October 17, 2014).
4.2	The Eighth Supplemental Indenture, dated as of October 16, 2014, between Navient Corporation and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to Navient Corporation's Current Report on Form 8-K filed on October 17, 2014).
4.3	The Third Supplemental Indenture, dated as of July 29, 2016, between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.2 to Navient Corporation's Current Report on Form 8-K filed on July 29, 2016).
4.4	The Fourth Supplemental Indenture, dated as of September 16, 2016, between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.2 to Navient Corporation's Current Report on Form 8-K filed on September 16, 2016).

4.5	The Fifth Supplemental Indenture, dated as of March 7, 2017 to the Indenture dated as of July 18, 2014 between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.2 to Navient Corporation's Current Report on Form 8-K filed on March 7, 2017).
4.6	The Sixth Supplemental Indenture, dated as of March 17, 2017 to the Indenture dated as of July 18, 2014 between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.3 to Navient Corporation's Current Report on Form 8-K filed on March 7, 2017)
4.7	The Seventh Supplemental Indenture, dated as of May 26, 2017 to the Indenture dated as of July 18, 2014 between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.2 to Navient Corporation's Current Report on Form 8-K filed on May 26, 2017).
4.8	The Eighth Supplemental Indenture, dated as of June 9, 2017 to the Indenture dated as of July 18, 2014 between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.4 to Navient Corporation's Current Report on Form 8-K filed on June 9, 2017).
4.9	The Ninth Supplemental Indenture, dated as of December 4, 2017 to the Indenture dated as of July 18, 2014 between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.3 to Navient Corporation's Current Report on Form 8-K filed on December 4, 2017).
4.10	The Tenth Supplemental Indenture, dated as of June 11, 2018 to the Indenture dated as of July 18, 2014 between Navient Corporation and The Bank of New York Mellon as trustee (incorporated by reference to Exhibit 4.2 to Navient Corporation's Current Report on Form 8-K filed on June 11, 2018).
4.11	The Eleventh Supplemental Indenture, dated as of January 27, 2020 (this "Supplemental Indenture"), between Navient Corporation, a Delaware corporation (the "Company"), and The Bank of New York Mellon, a New York banking corporation, as trustee (the "Trustee") (incorporated by reference to Exhibit 4.2 on Form 8-K filed on January 27, 2020).
10.1†	Navient Deferred Compensation Plan, as amended and restated effective January 1, 2015 (incorporated by reference to Exhibit 10.1 to Navient Corporation's Current Report on Form 8-K filed on December 23, 2014).
10.2†	Navient Supplemental 401(k) Savings Plan (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 (File No. 333-195536) filed on April 28, 2014).
10.3†	Navient Deferred Compensation Plan for Key Employees (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 (File No. 333-195539) filed on April 28, 2014).
10.4†	Navient Deferred Compensation Plan for Directors, as amended and restated effective October 1, 2015 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-K (File No. 001-36228) filed on October 30, 2015).
10.5†	Navient Deferred Compensation Plan for Directors (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 (File No. 333-195538) filed on April 28, 2014).
10.6†	Navient Corporation 2014 Omnibus Incentive Plan, Amended and Restated as of April 6, 2015 (incorporated by reference to the Company's Proxy Statement on Form DEF 14A (File No. 001-36228) filed on April 10, 2015).
10.7†	Navient Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 (File No. 333-195533) filed on April 28, 2014).
10.8†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Stock Option Agreement, Net Settled Options — 2014 (incorporated by reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).
10.9†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Stock Option Agreement, Net Settled Options — 2013 (incorporated by reference to Exhibit 10.17 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).
10.10†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Stock Option Agreement, Net Settled Options — 2011 (incorporated by reference to Exhibit 10.22 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).

10.11†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Stock Option Agreement, Net Settled Options — 2010 (incorporated by reference to Exhibit 10.23 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).
10.12†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Independent Director Stock Option Agreement — 2011 (incorporated by reference to Exhibit 10.31 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).
10.13†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Independent Director Stock Option Agreement — 2010 (incorporated by reference to Exhibit 10.32 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).
10.14†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Independent Director Stock Option Agreement — 2009 (incorporated by reference to Exhibit 10.33 of the Company's Quarterly Report on Form 10-Q filed on August 1, 2014).
10.15†	Form of Navient Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Agreement (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed on April 28, 2016).
10.16†	Form of Navient Corporation 2014 Omnibus Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on April 28, 2016).
10.17†	Form of Navient Corporation 2014 Omnibus Incentive Plan Stock Option Agreement — Net Settled Options (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed on April 28, 2016).
10.18	Underwriting Agreement, dated July 26, 2016, among Navient Corporation and Barclays Capital Inc., J.P. Morgan Securities LLC, and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on July 29, 2016).
10.19	Underwriting Agreement, dated September 13, 2016, among Navient Corporation and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC, as representatives of the Underwriters named therein (incorporated by reference to Exhibit 1.1 to Navient Corporation's Current Report on Form 8-K filed on September 16, 2016).
10.20	Underwriting Agreement, dated March 2, 2017 (the "Underwriting Agreement"), among the Company and J.P. Morgan Securities LLC, Barclays Capital Inc. and RBC Capital Markets, LLC, as representatives of the underwriters named therein (together, the "Underwriters") (incorporated by reference to Exhibit 1.01 to Navient Corporation's Current Report on Form 8-K filed on March 7, 2017).
10.21	Federal Student Loan Sale Agreement (the "Agreement") dated April 18, 2017 (the "Effective Date"), by and between Navient Credit Finance Corporation, a Delaware corporation (the "Purchaser"), and JPMorgan Chase Bank, N.A., a national banking association (the "Seller"). (incorporated by reference to Exhibit 10.4 to Navient Corporation's Quarterly Report on Form 10-Q filed on April 27, 2017).
10.22†	Private Student Loan Sale Agreement (the "Agreement") is made and entered into as of April 18, 2017 (the "Effective Date"), by and between Navient Credit Finance Corporation, a Delaware corporation (the "Purchaser"), and JPMorgan Chase Bank, N.A., a national banking association (the "Seller") (incorporated by reference to Exhibit 10.5 to Navient Corporation's Quarterly Report on Form 10-Q filed on April 27, 2017).
10.23	Underwriting Agreement, dated May 23, 2017 (the "Underwriting Agreement"), among the Company and Barclays Capital Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the underwriters named therein (together, the "Underwriters") (incorporated by reference to Exhibit 1.01 to Navient Corporation's Current Report on Form 8-K filed on May 26, 2017).
10.24	Underwriting Agreement, dated November 30, 2017 (the "Underwriting Agreement"), among the Company and Barclays Capital Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the underwriters named therein (together, the "Underwriters") (incorporated by reference to Exhibit 1.1 to Navient Corporation's Current Report on Form 8-K filed on December 4, 2017).

10.25†	Form of Navient Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to Navient Corporation's Quarterly Report on Form 10-Q filed on April 27, 2017).
10.26†	Form of Navient Corporation 2014 Omnibus Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to Navient Corporation's Quarterly Report on Form 10-Q filed on April 27, 2017).
10.27†	Form of Navient Corporation 2014 Omnibus Incentive Plan Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Navient Corporation's Quarterly Report on Form 10-Q filed on April 27, 2017).
10.28†	Form of Navient Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to Navient Corporation's Quarterly Report on Form 10-Q filed on May 3, 2018).
10.29†	Form of Navient Corporation 2014 Omnibus Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to Navient Corporation's Quarterly Report on Form 10-Q filed on May 3, 2018).
10.30†	Form of Navient Corporation 2014 Omnibus Incentive Plan Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Navient Corporation's Quarterly Report on Form 10-Q filed on May 3, 2018).
10.31	Underwriting Agreement, dated June 7, 2018 (the "Underwriting Agreement"), among the Company and Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBC Capital Markets, LLC, as representatives of the underwriters named therein (together, the "Underwriters") (incorporated by reference to Exhibit 1.1 to Navient Corporation's Current Report on Form 8-K filed on June 11, 2018).
10.32†	Separation and Release Agreement (this "Agreement") dated July 13, 2018 by and between John F. (Jeff) Whorley, Jr. and Navient Corporation incorporated by reference to Exhibit 10.01 to Navient Corporation's Current Report on Form 8-K filed on July 20, 2018).
10.33†	Navient Corporation 2014 Omnibus Incentive Plan, Amended and Restated as of May 24, 2018 incorporated by reference to Exhibit 10.1 to Navient Corporation's Quarterly Report filed on Form 10-Q filed on August 3, 2018.
10.34†	Navient Corporation Deferred Compensation Plan, Amended and Restated as of May 24, 2018 incorporated by reference to Exhibit 10.2 to Navient Corporation's Quarterly Report filed on Form 10-Q filed on August 3, 2018.
10.35†	Navient Corporation Change in Control Severance Plan for Senior Officers, Amended and Restated as of May 24, 2018 incorporated by reference to Exhibit 10.3 to Navient Corporation's Quarterly Report filed on Form 10-Q filed on August 3, 2018.
10.36†	Navient Corporation Executive Severance Plan for Senior Officers, Amended and Restated as of May 24, 2018 incorporated by reference to Exhibit 10.4 to Navient Corporation's Quarterly Report filed on Form 10-Q filed on August 3, 2018.
10.37	Cooperation Agreement ("Agreement") between Canyon Capital Advisors LLC and certain of its affiliates set forth in the signature pages thereto (other than the Company) (collectively, "Investor") and Navient Corporation (the "Company") (incorporated by reference to Exhibit 10.1 on Form 8-K filed on May 3, 2019).
10.38†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Performance Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to Navient Corporation's Quarterly Report on Form 10-Q filed on May 3, 2019).
10.39†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to Navient Corporation's Quarterly Report on Form 10-Q filed on May 3, 2019).
10.40†	Form of Navient Corporation 2014 Omnibus Incentive Plan, Independent Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 to Navient Corporation's Quarterly Report on Form 10-Q filed on May 3, 2019).

