Student loan trends and Navient's role in supporting borrower success

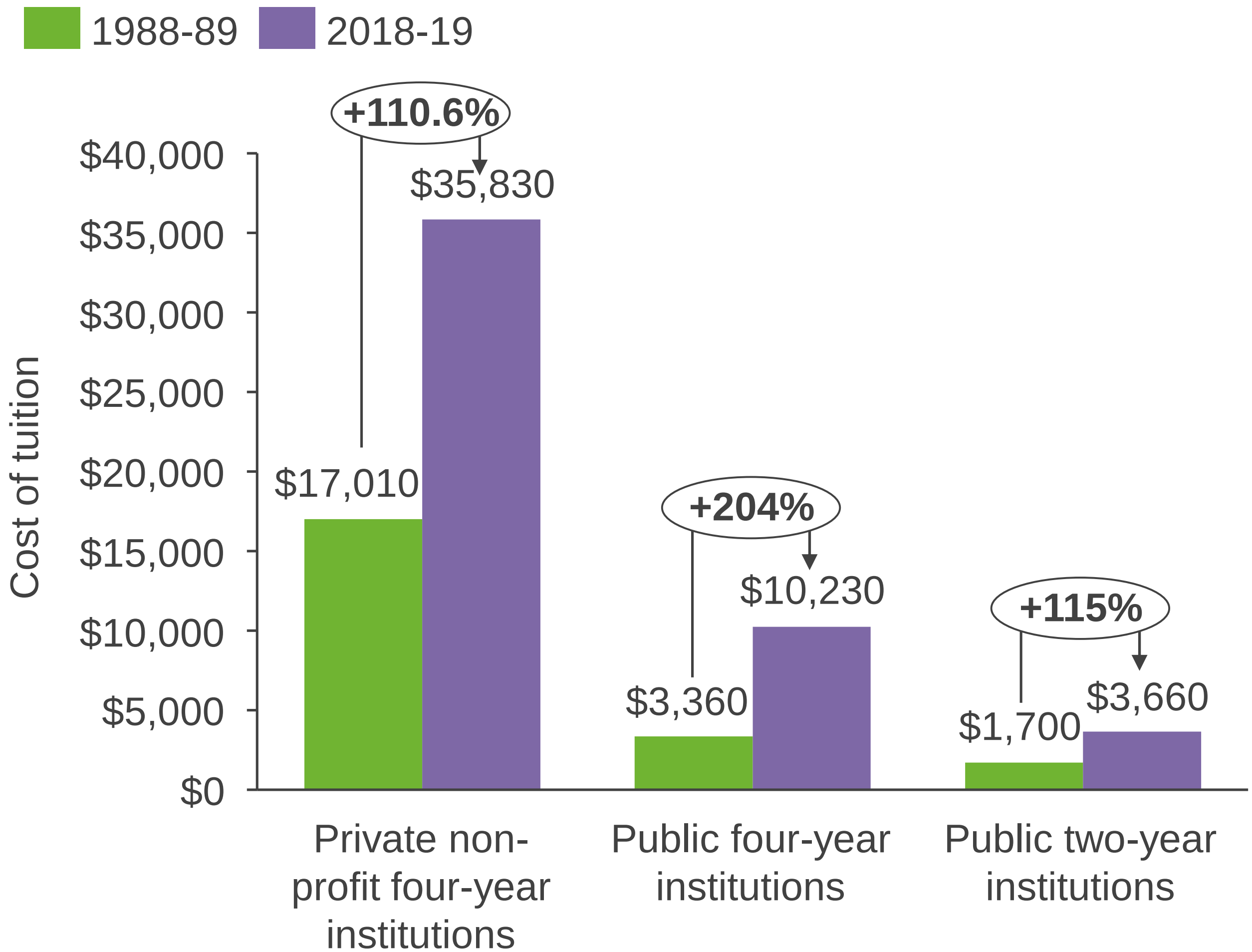
February 2020

The cost of attending college has more than doubled over the last 30 years for all types of institutions

College tuition costs significantly more than before.

- The cost increases at public four-year institutions have outpaced the increases in tuition for non-profit four-year colleges by over 80%.
- Tuition costs have more than doubled over the last 30 years at two-year public and four-year private institutions.

Annual cost of tuition by college type, in 2018 dollars

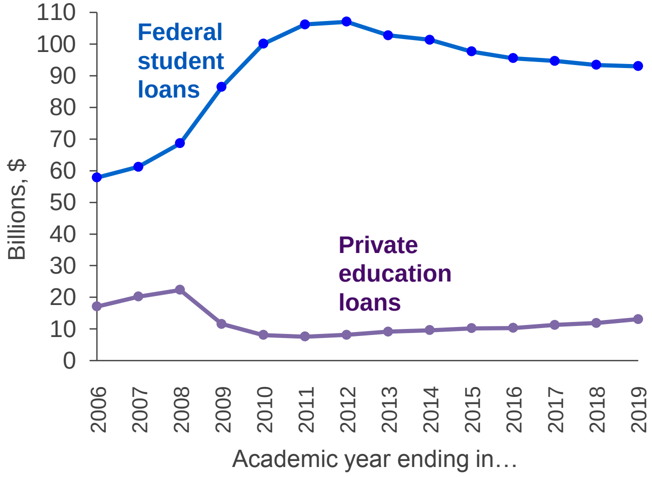


Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, "Trends In College Pricing, Table 2" *College Board*, 10/25/18

At $1.5 trillion in student loans, the federal government is the largest non-mortgage consumer lender

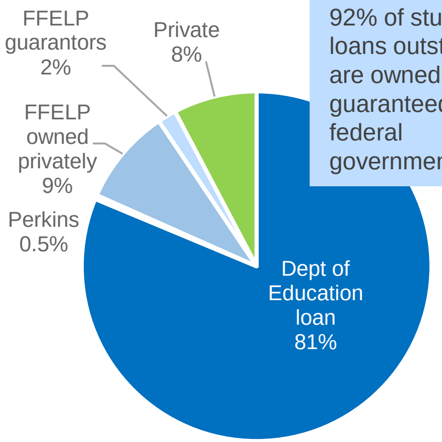
- Federal loan interest rates, limits and terms are set by Congress.
- All federal loans are issued directly by the U.S. Department of Education since 2010 when federally guaranteed loans ended.
- Federal loans have no traditional underwriting, and no truth in lending disclosures.
- In AY 18-19, ED disbursed $93B in student loans, a decline from peak of $122B in AY 10-11.
- The number of federal borrowers is up by 52% since 2007.

