Testimony of

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President & CEO
Navient

Republican Policy Committee Millennial Task Force on College Completion, Flexibility, and Affordability for an Emerging Generation

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Thank you, Congresswoman Stefanik and other distinguished Members for inviting Navient to today's Millennial Task Force Hearing. I am Jack Remondi, CEO of Navient, the nation's largest student loan servicer. I am pleased to represent the combined experience and expertise of my company's 40-plus-year history in the federal student loan program. Today, Navient helps more than 12 million borrowers successfully manage loan repayment including supporting their efforts to navigate the complexity of the student loan program and explore multiple repayment options to find the repayment plan that works for them. We use a data-driven approach to create strategies that increase the likelihood that we reach at-risk borrowers, since we know that, nine out of 10 times when we can reach a federal student loan borrower, we can help him or her avoid default. Our results speak for themselves. The borrowers we serve experience significantly lower serious delinquency rates than their peers—20 percent below the next best servicers for those borrowers most at risk of default.[1] In addition, borrowers in the most recent cohort have a default rate 38 percent below borrowers at all other servicers.[2]

Today, I am especially pleased to have the opportunity to speak to you about our insights, our recommendations for reforms to enhance borrower success, and discuss what we perceive to be one of the most important issues in higher education: college completion.

As many of us know firsthand, college is expensive and more students, motivated by the value of a college degree, have turned to student loans to finance their education. There are 40 percent more students enrolled in higher education today than in 2000 and, combined with increases in federal borrowing limits, student loans now total more than $1.3 trillion. Not surprisingly, students and families are genuinely concerned about their ability to afford a college degree, and we have seen this concern reflected in political circles and around kitchen tables.

To frame my recommendations today, it's important to put education loan borrowing in perspective. According to the College Board, 40 percent of college graduates[3] don't borrow at all. For those who do, the average bachelor's degree recipient leaves school with about $27,000 in debt. That translates into an

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[1] Department of Education, FSA Data Center, Servicing Performance Metrics and Allocations, 12/31/15 (note the comparison is between Navient and the other major Title IV Additional Servicers (TIVAS) which manage more comparable portfolios). Comparison for borrowers who are between 271 and 360 days past due (last stage before default).
[2] http://news.navient.com/releasedetail.cfm?ReleaseID=934561
[3] College Board, Trends in Student Aid, Average Cumulative Debt in 2014 Dollars: Bachelor's Degree Recipients at Public and Private Nonprofit Four-Year Institutions, http://trends.collegeboard.org/sites/default/files/trends-student-aid-web-final-508-2.pdf.

average payment of about $315 per month — an increase of about $60 per month over what the average undergraduate from the Class of 2000 paid more than a decade ago.

These numbers may come as a surprise to some who have seen the many stories featuring borrowers struggling with six-figure student debt. In fact, an analysis of media coverage found that the average reported student loan debt was more than $85,000—greater than three times the actual average. Less than 2 percent of bachelor's degree recipients graduate with $85,000 or more.

The fact is that the overwhelming majority of borrowers have a manageable amount of debt and are successfully repaying it. Delinquencies in the federal loan program have declined 22 percent since 2013.[4] For the federal student loan borrowers we serve today, approximately 85 percent in repayment are current on their loans, and 95 percent of loans have interest rates at or below 6.8 percent.

This doesn't mean student loan debt levels are not a concern; averages aside, in a federal financial aid program this large and broad, there are many who have not experienced the outcomes they had hoped, and who struggle to keep up with their payments. That's the situation we should be trying to prevent, and those are the people we should be trying to help.

According to researchers at the Federal Reserve Bank of New York, borrowers who have the most trouble paying back their loans are the ones with smallest loan balances since they are more likely to not have attended college all the way to graduation. In 2015, the median average balance for a borrower in default is less than $9,000,[5] equivalent to a monthly loan payment of $99.[6]

This research confirms what we see every day in our servicing of student loans—students who borrow for college but don't complete pay a significant financial penalty. They have the debt with none of the economic benefits of a degree. Although those who don't complete borrow less, they are more likely to be delinquent and are three to four times more likely to default.

Struggling borrowers are also the least likely to engage with their servicer. It takes 360 days—a full year—of non-payment for a borrower to default on a federal student loan and during that year, we typically try to reach the borrower between 230 and 300 times, through phone calls, letters, emails, and texts. We know that, if we can reach that borrower we can assist them in avoiding default. In fact, 90 percent of those who default never respond to our outreach.

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4 Department of Education, FSA Data Center, Direct Loan Portfolio by Delinquency Status, 12/31/15.
5 http://www.ed.gov/news/speeches/toward-new-focus-outcomes-higher-education
6 Assuming a balance of $8,900 with an interest rate of 6 percent and a 10-year standard repayment term.

Our recent research study, *Money Under 35*[7], provided even more evidence that borrowing to achieve a college degree is a worthwhile investment—but, only if you graduate. This national research study, conducted with Ipsos, assessed the financial well-being of young adults ages 22 to 35 across different levels of education and student borrowing. This study was unique as we looked across all millennials—those who went to college and those who did not; those who completed some college but did not earn a degree, as well as those who completed a four-year or advanced degree program. We also looked at those who borrowed for college and those who did not. Finally, we looked at those who currently have loans as well as those who had loans but paid them in full. There is increasing interest in this topic and a variety of studies on this population—we believe ours is unique given that we looked at the age group as a whole vs. a slice or subset as had been done in other studies.

The study shows clearly that financial health increases with degree completion, regardless of whether an individual borrowed to pay for college. We recently released additional data that takes a deeper look at whether student debt delays events such as buying a home, getting married and having children. Our data indicates that that degree attainment and age are more important factors in reaching these three milestones than whether an individual borrowed for college.