10.41†	Amended and Restated Navient Corporation Employee Stock Purchase Plan (incorporated by reference to Appendix A to Navient Corporation's Definitive Proxy Statement filed on April 30, 2019.
10.42	Underwriting Agreement dated January 23, 2020 (the "Underwriting Agreement"), among Navient Corporation (the "Company") and RBC Capital Markets, LLC, BofA Securities, Inc. and J.P. Morgan Securities LLC, as representatives of the underwriters named therein (together, the "Underwriters") (incorporated by reference to Exhibit 1.1 on Form 8-K filed January 27, 2020).
10.43	Stock Repurchase Agreement ("Agreement") dated January 27, 2020, by and among Navient Corporation, (the "Purchaser"), and Canyon Capital Advisors LLL on behalf of Canyon Value Realization Fund, L.P., The Canyon Value Realization Master Fund, L.P., Canyon Balanced Master Fund, Ltd, Canyon-GRF Master Fund II, L.P., EP Canyon Ltd, Canyon Value Realization MAC 18 Ltd (collectively "Canyon") (incorporated by reference to Exhibit 10.1 on Form 8-K filed on January 28, 2020).
12.1*	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
21.1*	List of Subsidiaries.
23.1*	Consent of KPMG LLP.
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 27, 2020

NAVIENT CORPORATION

By: /s/ JOHN F. REMONDI
John F. Remondi
President and Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN F. REMONDI John F. Remondi	President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2020
/s/ CHRISTIAN M. LOWN Christian M. Lown	Chief Financial Officer (Principal Financial Officer)	February 27, 2020
/s/ LINDA A. MILLS Linda A. Mills	Chairman of the Board of Directors	February 27, 2020
/s/ FREDERICK ARNOLD Frederick Arnold	Director	February 27, 2020
/s/ MARJORIE L. BOWEN Marjorie L. Bowen	Director	February 27, 2020
/s/ ANNA ESCOBEDO CABRAL Anna Escobedo Cabral	Director	February 27, 2020
/s/ LARRY A. KLANE Larry A. Klane	Director	February 27, 2020
/s/ KATHERINE A. LEHMAN Katherine A. Lehman	Director	February 27, 2020
/s/ JANE J. THOMPSON Jane J. Thompson	Director	February 27, 2020
/s/ LAURA S. UNGER Laura S. Unger	Director	February 27, 2020
/s/ DAVID L. YOWAN David L. Yowan	Director	February 27, 2020

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

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

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, 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-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)

	December 31, 2019	December 31, 2018
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	$ 94,903	$ 104,176
Liabilities		
Short-term borrowings	$ 8,483	$ 5,422
Long-term borrowings	81,715	93,519
Other liabilities	1,356	1,688
Total liabilities	91,554	100,629
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	$ 94,903	$ 104,176

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

	December 31, 2019	December 31, 2018
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	$ 7,514	$ 9,424

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	$ 597	$ 395	$ 292
Basic earnings per common share	$ 2.59	$ 1.52	$ 1.06
Average common shares outstanding	230	260	275
Diluted earnings per common share	$ 2.56	$ 1.49	$ 1.04
Average common and common equivalent shares outstanding	233	264	281
Dividends per common share	$ .64	$ .64	$ .64

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	$ 393	$ 434	$ 347

(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	439,718,145	(176,667,573)	263,050,572	$ 4	$ 3,077	$ 61	$ 3,004	$ (2,692)	$ 3,454	$ 31	$ 3,485

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	445,377,826	(197,940,553)	247,437,273	$ 4	$ 3,145	$ 113	$ 3,218	$ (2,961)	$ 3,519	$ 28	$ 3,547

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										
	Issued	Treasury	Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2018	445,377,826	(197,940,553)	247,437,273	$ 4	$ 3,145	$ 113	$ 3,218	$ (2,961)	3,519	$ 28	3,547
Comprehensive income:											
Net income	—	—	—	—	—	—	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	451,094,879	(235,658,196)	215,436,683	$ 4	$ 3,198	$ (91)	$ 3,664	$ (3,439)	$ 3,336	$ 13	$ 3,349

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 accretable 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.

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.

	December 31, 2019		Year Ended December 31, 2019	
(Dollars in millions)	Ending Balance	% of Balance	Average Balance	Average 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	$ 86,820	100%	$ 90,783	5.04%

	December 31, 2018		Year Ended December 31, 2018	
(Dollars in millions)	Ending Balance	% of Balance	Average Balance	Average 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	$ 94,498	100%	$ 100,252	4.79%

(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.

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.

4. Allowance for Loan Losses (Continued)

	Year Ended December 31, 2018			
(Dollars in millions)	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	$ 76	$ 1,201	$ 9	$ 1,286
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	$ 76	$ 1,201	$ 9	$ 1,286
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)	$ 71,730	$ 24,205	$ 79	$ 96,014
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.

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	$ 60	$ 1,297	$ 10	$ 1,367
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	$ 60	$ 1,297	$ 10	$ 1,367
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)	$ 81,097	$ 25,640	$ 70	$ 106,807
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.

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.

	FFELP Loan Delinquencies					
	December 31, 2019		December 31, 2018		December 31, 2017	
(Dollars in millions)	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.

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.

	Private Education Loans Credit Quality Indicators			
	TDRs			
	December 31, 2019		December 31, 2018	
(Dollars in millions)	Balance(3)	% of Balance	Balance(3)	% of Balance
Credit Quality Indicators				
Original Winning FICO Scores:				
FICO 640 and above	$ 8,493	92%	$ 9,133	92%
FICO below 640	777	8	836	8
Total	$ 9,270	100%	$ 9,969	100%
School Type:				
Not-for-profit	$ 7,387	80%	$ 7,888	79%
For-profit	1,883	20	2,081	21
Total	$ 9,270	100%	$ 9,969	100%
Cosigners:				
With cosigner(1)	$ 5,792	62%	$ 6,172	62%
Without cosigner	3,478	38	3,797	38
Total	$ 9,270	100%	$ 9,969	100%
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	$ 9,270	100%	$ 9,969	100%

(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.

4. Allowance for Loan Losses (Continued)

	Private Education Loans Credit Quality Indicators			
	Non-TDRs			
	December 31, 2019		December 31, 2018	
(Dollars in millions)	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	$ 14,052	100%	$ 13,562	100%
School Type:				
Not-for-profit	$ 12,614	90%	$ 11,953	88%
For-profit	1,438	10	1,609	12
Total	$ 14,052	100%	$ 13,562	100%
Cosigners:				
With cosigner(1)	$ 5,184	37%	$ 6,961	51%
Without cosigner	8,868	63	6,601	49
Total	$ 14,052	100%	$ 13,562	100%
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	$ 14,052	100%	$ 13,562	100%

(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.

4. Allowance for Loan Losses (Continued)

	Private Education Loan Delinquencies					
	TDRs					
	December 31, 2019		December 31, 2018		December 31, 2017	
(Dollars in millions)	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.