Total student loan originations, by type



The increasing dominance of federal student loan originations versus private loans reflects the federal government's massive involvement in student loans: it owns or guarantees 92% of the $1.6 trillion outstanding in student loans.

Ownership distribution of student loans

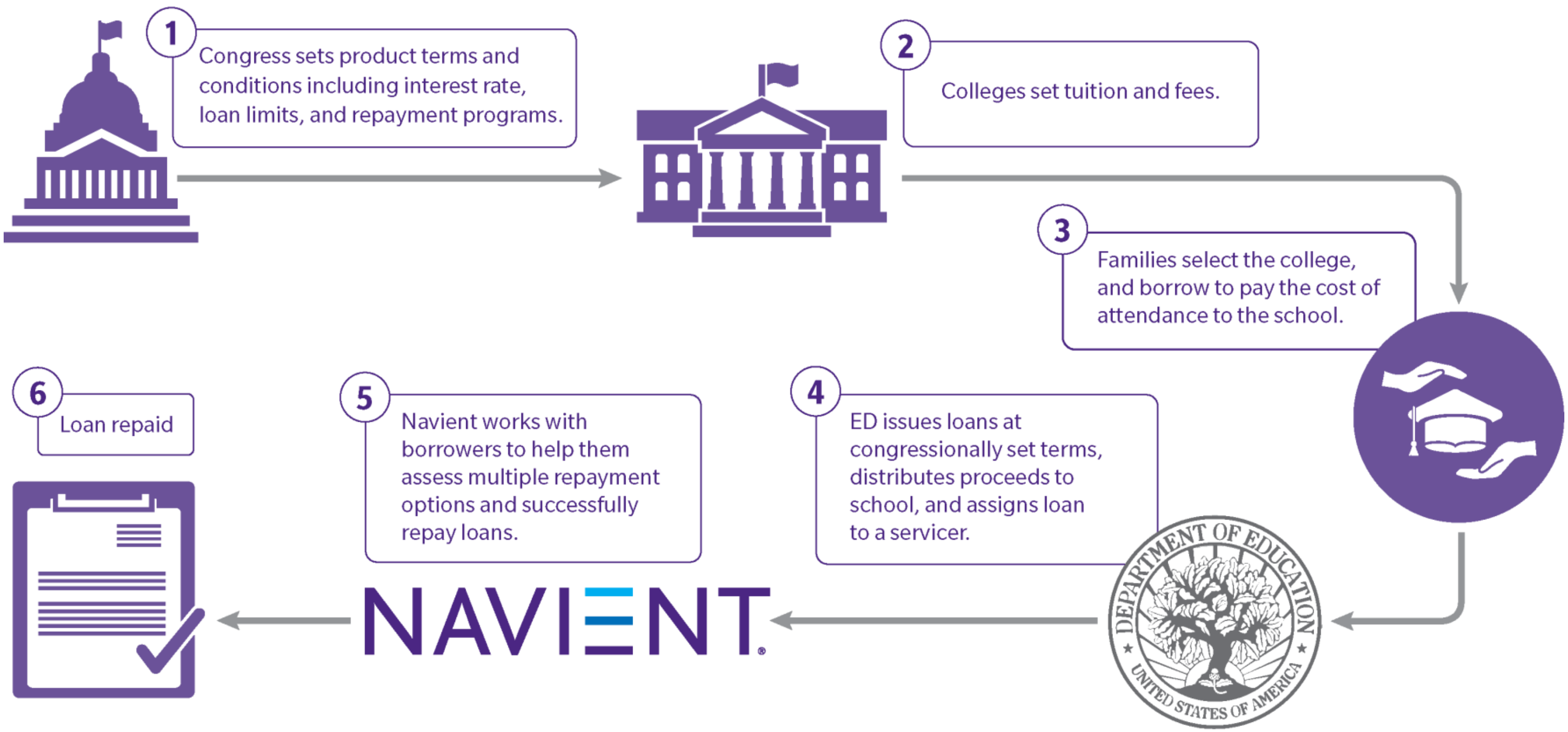


92% of student loans outstanding are owned or guaranteed by the federal government.

Source: Outstanding data as of 9/30/19 from FSA Data Center and Federal Reserve, Consumer Credit-G.19, Nov. 2019, originations from College Board, “Trends in Student Aid 2019”

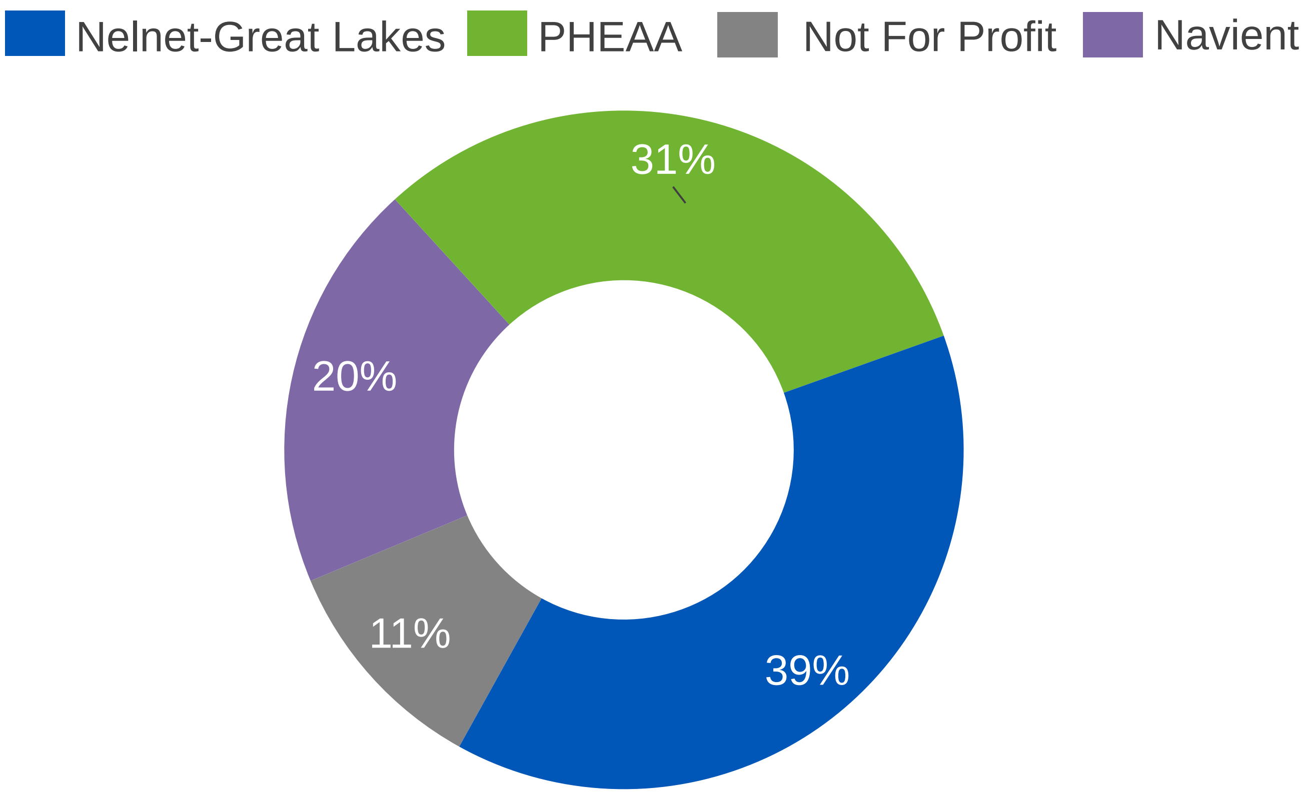
In its role as a student loan servicer, Navient helps borrowers successfully repay their loans