Specifically, we found that young adults who borrowed and earned a bachelor's degree or higher are more likely to be married and to have a mortgage than degree-holding peers who did not borrow. For example, 50 percent of 31-35 year olds who borrowed to earn a bachelor's degree or higher hold a mortgage, compared with 39 percent of 31-35 year olds who have a mortgage but did not borrow to earn their degree.

Unfortunately, the study shows that borrowing does not pay off if the student does not complete their degree. These young adults were more likely to show financial stress in many aspects of their lives.[8] Although their education debt is smaller, without a degree, they do not show the return on the investment. While there are options to help these borrowers manage their loans, we need to find better ways to help these students earlier in the process.

From our front row seat every day in working with college students and recent graduates, we have developed four key recommendations to improve borrower success and the student loan program.

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[7] Navient.com/MoneyUnder35, December 2015.

[8] According to *Money Under 35*, young Americans with some college but no degree, who borrowed student loans were more likely to report that they were in "poor" financial health. They were more likely to report trouble paying bills and a lower ability to save. Further, they were less likely to have a mortgage compared to both their peers who did not pursue education beyond high school and their peers who completed a degree. For example, those over 30 with debt but no degree were less than half as likely to have a mortgage than those young adults who never went to college.

1. Provide resources to students and families that help them make informed choices about college, degree program and borrowing levels that increases the likelihood of degree completion.

Established to create opportunity for any American regardless of family resources or background, the federal student loan program has significantly expanded access to higher education. How do we ensure that this access leads to success?

Students need to know exactly what they're getting into before they sign on the dotted line. There is ample evidence that because of the unique nature of this form of credit, few borrowers have the tools to make informed borrowing choices. Students and their families need tools to understand how much they'll need to borrow to earn their degree—not simply the current semester—and to assess the likely economic benefits of their chosen field. This kind of information will help students and parents make a more informed assessment about what they can afford. Furthermore, these insights could identify borrowers at higher risk of default and provide them with targeted financial education, before they ever incur a dollar of debt. At Navient, we've had good results using analytics to pinpoint borrowers likely to need extra assistance, then reach out early to offer solutions to help them stay on track. As a result, customers whose loans we service are 38 percent less likely to default than other borrowers.

In fact, we are finding that students are interested in receiving personalized information based on information provided in their FAFSA, especially those who are first in their family to attend college.

Further, improved disclosures, such as the enhanced loan information used in credit card or private education loan disclosures, would help potential federal student loan borrowers understand the likely payment amount in context of typical earnings.

Academic preparedness and other interventions are also needed to continue to increase graduation rates, but upfront risk-based financial counseling and enhanced, actionable loan disclosures will go a long way toward removing financial information barriers.

2. Simplifying repayment

Most policy solutions have centered on creating new repayment plans. Currently, the government offers 16 repayment plans, eight forgiveness programs, and 32 deferment and forbearance options—each with its own nuances, payment schedules and qualifications. Many programs have similar sounding names, such as Income-Based Repayment, Income-Sensitive Repayment, Income-Contingent Repayment, Pay

As You Earn and Revised Pay As You Earn. They also have complex enrollment criteria. So many options and programs create confusion. They should be and can be simplified. For example, collapsing the multiple income-driven repayment options into one plan with the most appropriate borrower-friendly terms would be a good start. We also recommend that borrowers be allowed to electronically validate their income over multiple years using existing databases, rather than having to submit annually.

3. Helping borrowers pay off early rather than delay

Third, policies should promote the economic value of paying off loans on schedule, or, even better, early. In the rush to help student borrowers, too many have trumpeted lower payments over longer periods as the universal solution despite the higher interest costs many borrowers will pay. For example, a borrower with $30,000 in loans and a starting salary of $30,000 per year would pay 33 percent more under PAYE than under the standard 10-year repayment term, even though a small portion of the loan would be forgiven after the extended term of 20 years. Is this always in the best interest of the borrower? We need programs that help struggling borrowers through short-term and long-term challenges, but anyone enrolling should understand the trade-offs to be able to make the right choice for their financial circumstances.

4. Encouraging borrowers to engage with their loan servicers

Default is avoidable, but borrower contact is key. There should have a concerted effort to encourage borrowers to see their loan servicer as a resource. Our analysis of the top factors of student loan success showed that borrowers who stay connected with their servicer are more likely to stay out of delinquency. As a servicer, we've found that nine times out of 10, when we reach struggling federal loan borrowers we are able to help them avoid default by getting them into a repayment plan that works for them. Contact works; let's encourage it.

Helping students make better decisions about how much debt they incur, keep their payments on track and actively engage with their servicers can ensure the student loan program achieves its true policy objective: providing access to higher education for all.

And there are further payoffs. For most young people, a student loan is their first experience with credit; handling it responsibly helps build positive repayment habits and a strong credit history. Not only will these efforts help borrowers successfully manage their student loans, they also will help a new generation of Americans reap the full benefits of their education and drive the economy forward.

Bottom line: it is clear that focusing on the importance of college completion both before and after students borrow for college is critical to student borrower success. There are some great ideas out there that need further exploration including what the University of Indiana is doing to help their students manage their loans and others like Congressman Davis who has introduced legislation that would help employers recruit and retain employees by making it easier for them to extend education benefits to their employees repaying student loans.

At Navient, we're committed to working with Congress to enhance the success of individual student borrowers. We look forward to the opportunity to discuss our insights and ideas that would continue to improve student loan success.

To learn more, visit Navient.com.

Facts sheets and FAQs
Navient.com/facts