4. Allowance for Loan Losses (Continued)

	Private Education Loan Delinquencies					
	Non-TDRs					
	December 31, 2019		December 31, 2018		December 31, 2017	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
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.

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	$ 588	$ 674	$ 760

(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	TDRs 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.

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	$ 297	$ 20	$ 22
December 31, 2018			
TDR	$ 205	$ 26	$ 23
Non-TDR	149	3	4
Total	$ 354	$ 29	$ 27
December 31, 2017			
TDR	$ 196	$ 20	$ 20
Non-TDR	187	4	6
Total	$ 383	$ 24	$ 26

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.

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.

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:

	As of December 31, 2019			As of December 31, 2018		
(Dollars in millions)	**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	$ 432	$ (340)	$ 92	$ 464	$ (343)	$ 121

(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.

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.

	December 31, 2019			December 31, 2018		
(Dollars in millions)	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.

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	
(Dollars in millions)	**Ending Balance**	**Weighted Average Interest Rate**	**Average Balance**	**Weighted Average Interest Rate**
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	$ 8,483	3.42%	$ 6,944	4.28%
Maximum outstanding at any month end	$ 8,564			

	December 31, 2018		Year Ended December 31, 2018	
(Dollars in millions)	**Ending Balance**	**Weighted Average Interest Rate**	**Average Balance**	**Weighted Average Interest Rate**
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	$ 5,422	3.56%	$ 4,833	4.35%
Maximum outstanding at any month end	$ 6,363			

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.

(Dollars in millions)	December 31, 2019 Ending Balance(1)	December 31, 2019 Weighted Average Interest Rate(2)	Year Ended December 31, 2019 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

(Dollars in millions)	December 31, 2018 Ending Balance(1)	December 31, 2018 Weighted Average Interest Rate(2)	Year Ended December 31, 2018 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.

6. Borrowings (Continued)

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

	Expected Maturity		
(Dollars in millions)	**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.

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.

	December 31, 2019						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	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	$ 7,089	$ 72,856	$ 79,945	$ 83,864	$ 2,506	$ 1,089	$ 87,459

	December 31, 2018						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	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	$ 4,341	$ 82,738	$ 87,079	$ 91,619	$ 3,928	$ 956	$ 96,503

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.

	Years Ended December 31,		
(Dollars in millions)	**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.

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

		Cash Flow		Fair Value(4)		Trading		Total	
(Dollars in millions)	Hedged Risk Exposure	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:

	Other Assets		Other Liabilities	
(Dollar in millions)	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:

	As of December 31, 2019		As of December 31, 2018	
(Dollar in millions)	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)

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	
(Dollars in billions)	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
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.

7. Derivative Financial Instruments (Continued)

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

	Years Ended December 31,		
(Dollars in millions)	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	$ (204)	$ 39	$ 55

(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	$ 406	$ 356
Derivative asset at fair value including accrued interest	$ 282	$ 210
Collateral pledged to others:		
Cash (right to receive return of cash collateral is recorded in investments)	$ 155	$ 188
Total collateral pledged	$ 155	$ 188
Derivative liability at fair value including accrued interest and premium receivable	$ 658	$ 752

(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.

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	$ 3,334	$ 3,404

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.

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.

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.

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.

	Fair Value Measurements on a Recurring Basis							
	December 31, 2019				December 31, 2018			
(Dollars in millions)	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.

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			
(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	$ (17)	$ (575)	$ (1)	$ (593)
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	$ 9	$ 58	$ 3	$ 70

	Year Ended December 31, 2018			
	Derivative Instruments			
(Dollars in millions)	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	$ (27)	$ (633)	$ (4)	$ (664)
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	$ 13	$ (284)	$ 14	$ (257)

	Year Ended December 31, 2017			
	Derivative Instruments			
(Dollars in millions)	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
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	$ (41)	$ (322)	$ (18)	$ (381)
Change in mark-to-market gains/(losses) relating to instruments still held at the reporting date(2)	$ 5	$ 795	$ (5)	$ 795

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

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

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

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	8%
			Bid/ask adjustment to discount rate	.08%
Cross-currency interest rate swaps	(575)	Discounted cash flow	Constant Prepayment Rate	4%
Other	(1)			
Total	$ (593)			

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.

	December 31, 2019			December 31, 2018		
(Dollars in millions)	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	91,454	90,812	642	100,520	99,986	534
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	89,815	90,198	383	97,591	98,941	1,350
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			$ 1,025			$ 1,884

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.

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:

	December 31,		
(Dollars in millions)	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

14. Income Taxes (Continued)

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

	December 31,	
(Dollars in millions)	**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	$ 307	$ 322

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).

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	$ 53.6	$ 65.7	$ 57.4

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.

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

	Years Ended December 31,					
	2019			2018		
(Dollars in millions)	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	$ 133	$ 258	$ 391	$ 91	$ 268	$ 359

Revenue by Client Type

	Years Ended December 31,					
	2019			2018		
(Dollars in millions)	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	$ 133	$ 258	$ 391	$ 91	$ 268	$ 359

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.

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.

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

(1) Includes restricted cash and investments.

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.

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

(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.

16. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Year Ended December 31, 2019								
						Adjustments			
(Dollars in millions)	Federal Education Loans	Consumer Lending	Business Processing	Other	Total Core Earnings	Reclassi-fications	Additions/ (Subtractions)	Total Adjustments(1)	Total GAAP
Interest income:									
Education loans	$ 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:

	Year Ended December 31, 2019		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	$ (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.

16. Segment Reporting (Continued)

	Year Ended December 31, 2018								
						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	$ 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:

	Year Ended December 31, 2018		
(Dollars in millions)	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.

16. Segment Reporting (Continued)

	Year Ended December 31, 2017								
						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	$ 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:

	Year Ended December 31, 2017		
(Dollars in millions)	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.

16. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

	Years Ended December 31,		
(Dollars in millions)	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	$ 597	$ 395	$ 292

(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.

17. Quarterly Financial Information (unaudited)

	2019			
(Dollars in millions, except per share data)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
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			
(Dollars in millions, except per share data)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
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

APPENDIX A

DESCRIPTION OF FEDERAL FAMILY EDUCATION LOAN PROGRAM

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 ("HCERA") which terminated as of July 1, 2010 the Federal Family Education Loan Program ("FFELP") under Title IV of the Higher Education Act. This appendix presents a summary of the program prior to its termination date. The new law does not alter or affect the terms and conditions of existing education loans made under the FFELP prior to July 1, 2010.

This appendix describes or summarizes the material provisions of Title IV of the Higher Education Act, the FFELP and related statutes and regulations. It, however, is not complete and is qualified in its entirety by reference to each actual statute and regulation. Both the Higher Education Act and the related regulations have been the subject of extensive amendments over the years. We cannot predict whether future amendments or modifications might materially change any of the programs described in this appendix or the statutes and regulations that implement them.

General

The FFELP provided for loans to students who were enrolled in eligible institutions, or to parents of dependent students who were enrolled in eligible institutions, to finance their educational costs. As further described below, payment of principal and interest on the education loans is insured by a state or not-for-profit guaranty agency against:

- default of the borrower;
- the death, bankruptcy or permanent, total disability of the borrower;
- closing of the borrower's school prior to the end of the academic period;
- false certification of the borrower's eligibility for the loan by the school; and
- an unpaid school refund.

Claims are paid from federal assets, known as "federal student loan reserve funds," which are maintained and administered by state and not-for-profit guaranty agencies. In addition, the holders of education loans are entitled to receive interest subsidy payments and special allowance payments from the United States Department of Education (which we refer to as the Department of Education) on eligible education loans.

Special allowance payments raise the yield to education loan lenders when the statutory borrower interest rate is below an indexed market value. Subject to certain conditions, a program of federal reinsurance under the Higher Education Act entitles guaranty agencies to reimbursement from the Department of Education for between 75% and 100% of the amount of each guarantee payment.

Four types of education loans were authorized under the Higher Education Act:

- Subsidized Stafford Loans to students who demonstrated requisite financial need;
- Unsubsidized Stafford Loans to students who either did not demonstrate financial need or required additional loans to supplement their Subsidized Stafford Loans;
- Federal PLUS Loans to graduate or professional students (effective July 1, 2006) or parents of dependent students whose estimated costs of attending school exceed other available financial aid; and
- Consolidation Loans, which consolidated into a single loan a borrower's obligations under various federally authorized education loan programs.

Before July 1, 1994, the Higher Education Act also authorized loans called "Supplemental Loans to Students" or "SLS Loans" to independent students and, under some circumstances, dependent undergraduate students, to supplement their Subsidized Stafford Loans. The Unsubsidized Stafford Loan program replaced the SLS program.