Servicers begin helping borrowers navigate repayment after important financial decisions about the total cost and experience of their education have already been made.



With M&A activity and PSLF, Nelnet-Great Lakes and PHEAA are the largest servicers

Share of student loan dollars serviced, ED-owned Loans



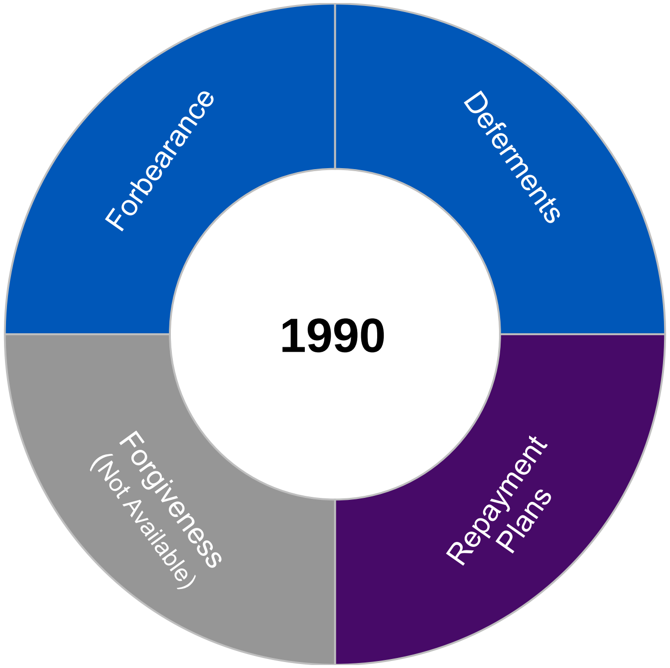
Source: [FSA Data Center]

In 1990, there were two repayment plans, and the most complex area was deferment

Forbearance

Discretionary Forbearance

- Hardship Forbearance



Deferment

1. School Full-Time
2. School Half-Time
3. Graduate Fellowship
4. Unemployment Deferment – 2 years
5. Rehabilitation Training Program
6. Teacher Shortage
7. Internship/Residency Training
8. Temporary Total Disability
9. Armed Forces or Public Health Services
10. National Oceanic and Atmospheric Administration Corps
11. Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer
12. Parental Leave
13. Mother Entering/Re-entering Work Force

Repayment Plans

1. Standard
2. Graduated

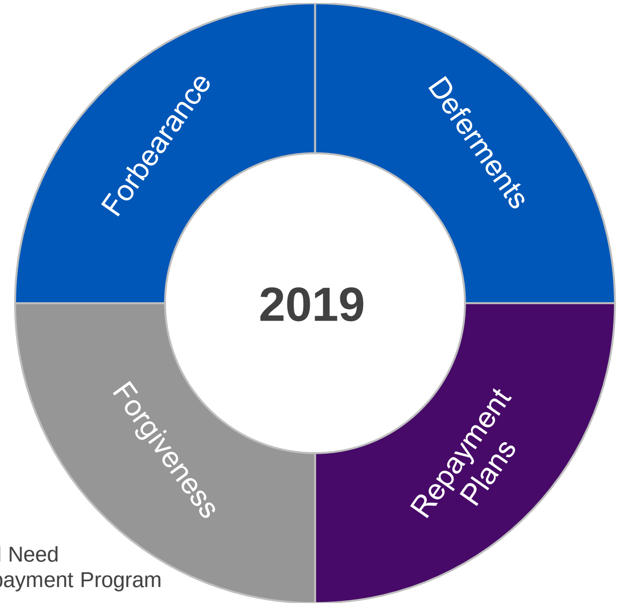
Today's repayment options are numerous and complex

Forbearance

Discretionary Forbearance
- Hardship Forbearance

Mandatory Forbearance
- Medical or Dental Internship Residency
- Department of Defense Student Loan Repayment Programs
- National Service
- Active Military State Duty
- Student Loan Debt Burden
- Teacher Loan Forgiveness

Mandatory Administrative Forbearance
- Local or National Emergency
- Military Mobilization
- Designated Disaster Area
- Repayment Accommodation
- Teacher Loan Forgiveness
- Borrower Defense to Repayment



Forgiveness

1. Teacher Loan Forgiveness
2. Loan Forgiveness for Service in Areas of National Need
3. Civil Legal Assistance Attorney Student Loan Repayment Program
4. Income Contingent Repayment Plan Forgiveness
5. Income Based Repayment Plan Forgiveness
6. Pay As You Earn Repayment Plan Forgiveness
7. Income Based 2014 Repayment Plan Forgiveness
8. REPAYE Repayment Plan Forgiveness
9. Public Service Loan Forgiveness

Deferment

1. School (1)
2. School Full-Time (2)
3. School Half-Time (2)
4. Post Enrollment (1)
5. Graduate Fellowship (3)
6. Unemployment Deferment – 2 years (2)
7. Unemployment Deferment – 3 years (1)
8. Economic Hardship (1)
9. Rehabilitation Training Program (3)
10. Military Service (3)
11. Post-Active Duty Student (3)
12. Teacher Shortage(2)
13. Internship/Residency Training (2)
14. Temporary Total Disability (2)
15. Armed Forces or Public Health Services (2)
16. National Oceanic and Atmospheric Administration Corps (2)
17. Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer (2)
18. Parental Leave (2)
19. Mother Entering/Re-entering Work Force (2)
20. Cancer Treatment Deferment

Repayment plans

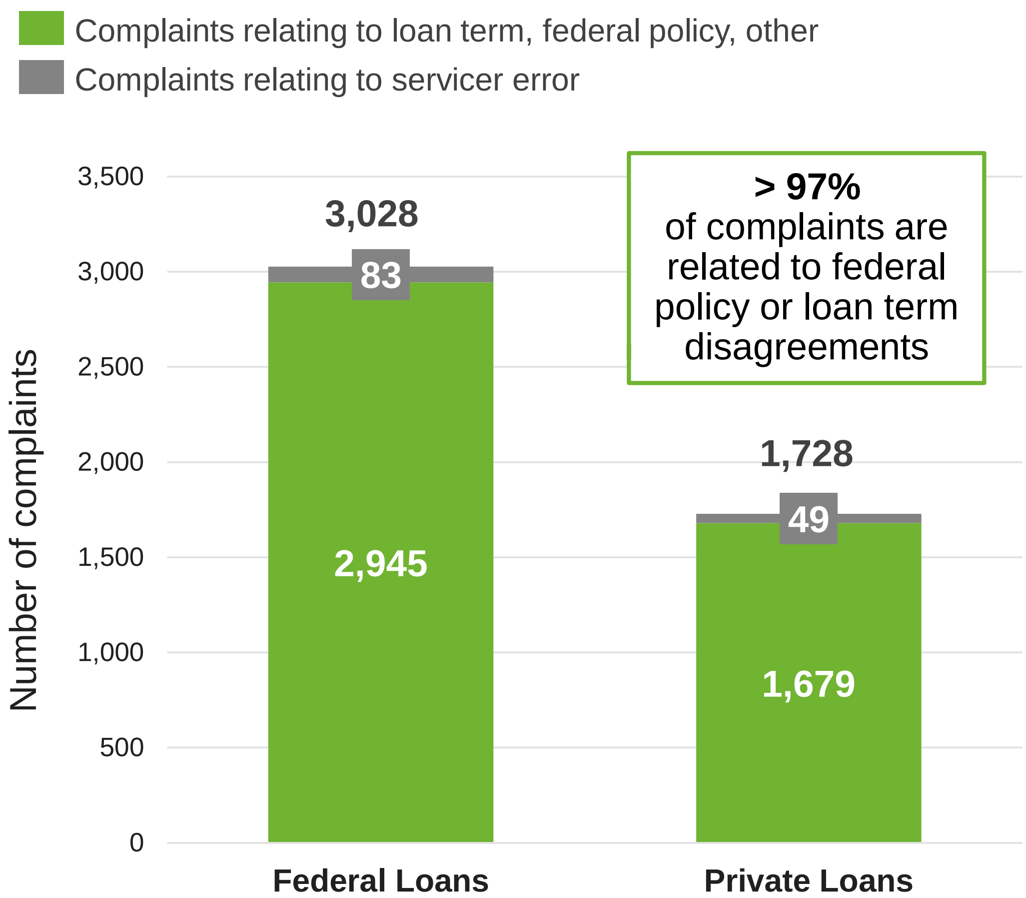
1. DL Standard Pre-HERA
2. FFELP/DL Standard Post-HERA (4)
3. DL Graduated Pre-HERA
4. FFELP/DL Graduated Post –HERA (4)
5. DL Extended Pre-HERA
6. FFELP/DL Extended Post-HERA (4)
7. Income-Sensitive
8. Income-Contingent Ver. 1 (5)
9. Income-Contingent Ver. 2 (5)
10. Income-Contingent Ver. 3
11. Forced Income-Driven
12. Income-Based
13. Pay As You Earn
14. Income-Based 2014
15. Alternative (6)
16. REPAYE

Effective Date Details

(1) Limited to FFELP borrowers with all new loans made on or after July 1, 1993; All DL are eligible.
(2) Limited to FFELP borrowers with all loans made on or after July 1, 1987 and prior to July 1, 1993; DL eligible if borrower has FFELP loan made during this period.
(3) All FFELP and DL loans eligible regardless of disbursement date
(4) HERA aligned FFELP and DL repayment plans for loans first entering repayment on or after July 1, 2006.
(5) Pre July 1, 1996, ICR plans, the DL borrower can choose between ICR1 - the Formula Amount, or ICR2 – the Capped Amount.
(6) The DL borrower can request from 5 alternative repayment plans: Fixed Payment Amount, Fixed Term, Graduated Repayment, Negative Amortization, or Post REPAYE.

The vast majority of complaints are related to federal policy or loan term disagreements, not servicer error

Categorization of CFPB complaints, FFY 2018



Complaint volume is primarily driven by federal policies and loan term disagreements.

- On federal loans, the majority of issues relate to federal policy and terms, including loan balance, repayment options, loan forgiveness and federal requirements on credit reporting.
- On private loans, the top issue relates to requests for lower payments, including requests for repayment options unique to federal loans.
- Among federal loan complaints made in FFY 2018, 2.74% pertained to servicer error.
- Among non-federal loan complaints in FFY 2018, 2.84% related to servicer error.

The submissions in this report are not a representative sample of loan servicing activities. As such, it is not accurate to use the data in this report to calculate a servicing error rate.