Legislative Matters

The federal education loan programs are subject to frequent statutory and regulatory changes. The most significant change to the FFELP was with the enactment of the HCERA, which terminated the FFELP as of July 1, 2010.

On December 23, 2011, the President of the United States signed the Consolidated Appropriations Act of 2012 into law. This law includes changes that permit FFELP lenders or beneficial holders to change the index on which the special allowance payments are calculated for FFELP loans first disbursed on or after January 1, 2000. The law allows owners of FFELP loans to elect to change the applicable index from the three-month commercial paper rate to the one-month LIBOR index. Such elections must have been made by April 1, 2012.

Eligible Lenders, Students and Educational Institutions

Lenders who were eligible to make loans under the FFELP generally included banks, savings and loan associations, credit unions, pension funds and, under some conditions, schools and guaranty agencies. FFELP loans were required to be made to, or on behalf of, a "qualified student." A "qualified student" is an individual who:

- is a United States citizen, national or permanent resident;
- has been accepted for enrollment or is enrolled and is maintaining satisfactory academic progress at a participating educational institution;
- is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing; and
- meets the financial need requirements for the particular loan program.

Eligible schools include institutions of higher education, including proprietary institutions, meeting the standards provided in the Higher Education Act. For a school to participate in the program, the Department of Education had to approve its eligibility under standards established by regulation.

Financial Need Analysis

Subject to program limits and conditions, education loans generally were made in amounts sufficient to cover the student's estimated costs of attending school, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses as determined by the institution. Generally, each loan applicant (and parents in the case of a dependent child) underwent a financial need analysis.

Special Allowance Payments

The Higher Education Act provides for quarterly special allowance payments to be made by the Department of Education to holders of education loans to the extent necessary to ensure that they receive at least specified market interest rates of return. The rates for special allowance payments depend on formulas that vary according to the type of loan, the date the loan was made and the type of funds, tax-exempt or taxable, used to finance the loan. The Department of Education makes a special allowance payment for each calendar quarter, generally within 45 to 60 days after the receipt of a bill from the lender.

The special allowance payment equals the average unpaid principal balance, including interest which has been capitalized, of all eligible loans held by a holder during the quarterly period multiplied by the special allowance percentage.

For education loans disbursed before January 1, 2000, the special allowance percentage is computed by:

(1) determining the average of the bond equivalent rates of 91-day Treasury bills auctioned for that quarter;

(2) subtracting the applicable borrower interest rate;

(3) adding the applicable special allowance margin described in the table below; and

(4) dividing the resultant percentage by 4.

If the result is negative, the special allowance payment is zero.

Date of First Disbursement	Special Allowance Margin
Before 10/17/86	3.50%
From 10/17/86 through 09/30/92	3.25%
From 10/01/92 through 06/30/95	3.10%
From 07/01/95 through 06/30/98	2.50% for Stafford Loans that are in In-School, Grace or Deferment
	3.10% for Stafford Loans that are in Repayment and all other loans
From 07/01/98 through 12/31/99	2.20% for Stafford Loans that are in In-School, Grace or Deferment
	2.80% for Stafford Loans that are in Repayment and Forbearance
	3.10% for PLUS, SLS and Consolidation Loans

For education loans disbursed after January 1, 2000, the special allowance percentage is computed by:

(1) determining the average of the bond equivalent rates of 3-month commercial paper (financial) rates or one-month London Inter-Bank Offered Rates (LIBOR), as applicable, quoted for that quarter;

(2) subtracting the applicable borrower interest rate;

(3) adding the applicable special allowance margin described in the table below; and

(4) dividing the resultant percentage by 4.

If the result is negative, the special allowance payment is zero.

Date of First Disbursement	Special Allowance Margin
From 01/01/00 through 09/30/07	1.74% for Stafford Loans that are in In-School, Grace or Deferment
	2.34% for Stafford Loans that are in Repayment and Forbearance
	2.64% for PLUS and Consolidation Loans
From 10/01/07 and after	1.19% for Stafford Loans that are In-School, Grace or Deferment
	1.79% for Stafford Loans that are in Repayment and PLUS
	2.09% for Consolidation Loans

For education loans disbursed on or after April 1, 2006, lenders are required to pay the Department of Education any interest paid by borrowers on education loans that exceeds the special allowance support levels applicable to such loans.

Special allowance payments are available on variable rate PLUS Loans and SLS Loans only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. The variable rate is based on the weekly average one-year constant maturity Treasury yield for loans made before July 1, 1998 and based on the 91-day Treasury bill for loans made on or after July 1, 1998. The maximum borrower rate for these loans is between 9% and 12%. Effective July 1, 2006, this limitation on special allowance payments for PLUS Loans made on and after January 1, 2000 was repealed.

Fees

Origination Fee. An origination fee was required to be paid to the Department of Education for all Stafford and PLUS Loans originated in the FFELP. An origination fee was not required on a Consolidation Loan. A 3% origination fee was required to be deducted from the amount of each PLUS Loan.

An origination fee may have been, but was not required to be, deducted from the amount of a Stafford Loan according to the following table:

Date of First Disbursement	Maximum Origination Fee
Before 07/01/06	3.0%
From 07/01/06 through 06/30/07	2.0%
From 07/01/07 through 06/30/08	1.5%
From 07/01/08 through 06/30/09	1.0%
From 07/01/09 through 06/30/10	0.5%
From 07/01/10 and after	0.0%

Federal Default Fee. A federal default fee up to 1% (previously called an insurance premium) may have been, but was not required to be, deducted from the amount of a Stafford or PLUS Loan. A federal default fee was not deducted from the amount of a Consolidation Loan.

Lender Loan Fee. A lender loan fee was required to be paid to the Department of Education on the amount of each loan disbursement of all FFELP loans. For loans disbursed from October 1, 1993 to September 30, 2007, the fee was 0.50% of the loan amount. The fee increased to 1% of the loan amount for loans disbursed on or after October 1, 2007.

Loan Rebate Fee. A loan rebate fee of 1.05% is paid annually on the unpaid principal and interest of each Consolidation Loan disbursed on or after October 1, 1993. This fee was reduced to 0.62% for loans made from October 1, 1998 to January 31, 1999.

Stafford Loan Program

For Stafford Loans, the Higher Education Act provided for:

- federal reimbursement of Stafford Loans made by eligible lenders to qualified students;
- federal interest subsidy payments on Subsidized Stafford Loans paid by the Department of Education to holders of the loans in lieu of the borrowers' making interest payments during in-school, grace and deferment periods or, in certain cases, during enrollment in an income-based repayment plan; and
- special allowance payments representing an additional subsidy paid by the Department of Education to the holders of eligible Stafford Loans.

We refer to all three types of assistance as "federal assistance."

Interest. The borrower's interest rate on a Stafford Loan can be fixed or variable. Stafford Loan interest rates are presented below.

Trigger Date	Borrower Rate	Maximum Borrower Rate	Interest Rate Margin
Before 10/01/81	7%	N/A	N/A
From 01/01/81 through 09/12/83	9%	N/A	N/A
From 09/13/83 through 06/30/88	8%	N/A	N/A
From 07/01/88 through 09/30/92	8% for 48 months; thereafter, 91-day Treasury + Interest Rate Margin	8% for 48 months, then 10%	3.25% for loans made before 7/23/92 and for loans made on or before 10/1/92 to new student borrowers; 3.10% for loans made after 7/23/92 and before 7/1/94 to borrowers with outstanding FFELP loans
From 10/01/92 through 06/30/94	91-day Treasury + Interest Rate Margin	9%	3.10%
From 07/01/94 through 06/30/95	91-day Treasury + Interest Rate Margin	8.25%	3.10%
From 07/01/95 through 06/30/98	91-day Treasury + Interest Rate Margin	8.25%	2.50% (In-School, Grace or Deferment); 3.10% (Repayment)
From 07/01/98 through 06/30/06	91-day Treasury + Interest Rate Margin	8.25%	1.70% (In-School, Grace or Deferment); 2.30% (Repayment)
From 07/01/06 through 06/30/08	6.8%	N/A	N/A
From 07/01/08 through 06/30/09	6.0% for undergraduate subsidized loans; and 6.8% for unsubsidized loans and graduate subsidized loans	6.0%, 6.8%	N/A
From 07/01/09 through 06/30/10	5.6% for undergraduate subsidized loans; and 6.8% for unsubsidized loans and graduate loans	5.6%, 6.8%	N/A

The rate for variable rate Stafford Loans applicable for any 12-month period beginning on July 1 and ending on June 30 is determined on the preceding June 1 and is equal to the *lesser* of:

- the applicable maximum borrower rate

and

- the sum of
- the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held before that June 1,

and

- the applicable interest rate margin.