Source: CFPB Consumer Response Portal: Summary of Navient Customer Submissions Through the CFPB Student Loan Complaint Portal October 1, 2017 - September 30, 2018, Navient.com/facts. See also “Truth in student lending: What borrower complaints say about improving student loans,” by Jack Remondi, medium.com/@JackRemondi

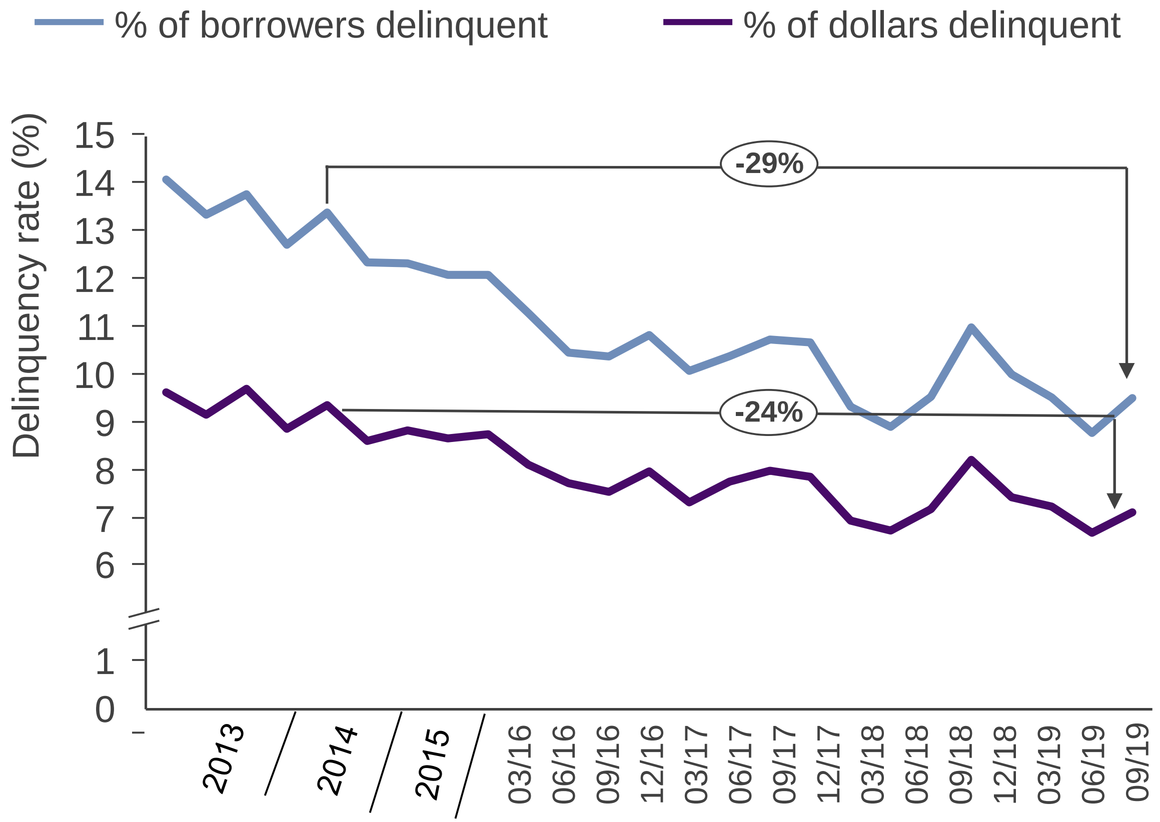
FSA data shows an ongoing decline in the percent of federal borrowers and dollars delinquent

Federal loan delinquency rates have declined over the last five years.

In the past five years, the % of federal borrowers who are seriously past due on their payments has decreased 29%, while the % of federal dollars delinquent by 90 days or more has decreased by 24%.

In the last two years, delinquencies have stabilized and now follow a more seasonal pattern

% of Direct Loan borrowers and dollars 90+ days delinquent

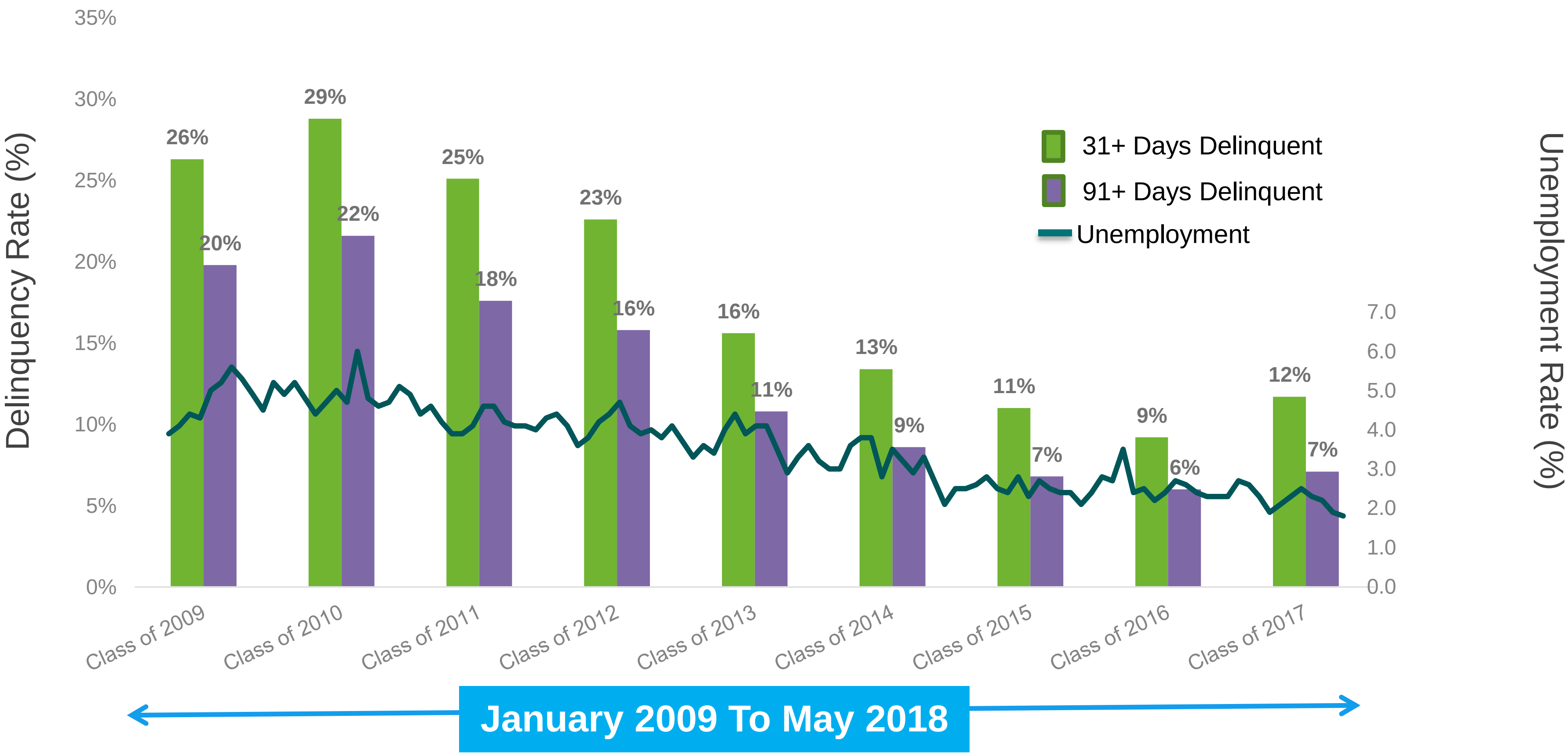


Notes: % calculated from all seriously delinquent (90+ days) borrowers in repayment; because of seasonality when loans enter repayment, comparisons should be made on a year-over-year basis, not sequential quarters.

Source: FSA Data Center, "Direct Loan Portfolio By Delinquency Status" & "Direct Loan Portfolio By Loan Status"

Delinquency rates for the Class of 2017 are less than half that of the Class of 2010

Federal loan delinquency rates six months after end of grace period and unemployment for bachelor's degree holders



Source: Navient data and US. Bureau of Labor Statistics, Unemployment Rate - College Graduates - Bachelor's Degree, 25 to 34 years [CGBD2534], retrieved from FRED, Federal Reserve Bank of St. Louis. Excludes consolidation loans which have lower delinquency rates. Class of 2017 data includes borrowers who entered repayment between November 2017 and January 2018.

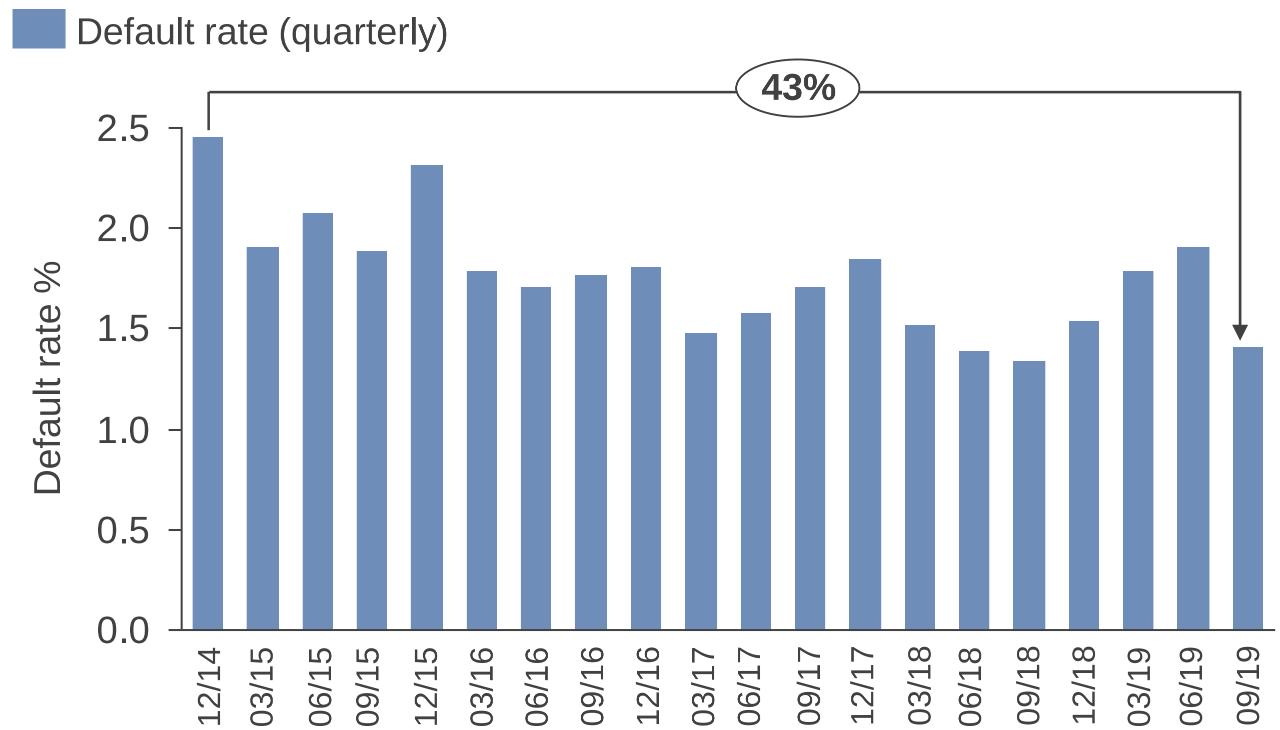
Rate of federal borrowers entering default in federal fiscal has dropped consistently since peak

The rate of borrowers entering default is declining.

Since December 2014, the rate of federal borrowers entering default has decreased by 43%.

The increase in the March and June quarters of 2019 is due to the effect of delinquent borrowers who received disaster forbearances in late 2017 and early 2018 who reentered delinquency after the disaster forbearance ended.