Interest Subsidy Payments. The Department of Education is responsible for paying interest on Subsidized Stafford Loans:

- while the borrower is a qualified student,
- during the grace period,
- during prescribed deferment periods, and
- in certain cases, during a borrower's enrollment in an income-based repayment plan.

The Department of Education makes quarterly interest subsidy payments to the owner of a Subsidized Stafford Loan in an amount equal to the interest that accrues on the unpaid balance of that loan before repayment begins or during any deferment periods. The Department of Education also makes quarterly interest subsidy payments to the owner of a Subsidized Stafford Loan in an amount equal to the unpaid interest payable during up to three consecutive calendar years of a period of financial hardship during enrollment in an income-based repayment plan. The Higher Education Act provides that the owner of an eligible Subsidized Stafford Loan has a contractual right against the United States to receive interest subsidy and special allowance payments. However, receipt of interest subsidy and special allowance payments is conditioned on compliance with the requirements of the Higher Education Act, including the following:

- satisfaction of need criteria, and
- continued eligibility of the loan for federal insurance or reinsurance.

If the loan is not held by an eligible lender in accordance with the requirements of the Higher Education Act and the applicable guarantee agreement, the loan may lose its eligibility for federal assistance.

Lenders generally receive interest subsidy payments within 45 days to 60 days after the submission of the applicable data for any given calendar quarter to the Department of Education. However, there can be no assurance that payments will, in fact, be received from the Department of Education within that period.

Loan Limits. The Higher Education Act generally required that lenders disburse education loans in at least two equal disbursements. The Higher Education Act limited the amount a student could borrow in any academic year. The following chart shows current and historic loan limits.

For the purposes of the table above:

	Dependent Student			Independent Student		
Borrower's Academic Level	**Subsidized and Unsubsidized**	**Additional Unsubsidized**	**Maximum Annual Total Amount**	**Subsidized and Unsubsidized**	**Additional Unsubsidized**	**Maximum Annual Total Amount**
Undergraduate (per year):						
1st year	$ 3,500	$ 2,000	$ 5,500	$ 3,500	$ 6,000	$ 9,500
2nd year	$ 4,500	$ 2,000	$ 6,500	$ 4,500	$ 6,000	$ 10,500
3rd year and above	$ 5,500	$ 2,000	$ 7,500	$ 5,500	$ 7,000	$ 12,500
Aggregate limit	$ 23,000	$ 8,000	$ 31,000	$ 23,000	$ 34,500	$ 57,500
Graduate (per year)	N/A	N/A	N/A	$ 8,500	$ 12,000	$ 20,500
Aggregate limit (includes undergraduate)	N/A	N/A	N/A	$ 65,500	$ 73,000	$ 138,500

- The loan limits include both FFELP and Federal Direct Lending Program (FDLP) loans.
- The amounts in the final column represent the combined maximum loan amount per year for Subsidized and Unsubsidized Stafford Loans. Accordingly, the maximum amount that a student may borrow under an Unsubsidized Stafford Loan is the difference between the combined maximum loan amount and the amount the student received in the form of a Subsidized Stafford Loan.
- Independent undergraduate students, graduate students and professional students were permitted to borrow the additional amounts shown in the third and fourth columns. Dependent undergraduate students were also permitted to receive these additional loan amounts if their parents were unable to provide the family contribution amount and could not qualify for a PLUS Loan.
- Students attending certain medical schools were eligible for $38,500 annually and $189,000 in the aggregate.
- The annual loan limits were sometimes reduced when the student was enrolled in a program of less than one academic year or had less than a full academic year remaining in his program.

Repayment. Repayment of principal on a Stafford Loan does not begin while the borrower remains a qualified student, but only after a 6-month grace period. In general, each loan must be scheduled for repayment over a period of not more than 10 years after repayment begins. New borrowers on or after October 7, 1998 who accumulated FFELP loans totaling more than $30,000 in principal and unpaid interest are entitled to extend repayment for up to 25 years, subject to minimum repayment amounts. Consolidation Loan borrowers may be scheduled for repayment up to 30 years depending on the borrower's indebtedness. Outlined in the table below are the maximum repayment periods available based on the outstanding FFELP indebtedness.

Outstanding FFELP Indebtedness	**Maximum Repayment Period**
$7,500-$9,999	12 Years
$10,000-$19,999	15 Years
$20,000-$39,999	20 Years
$40,000-$59,999	25 Years
$60,000 or more	30 Years

Note: Maximum repayment period excludes authorized periods of deferment and forbearance.

In addition to the outstanding FFELP indebtedness requirements described above, the Higher Education Act currently requires minimum annual payments of $600, unless the borrower and the lender agree to lower payments, except that negative amortization is not allowed. The Higher Education Act and related regulations require lenders to offer a choice among standard, graduated, income-sensitive and extended repayment schedules, if applicable, to all borrowers entering repayment. The 2007 legislation introduced an income-based repayment plan on July 1, 2009 that a student borrower may elect during a period of partial financial hardship and have annual payments that do not exceed 15% of the amount by which adjusted gross income exceeds 150% of the poverty line. The Secretary repays or cancels any outstanding principal and interest under certain criteria after 25 years.

Grace Periods, Deferment Periods and Forbearance Periods. After the borrower stops pursuing at least a half-time course of study, he generally must begin to repay principal of a Stafford Loan following the grace period. However, no principal repayments need be made, subject to some conditions, during deferment and forbearance periods.

For borrowers whose first loans are disbursed on or after July 1, 1993, repayment of principal may be deferred while the borrower returns to school at least half-time. Additional deferments are available, when the borrower is:

- enrolled in an approved graduate fellowship program or rehabilitation program;
- seeking, but unable to find, full-time employment, subject to a maximum deferment of three years; or
- having an economic hardship, as defined in the Higher Education Act, subject to a maximum deferment of three years; or
- serving on active duty during a war or other military operation or national emergency, or performing qualifying National Guard duty during a war or other military operation or national emergency.

The Higher Education Act also permits, and in some cases requires, "forbearance" periods from loan collection in some circumstances. Interest that accrues during a forbearance period is never subsidized. When a borrower ends forbearance and enters repayment, the account is considered current. When a borrower exits grace, deferment or forbearance, any interest that has not been subsidized is generally capitalized and added to the outstanding principal amount.

PLUS and SLS Loan Programs

The Higher Education Act authorized PLUS Loans to be made to parents of eligible dependent students and graduate and professional students and originally authorized SLS Loans to be made to the categories of students later served by the Unsubsidized Stafford Loan program. Borrowers who had no adverse credit history or who were able to secure an endorser without an adverse credit history were eligible for PLUS Loans, as well as some borrowers with extenuating circumstances. The basic provisions applicable to PLUS and SLS Loans are similar to those of Stafford Loans for federal insurance and reinsurance. However, interest subsidy payments are not available under the PLUS and SLS programs and, in some instances, special allowance payments are more restricted.

Loan Limits. PLUS and SLS Loans disbursed before July 1, 1993 were limited to $4,000 per academic year with a maximum aggregate amount of $20,000. The annual loan limits for SLS Loans disbursed on or after July 1, 1993 range from $4,000 for first and second year undergraduate borrowers to $10,000 for graduate borrowers, with a maximum aggregate amount of $23,000 for undergraduate borrowers and $73,000 for graduate and professional borrowers.

The annual and aggregate amounts of PLUS Loans first disbursed on or after July 1, 1993 were limited only to the difference between the cost of the student's education and other financial aid received, including scholarship, grants and other education loans.

Interest. The interest rates for PLUS Loans and SLS Loans are presented in the chart below.

For PLUS or SLS Loans that bear interest based on a variable rate, the rate is set annually for 12-month periods, from July 1 through June 30, on the preceding June 1 and is equal to the lesser of:

- the applicable maximum borrower rate

and

- the sum of:
- the applicable 1-year Index or the bond equivalent rate of 91-day Treasury bills, as applicable,

and

- the applicable interest rate margin.

Under current law, PLUS Loans with a first disbursement on or after July 1, 2006 are a fixed annual interest rate of 8.5%.

Until July 1, 2001, the 1-year index was the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to each June 1. Beginning July 1, 2001, the 1-year index is the weekly average 1-year constant maturity Treasury, as published by the Board of Governors of the Federal Reserve System, for the last calendar week ending on or before the June 26 immediately preceding the July 1 reset date.

Trigger Date	Borrower Rate	Maximum Borrower Rate	Interest Rate Margin
Before 10/01/81	9%	N/A	N/A
From 10/01/81 through 10/31/82	14%	N/A	N/A
From 11/01/82 through 06/30/87	12%	N/A	N/A
From 07/01/87 through 09/30/92	1-year Index + Interest Rate Margin	12%	3.25%
From 10/01/92 through 06/30/94	1-year Index + Interest Rate Margin	PLUS 10%, SLS 11%	3.10%
From 07/01/94 through 06/30/98	1-year Index + Interest Rate Margin	9%	3.10%
From 07/01/98 through 06/30/06	91-day Treasury + Interest Rate Margin	9%	3.10%
From 07/01/06	8.5%	8.5%	N/A

A holder of a PLUS or SLS Loan is eligible to receive special allowance payments during any quarter if:

- the borrower rate is set at the maximum borrower rate and
- the sum of the average of the bond equivalent rates of 91-day Treasury bills auctioned during that quarter and the applicable interest rate margin exceeds the maximum borrower rate.

Effective July 1, 2006, this limitation on special allowance payments for PLUS Loans made on or after January 1, 2000 was repealed.

Repayment; Deferments. Borrowers begin to repay principal on their PLUS and SLS Loans no later than 60 days after the final disbursement, unless they use deferment available for the in-school period and the six-month post enrollment period. Deferment and forbearance provisions, maximum loan repayment periods, repayment plans and minimum payment amounts for PLUS and SLS loans are generally the same as those for Stafford Loans.

Consolidation Loan Program

The enactment of HCERA ended new originations under the FFELP consolidation program, effective July 1, 2010. Previously, the Higher Education Act authorized a program under which borrowers could consolidate one or more of their education loans into a single Consolidation Loan that is insured and reinsured on a basis similar to Stafford and PLUS Loans. Consolidation Loans were made in an amount sufficient to pay outstanding principal, unpaid interest, late charges and collection costs on all federally reinsured education loans incurred under the FFELP that the borrower selects for consolidation, as well as loans made under various other federal education loan programs and loans made by different lenders. In general, a borrower's eligibility to consolidate federal education loans ends upon receipt of a Consolidation Loan. With the end of new FFELP originations, borrowers with multiple loans, including FFELP loans, may only consolidate their loans under the FDLP.

Consolidation Loans made on or after July 1, 1994 had no minimum loan amount. Consolidation Loans for which an application was received on or after January 1, 1993 but before July 1, 1994 were available only to borrowers who had aggregate outstanding education loan balances of at least $7,500. For applications received before January 1, 1993, Consolidation Loans were available only to borrowers who had aggregate outstanding education loan balances of at least $5,000.

To obtain a FFELP Consolidation Loan, the borrower was required to be either in repayment status or in a grace period before repayment begins. For applications received on or after January 1, 1993, delinquent or defaulted borrowers were eligible to obtain Consolidation Loans if they re-entered repayment through loan consolidation. Prior to July 1, 2006, married couples who agreed to be jointly and severally liable could apply for one Consolidation Loan. In some cases, borrowers could enter repayment status while still in school and thereby become eligible to obtain a Consolidation Loan.

Consolidation Loans bear interest at a fixed rate equal to the greater of the weighted average of the interest rates on the unpaid principal balances of the consolidated loans rounded up to the nearest whole% and 9% for loans originated before July 1, 1994. For Consolidation Loans made on or after July 1, 1994 and for which applications were received before November 13, 1997, the weighted average interest rate is rounded up to the nearest whole%. Consolidation Loans for which applications were received on or after November 13, 1997 through September 30, 1998 bear interest at the annual variable rate applicable to Stafford Loans subject to a cap of 8.25%. Consolidation Loans for which the application is received on or after October 1, 1998 bear interest at a fixed rate equal to the lesser of (i) the weighted average interest rate of the loans being consolidated rounded up to the nearest one-eighth of one% or (ii) 8.25%.

The 1998 reauthorization maintained interest rates for borrowers of Federal Direct Consolidation Loans whose applications were received prior to February 1, 1999 at 7.46%, which rates are adjusted annually based on a formula equal to the 91-day Treasury bill rate plus 2.3%. The borrower interest rates on Federal Direct Consolidation Loans for borrowers whose applications were received on or after February 1, 1999 and before July 1, 2006 is a fixed rate equal to the lesser of the weighted average of the interest rates of the loans consolidated, adjusted up to the nearest one-eighth of one%, and 8.25%. This is the same rate that the 1998 legislation set on FFELP Consolidation Loans for borrowers whose applications were received on or after October 1, 1998 and before July 1, 2006. The 1998 legislation, as modified by the 1999 act and in 2002, set the special allowance payment rate for FFELP Consolidation Loans at the three-month commercial paper (financial) rate plus 2.64% for loans disbursed on or after January 1, 2000 and before July 1, 2006. Public Law 112-74, dated December 23, 2011, allowed FFELP lenders to make an election to permanently change the index for special allowance payment calculations on all FFELP loans in the lender's portfolio (with certain exceptions) disbursed after January 1, 2000 from the three-month commercial paper (financial) rate to the one-month LIBOR index, commencing with the special allowance payment calculations for the calendar quarter beginning on April 1, 2012. Lenders of FFELP Consolidation Loans pay a reinsurance fee to the Department of Education. All other guarantee fees may be passed on to the borrower.

Interest on Consolidation Loans accrues and, for applications received before January 1, 1993, is paid without interest subsidy by the Department of Education. For Consolidation Loans for which applications were received between January 1, 1993 and August 10, 1993, all interest of the borrower is paid during all deferment periods. Consolidation Loans for which applications were received on or after August 10, 1993 but before November 13, 1997 are subsidized only if all of the underlying loans being consolidated were Subsidized Stafford Loans. In the case of Consolidation Loans for which applications were received on or after November 13, 1997, the portion of a Consolidation Loan that is comprised of subsidized FFELP Loans or subsidized Direct Loans retains subsidy benefits.

No insurance premium was charged to a borrower or a lender in connection with a Consolidation Loan. However, FFELP lenders were required to pay an origination fee to the Department of Education of 0.50% on principal of Consolidation Loans disbursed and a monthly rebate fee to the Department of Education at an annualized rate of 1.05% on principal of and interest on Consolidation Loans disbursed on or after October 1, 1993, or at an annualized rate of 0.62% for Consolidation Loan applications received between October 1, 1998 and January 31, 1999. The rate for special allowance payments for Consolidation Loans is determined in the same manner as for other FFELP loans.

A borrower must begin to repay his Consolidation Loan within 60 days after his consolidated loans have been disbursed. For applications received on or after January 1, 1993, repayment schedule options include graduated or income-driven repayment plans. Loans are repaid over periods determined by the sum of the Consolidation Loan and the amount of the borrower's other eligible education loans outstanding. The lender may, at its option, include graduated and income-driven repayment plans in connection with education loans for which the applications were received before that date. The maximum maturity schedule is 30 years for indebtedness of $60,000 or more.

Guaranty Agencies under the FFELP

Under the FFELP, guaranty agencies guarantee loans made by eligible lending institutions, paying claims from "federal student loan reserve funds." These loans are guaranteed as to 100% of principal and accrued interest against death or discharge. The guaranty agency also pays 100% of the unpaid principal and accrued interest on PLUS Loans, where the student on whose behalf the loan was borrowed dies.

FFELP loans are also insured against default, with the% insured dependent on the date of the related loan's disbursement. For loans made prior to October 1, 1993, lenders are insured against default for 100% of principal and accrued interest. For loans disbursed from October 1, 1993 through June 30, 2006, lenders are insured against default for 98% of principal and accrued interest. For loans disbursed on or after July 1, 2006, lenders are insured against default for 97% of principal and accrued interest.

The Department of Education reinsures guaranty agencies for amounts paid to lenders on loans that are discharged or defaulted. The reimbursement rate on discharged loans is for 100% of the amount paid to the holder. The reimbursement rate for defaulted loans decreases as a guaranty agency's default rate increases. The first trigger for a lower reinsurance rate is when the amount of defaulted loan reimbursements exceeds 5% of the amount of all loans guaranteed by the agency in repayment status at the beginning of the federal fiscal year. The second trigger is when the amount of defaults exceeds 9% of the loans in repayment. Guaranty agency reinsurance rates are presented in the table below.