Rate of Direct Loan borrowers entering default by quarter



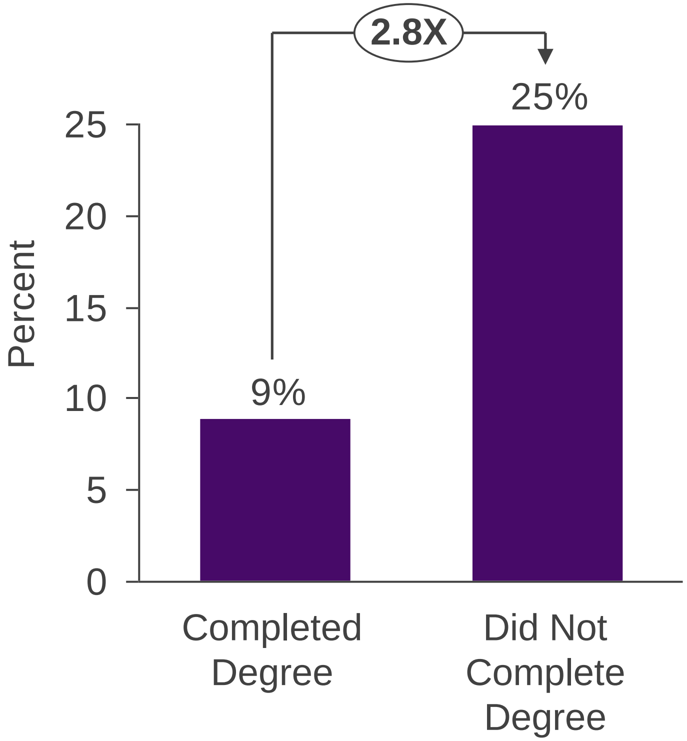
Notes: Because of seasonality when loans enter repayment, comparisons should be made on a year-over-year basis, not sequential quarters; default rate is non-annualized, and represents unique borrowers entering default in the quarter as a % of borrowers in repayment. According to FSA, "Because defaulted federal student loans are rarely written off, Federal Student Aid's open stock of defaults continues to grow even as delinquencies and new defaults have declined.

Source: FSA Data Center, "[Direct Loans Entering Default]"

The borrowers who struggle most are often non-completers with less than $10,000 in debt

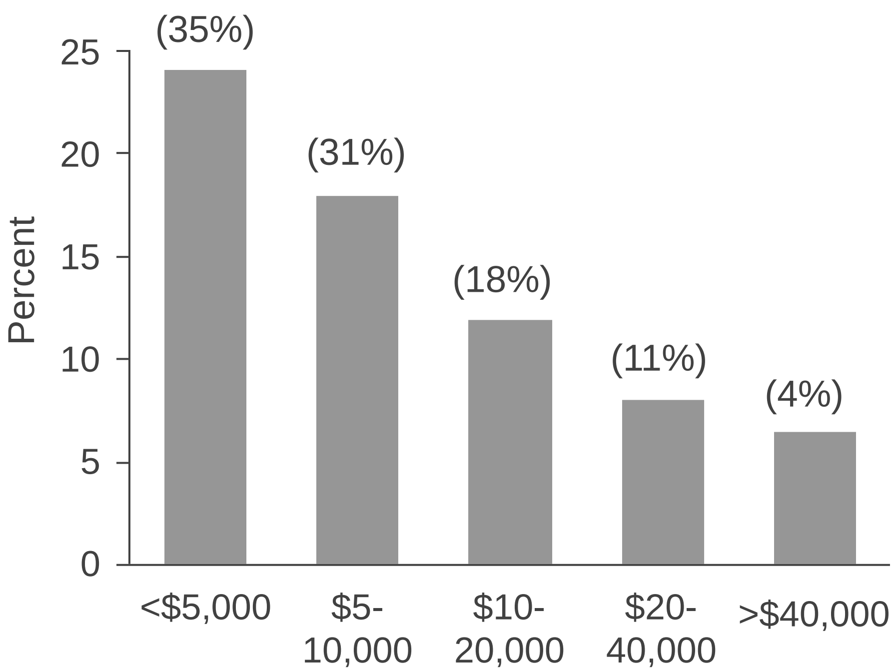
Borrowers who do not complete a degree default at a rate almost three times higher than borrowers who earned a degree …

Borrowers in default by attainment



… As a result, borrowers who run into trouble repaying usually have below-average amounts of debt.

3-Year Default Rate by loan size, 2011 Repayment Cohort (parentheses contain share of all defaults)

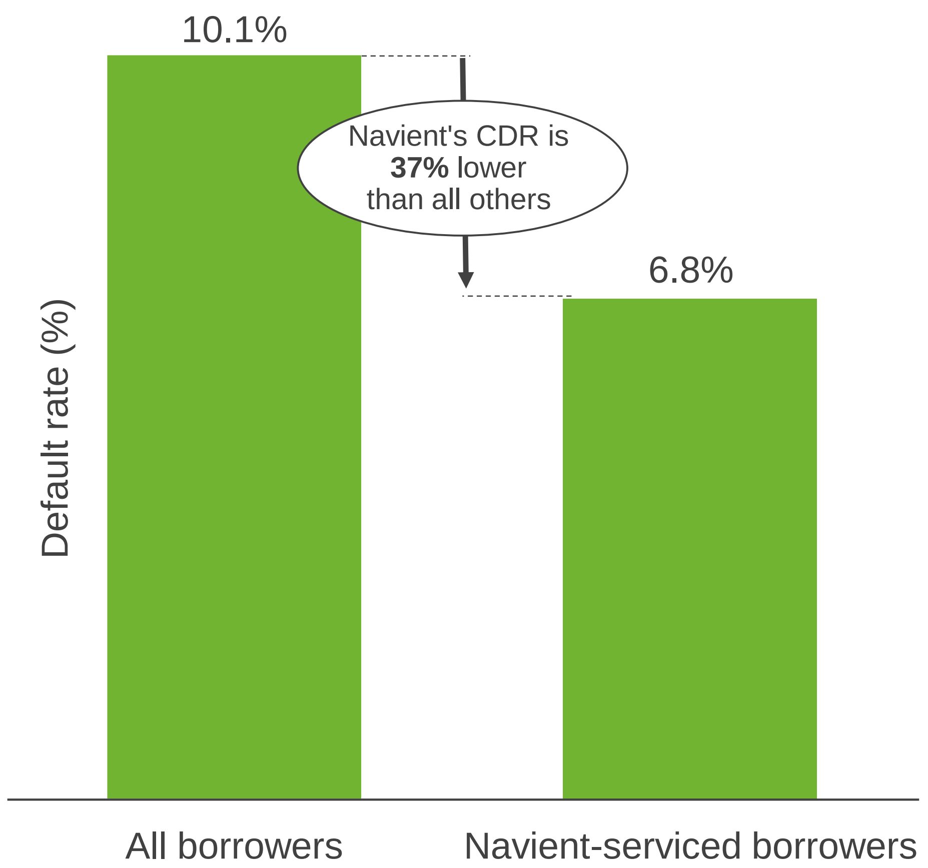


Source: White House Council of Economic Advisors, "Investing In Higher Education: Benefits, Challenges, And The State Of Student Debt," July 2016
Note: Years are fiscal years. Loan size is based on balance of loan when entering repayment.