Claims Paid Date	Maximum	5% Trigger	9% Trigger
Before October 1, 1993	100%	90%	80%
October 1, 1993 — September 30, 1998	98%	88%	78%
On or after October 1, 1998	95%	85%	75%

After the Department of Education reimburses a guaranty agency for a default claim, the guaranty agency attempts to collect the loan from the borrower. However, the Department of Education requires that the defaulted loans be assigned to it when the guaranty agency is not successful. A guaranty agency also refers defaulted loans to the Department of Education to "offset" any federal income tax refunds or other federal reimbursement that may be due the borrowers. Some states have similar offset programs.

To be eligible for federal reinsurance, FFELP loans must meet the requirements of the Higher Education Act and the regulations issued thereunder. Generally, these regulations require that lenders determine whether the applicant is an eligible borrower attending an eligible institution, explain to borrowers their responsibilities under the loan, ensure that the promissory notes evidencing the loan are executed by the borrower, and disburse the loan proceeds as required. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferments and forbearances, credit the borrower for payments made, and report the loan's status to credit reporting agencies. If a borrower becomes delinquent in repaying a loan, a lender must perform collection procedures that vary depending upon the length of time a loan is delinquent. The collection procedures consist of telephone calls, demand letters, skip tracing procedures and requesting assistance from the guaranty agency.

A lender may submit a default claim to the guaranty agency after the related education loan has been delinquent for at least 270 days. The guaranty agency must review and pay the claim within 90 days after the lender filed it. The guaranty agency will pay the lender interest accrued on the loan for up to 450 days after delinquency. The guaranty agency must file a reimbursement claim with the Secretary within 30 days after the guaranty agency paid the lender for the default claim. Following payment of claims, the guaranty agency endeavors to collect the loan. Guaranty agencies also must meet statutory and regulatory requirements for collecting loans.

Education Loan Discharges

FFELP loans are not generally dischargeable in bankruptcy. Under the United States Bankruptcy Code, before an education loan may be discharged, the borrower must demonstrate that repaying it would cause the borrower or his family undue hardship. When a FFELP borrower files for bankruptcy, collection of the loan is suspended during the time of the proceeding. If the borrower files under the "wage earner" provisions of the United States Bankruptcy Code or files a petition for discharge on the grounds of undue hardship, then the lender transfers the loan to the guaranty agency which guaranteed that loan and that agency then participates in the bankruptcy proceeding. When the proceeding is complete, unless there was a finding of undue hardship, the loan is transferred back to the lender and collection resumes.

Education loans are discharged if the borrower dies or becomes totally and permanently disabled. If a school closes while a student is enrolled, or within 120 days after the student withdrew, loans made for that enrollment period are discharged. If a school falsely certifies that a borrower is eligible for the loan, the loan may be discharged, and if a school fails to make a refund to which a student is entitled, the loan is discharged to the extent of the unpaid refund. Effective July 1, 2006, a loan is also eligible for discharge if it is determined that the borrower's eligibility for the loan was falsely certified as a result of a crime of identity theft.

Rehabilitation of Defaulted Loans

The Department of Education is authorized to enter into agreements with a guaranty agency under which such guaranty agency may sell defaulted loans that are eligible for rehabilitation to an eligible lender. For a loan to be eligible for rehabilitation the related guaranty agency must have received reasonable and affordable payments originally for 12 months which was reduced to 9 payments in 10 months effective July 1, 2006, and then the borrower may request that the loan be rehabilitated. Because monthly payments are usually greater after rehabilitation, not all borrowers opt for rehabilitation. Upon rehabilitation, a borrower is again eligible for all the benefits under the Higher Education Act for which he or she is not eligible as a borrower on a defaulted loan, such as new federal aid, and the negative credit record is expunged. No education loan may be rehabilitated more than once.

The July 1, 2009 technical corrections made to the Higher Education Act under H.R. 1777, Public Law 111-39 provide authority, between July 1, 2009 through September 30, 2011, for a guaranty agency to assign a defaulted loan to the Department of Education depending on market conditions.

The Bipartisan Budget Act of 2013 reduced the charge that a guaranty agency may assess to a borrower to defray the collection cost for assisting a borrower with the rehabilitation of a defaulted FFELP loan. The change was effective for loans sold by a guaranty agency to an eligible lender on or after July 1, 2014.

Guarantor Funding

In addition to administering the federal reserve funds, from which claims are paid, guaranty agencies are charged with responsibility for maintaining records on all loans which they have insured ("account maintenance"), assisting lenders to prevent default by delinquent borrowers ("default aversion"), post-default loan administration and collections and program awareness and oversight. These activities are funded by revenues from the following statutorily prescribed sources plus earnings on investments.

Source	Basis
Insurance Premium	Up to 1% of the principal amount guaranteed, withheld from the proceeds of each loan disbursement
Loan Processing and Issuance Fee	0.40% of the principal amount guaranteed, paid by the Department of Education
Account Maintenance Fee	Originally 0.10%, which was reduced to 0.06% on October 1, 2007, of the original principal amount of loans outstanding, paid by the Department of Education
Default Aversion Fee	1% of the outstanding amount of loans submitted by a lender for default aversion assistance, minus 1% of the unpaid principal and interest paid on default claims, which is paid once per loan by transfers out of the Student Loan Reserve Fund
Collection Retention Fee	16% of the amount collected on loans on which reinsurance has been paid (10% or 18.5% of the amount collected for a defaulted loan that is purchased by a lender for consolidation or rehabilitation, respectively), withheld from gross receipts

The Higher Education Act requires guaranty agencies to establish two funds: a Federal Student Loan Reserve Fund and an Agency Operating Fund. The Federal Student Loan Reserve Fund contains the payments received from the Department of Education and insurance premiums. The fund is federal property and its assets may be used only to pay Default Aversion Fees. Collection fees on defaulted loans are deposited into the Agency Operating Fund. The Agency Operating Fund is the guaranty agency's property and is not subject to strict limitations on its use.

Department of Education Oversight

If the Department of Education determines that a guaranty agency is unable to meet its insurance obligations, the holders of loans insured by that guaranty agency may submit claims directly to the Department of Education and the Department of Education is required to pay the full reimbursement amounts due, in accordance with claim processing standards no more stringent than those applied by the affected guaranty agency. However, the Department of Education's obligation to pay guarantee claims directly in this fashion is contingent upon the Department of Education determining a guaranty agency is unable to meet its obligations. While there have been situations where the Department of Education has made such determinations regarding affected guaranty agencies, there can be no assurances as to whether the Department of Education must make such determinations in the future or whether payments of reimbursement amounts would be made in a timely manner.

GLOSSARY

Listed below are definitions of key terms that are used throughout this document. See also Appendix A "Description of Federal Family Education Loan Program" for a further discussion of the FFELP.

Consolidation Loan Rebate Fee — All holders of FFELP Consolidation Loans are required to pay to the U.S. Department of Education an annual 1.05% Consolidation Loan Rebate Fee on all outstanding principal and accrued interest balances of FFELP Consolidation Loans purchased or originated after October 1, 1993, except for loans for which consolidation applications were received between October 1, 1998 and January 31, 1999, where the Consolidation Loan Rebate Fee is 62 basis points.

Constant Prepayment Rate ("CPR") — A variable in life-of-loan estimates that measures the rate at which loans in the portfolio prepay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals The percentage of loans that prepay annually as a percentage of the beginning of period balance.

Core Earnings — We prepare financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). In addition to evaluating our GAAP-based financial information, management evaluates the business segments on a basis that, as allowed under the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 280, "Segment Reporting," differs from GAAP. We refer to management's basis of evaluating its segment results as Core Earnings presentations for each business segment and refer to these performance measures in its presentations with credit rating agencies and lenders. While Core Earnings results are not a substitute for reported results under GAAP, we rely on Core Earnings performance measures in operating each business segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Core Earnings performance measures are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by our chief operating decision makers. Core Earnings performance measures are used in developing our financial plans, tracking results, and establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of our core business activities. Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Our Core Earnings presentation does not represent another comprehensive basis of accounting.

See "Note 16 — Segment Reporting" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures — Core Earnings" for further discussion of the differences between Core Earnings and GAAP, as well as reconciliations between Core Earnings and GAAP.

DSLP — The William D. Ford Federal Direct Loan Program.