Navient's default prevention expertise has been a key factor in the decline of the national default rate

- The cohort default rate (CDR) measures the % of borrowers who defaulted on a student loan within three years of entering repayment
- In 2019, the Department of Education announced the 2016 CDR was 10.1 %, a decrease from 2017 (10.8%)
- The CDR for Navient-serviced customers was 6.8%, 37% lower than the national rate excluding Navient-serviced borrowers
- Our outreach to borrowers is key. Nine times out of 10, if we can reach a struggling borrower, we can help him or her avoid default

2016 three-year cohort default rate

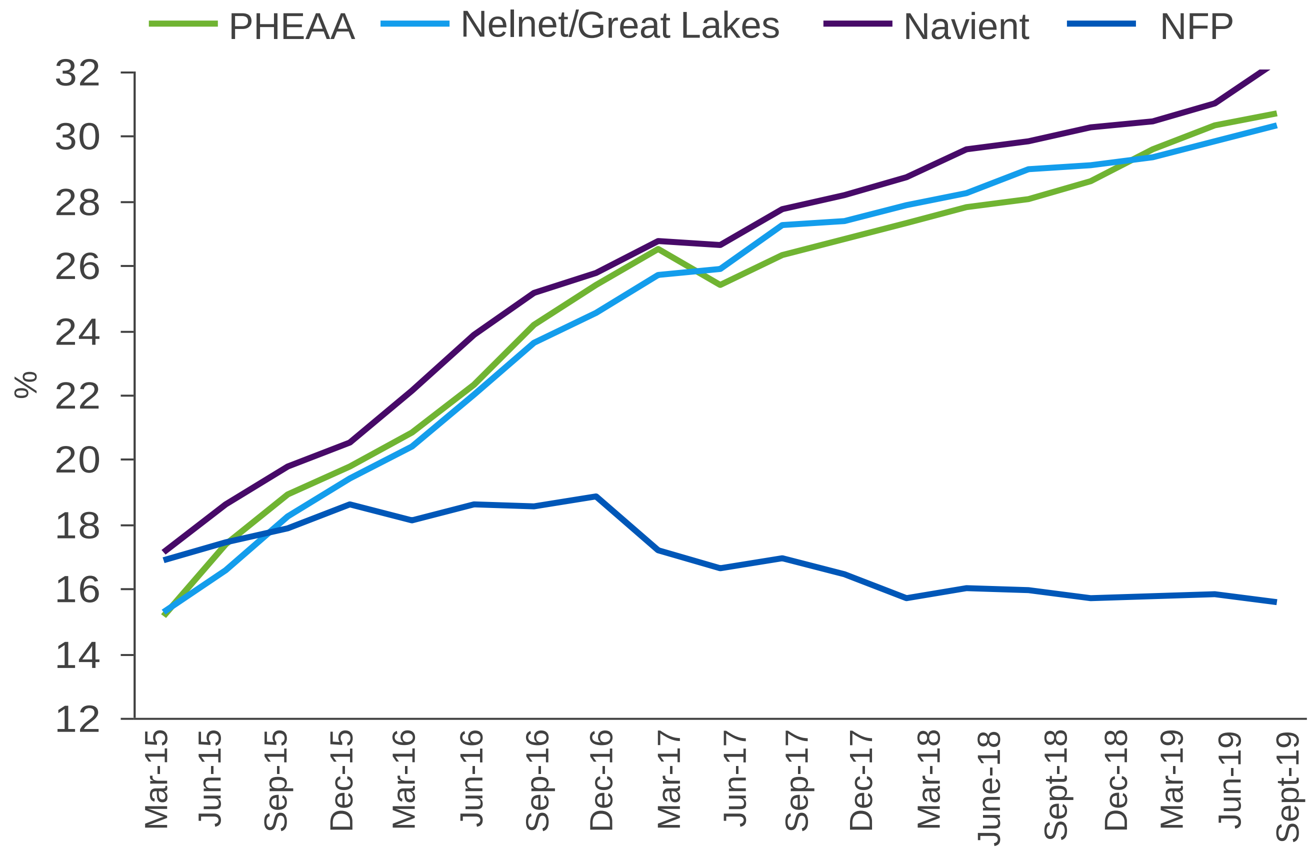


Source: "Official Cohort Default Rates for Schools," Federal Student Aid, 9/25/19; Navient data
The 2016 Cohort Default Rate analyzes data from the group of borrowers who entered repayment between Oct. 1, 2015, and Sept. 30, 2016, and who defaulted in a three-year window by fall of 2018. To isolate the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

Navient has consistently played a leadership role in enrolling borrowers in income-driven repayment

Borrowers enrolled in IDR as a percentage of borrowers in repayment, by servicer, excluding Public Service Loan Forgiveness borrowers**

- Borrowers enrolled in the Public Student Loan Forgiveness (PSLF) program are automatically transferred to PHEAA. Removing PSLF borrowers from the analysis provides an apples-to-apples comparison across all servicers.
- Excluding these PSLF borrowers shows that Navient has consistently led servicers in IDR enrollment.



Note: Nelnet services federal student loans under two brands, Nelnet & Great Lakes.

Source: Federal Student Aid, Federal Student Loan Portfolio - FSA Data Center, Public Service Loan Forgiveness Report, U.S. Department of Education.

There are solutions to many of the challenges faced by borrowers

5 recommendations to improve student loan program success:

1 Provide more front-end resources to improve decision making.

Students and their families need tools to understand how much they'll need to borrow to earn the degree—not simply the current semester—and to assess the likely economic benefits of a chosen field. This kind of information will help students and parents make a more informed assessment about what they can afford.

2 Improve the college completion rate

Just 6 out of 10 bachelor's degree students graduate in six years. Borrowers who struggle the most are often non-completers with low levels of debt. Schools should have some skin in the game when students do not complete and are unable to repay. Many colleges are experimenting with novel approaches to improve graduation rates and should be encouraged and rewarded.

3 Simplify repayment.

Currently, the government offers 16 repayment plans, 9 forgiveness programs, and 33 deferment and forbearance options—each with its own nuances, payment schedules, qualifications, and complex enrollment criteria. 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.

4 Help borrowers pay off 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. 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.

5 Encourage borrowers to engage with their loan servicers.

Default is avoidable, but borrower contact is key. 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.

navient.com/views