DSLP Loans — Educational loans provided by the DSLP (see definition above) to students and parent borrowers directly through ED (see definition below) rather than through a bank or other lender. Also referred to as Direct Loans.

ED — The U.S. Department of Education.

FFELP — The Federal Family Education Loan Program, formerly the Guaranteed Education Loan Program, a program that was discontinued in 2010.

FFELP Consolidation Loans — Under the FFELP, borrowers with multiple eligible education loans may have consolidated them into a single education loan with one lender at a fixed rate for the life of the loan. The new loan is considered a FFELP Consolidation Loan. The borrower rate on a FFELP Consolidation Loan is generally fixed for the term of the loan and was set by the weighted average interest rate of the loans being consolidated, rounded up to the nearest 1/8th of a%, not to exceed 8.25%. Before October 1, 1998, maximum loan rates could have exceeded 8.25%. Between November 13, 1997 and September 30, 1998, interest rates were variable. Holders of FFELP Consolidation Loans are eligible to earn interest under the Special Allowance Payment ("SAP") formula. In April 2008, we suspended originating new FFELP Consolidation Loans.

FFELP Stafford and Other Education Loans — Education loans to students or parents of students that are guaranteed or reinsured under the FFELP. The loans are primarily Stafford loans but also include PLUS, SLS, Consolidation and HEAL loans. The FFELP was discontinued in 2010.

Fixed Rate Floor Income — Fixed Rate Floor Income is Floor Income associated with education loans with borrower rates that are fixed to term (primarily FFELP Consolidation Loans).

Floor Income — For loans disbursed before April 1, 2006, FFELP Loans generally earn interest at the higher of either the borrower rate, which is fixed over a period of time, or a floating rate based on the SAP formula. We generally finance our education loan portfolio with floating rate debt whose interest is matched closely to the floating nature of the applicable SAP formula. If interest rates decline to a level at which the borrower rate exceeds the SAP formula rate, we continue to earn interest on the loan at the fixed borrower rate while the floating rate interest on our debt continues to decline. In these interest rate environments, we refer to the additional spread it earns between the fixed borrower rate and the SAP formula rate as Floor Income. Depending on the type of education loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all FFELP Loans disbursed on or after April 1, 2006.

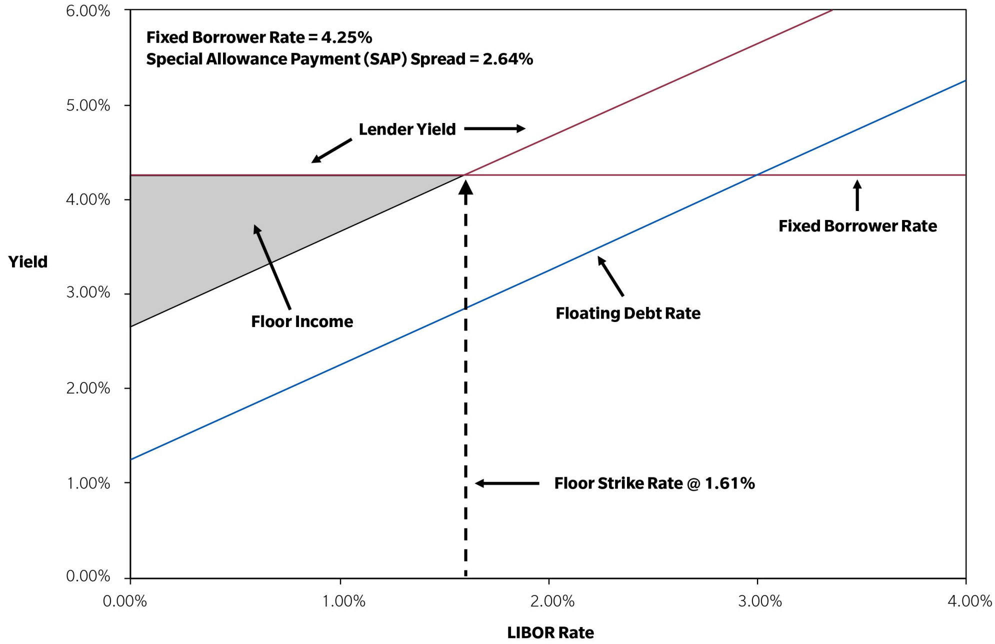
The following example shows the mechanics of Floor Income for a typical fixed rate FFELP Consolidation Loan (with a LIBOR-based SAP spread of 2.64%):

Fixed Borrower Rate	4.25%
SAP Spread over LIBOR	(2.64)
Floor Strike Rate(1)	1.61%

(1) The interest rate at which the underlying index (LIBOR, Treasury bill or commercial paper) plus the fixed SAP spread equals the fixed borrower rate. Floor Income is earned anytime the interest rate of the underlying index declines below this rate.

Based on this example, if the quarterly average LIBOR rate is over 1.61%, the holder of the education loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to LIBOR of 2.64%. On the other hand, if the quarterly average LIBOR rate is below 1.61%, the SAP formula will produce a rate below the fixed borrower rate of 4.25% and the loan holder earns at the borrower rate of 4.25%.

Graphic Depiction of Floor Income:



Floor Income Contracts — We enter into contracts with counterparties under which, in exchange for an upfront contractual payment representing the present value of the Floor Income that we expect to earn on a notional amount of underlying education loans being economically hedged, we will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, we agree to pay the counterparty the difference, if positive, between the fixed borrower rate less the SAP (see definition below) spread and the average of the applicable interest rate index on that notional amount, regardless of the actual balance of underlying education loans, over the life of the contract. The contracts generally do not extend over the life of the underlying education loans. This contract effectively locks in the amount of Floor Income we will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under ASC 815, "Derivatives and Hedging," and each quarter we must record the change in fair value of these contracts through income.

GAAP — Generally accepted accounting principles in the United States of America.

Guarantor(s) — State agencies or non-profit companies that guarantee (or insure) FFELP Loans made by eligible lenders under The Higher Education Act of 1965 ("HEA"), as amended.

HCERA — The Health Care and Education Reconciliation Act of 2010.

Private Education Loans — Education loans to students or their families that bear the full credit risk of the customer and any cosigner. Private Education Loans are made primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or students' and families' resources. Private Education Loans include loans for higher education (undergraduate and graduate degrees) and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Certain higher education loans have repayment terms similar to FFELP Loans, whereby repayments begin after the borrower leaves school while others require repayment of interest or a fixed pay amount while the borrower is still in school. Our higher education Private Education Loans are not dischargeable in bankruptcy, except in certain limited circumstances.

In the context of our Private Education Loan business, we use the term "Private Education Refinance Loans" to describe education loans made to certain customers that have simplified their payments by consolidating private and/or federal education loans into a single Private Education Loan. These loans are expected to have low default rates as a result of a number of factors including high FICO scores, employment record and educational history.

Repayment Borrower Benefits — Financial incentives offered to borrowers based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of Repayment Borrower Benefits is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits and the amount of the financial benefit offered to the borrower.

Residual Interest — When we securitize education loans, we retain the right to receive cash flows from the education loans sold to trusts that we sponsor in excess of amounts needed to pay derivative costs (if any), other fees, and the principal and interest on the bonds backed by the education loans.

Risk Sharing — When a FFELP Loan first disbursed on and after July 1, 2006 defaults, the federal government guarantees 97% of the principal balance plus accrued interest (98% on loans disbursed on and after October 1, 1993 and before July 1, 2006) and the holder of the loan is at risk for the remaining amount not guaranteed as a Risk Sharing loss on the loan. FFELP Loans originated after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower's death, disability, bankruptcy, closed school or false certification.

Special Allowance Payment ("SAP") — FFELP Loans disbursed prior to April 1, 2006 (with the exception of certain PLUS and Supplemental Loans to Students ("SLS") loans discussed below) generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (LIBOR, 91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan's repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. 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) must be refunded to ED.

Variable rate PLUS Loans and SLS Loans earn SAP only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. For PLUS Loans disbursed on or after January 1, 2000, this limitation on SAP was repealed effective April 1, 2006.

TDR — Troubled Debt Restructuring. The accounting and reporting standards for loan modifications and TDRs are primarily found in FASB's ASC 310-40, "Troubled Debt Restructurings by Creditors."

Variable Rate Floor Income — Variable Rate Floor Income is Floor Income that is earned only through the next date at which the borrower interest rate is reset to a market rate. For FFELP Stafford Loans whose borrower interest rate resets annually on July 1, we may earn Floor Income based on a calculation of the difference between the borrower rate and the then current interest rate.