NAVIENT

July 13, 2015

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552
By electronic delivery to: www.regulations.gov

RE: Bureau of Consumer Financial Protection
Request for Information Regarding Student Loan Servicing
Docket No. CFPB-2015-0021

Dear Ms. Jackson:

This letter is submitted on behalf of Navient in response to the May 14, 2015, Request for Information issued by the Consumer Financial Protection Bureau on student loan servicing. Navient appreciates the opportunity to provide our insights and perspectives from more than 40 years of helping student loan borrowers invest in their future and navigate the path to financial success.

Navient shares the Bureau's commitment to helping Americans repay their student loans and avoid unnecessary defaults. Today, we service student loans for more than 12 million customers and we're proud that customers whose loans we service are 40 percent less likely to default than the national average.[1] We estimate that in the past two cohort periods an additional 345,000 borrowers could have avoided default if all servicers achieved our lower default rates.

We have been and remain committed to increasing awareness of federal loan income-driven repayment (IDR) programs. As of March 2015, according to the U.S. Department of Education Federal Student Aid Data Center, 16 percent of Direct Loan borrowers serviced by Navient—representing 30 percent of loan dollars serviced by Navient—were enrolled in income-based repayment plans.[2] We promote awareness of federal repayment plan options through more than

[1] The cohort default rate for borrowers serviced by Navient was 8.3 percent for federal borrowers entering repayment in 2011, compared to the national Cohort Default Rate of 13.7 percent (which includes Navient-serviced loans). U.S. Department of Education, National Default Rate Briefing for FY 2011 (September 30, 2014), available at
http://www.ifap.ed.gov/eannouncements/092414CDRNationalBriefings3YR.html.
[2] U.S. Department of Education, *Federal Student Loan Portfolio*, Data Center: Servicer Portfolio by Repayment Plan, accessed on July 6, 2015, available at https://studentaid.ed.gov/sa/about/data-

170 million communications annually, including mail, email, phone calls, videos, and text messages. We have also made a series of recommendations to the Department of Education for simplifying the process for enrolling and renewing enrollment in income-driven repayment plans.

Navient has also been a leader in helping private education loan customers successfully repay their loans. Delinquencies and defaults on private education loans have improved significantly since the Great Recession in 2009, and part of that improvement has been driven by enhancements in both front-end origination and in back-end servicing. For example, we found that, during the application process if shown a comparison of the total loan costs of paying a small amount while in school versus making no payments while in school, a majority of borrowers choose a "pay-as-you-go" approach to minimize finance charges[3] while establishing positive repayment habits. For those who need it, Navient[4] launched its highly successful private loan modification program in 2009, helping borrowers avoid default while making progress towards paying off their loans.

> "Getting my degree opened doors that would not have been available to me otherwise. Thanks to Navient's repayment options, it made it easy to still enjoy the financial stability my degree gave me while still being able to afford to pay the student loans that financed my education. Work with your creditors until you get a financial plan that meets YOUR needs. Only you know what you can afford and paying them back will also help establish your credit."
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> — Lindsay, Alabama

The vast majority of individuals who need to finance a portion of their higher education expenses borrow an amount commensurate with the better job prospects and higher wages offered by a college degree. Of the 70 percent of graduating seniors who borrowed to achieve their degrees, 33 percent borrowed less than $20,000 and another 25 percent borrowed between $20,000 and $30,000.[5] Where we see challenges in managing student loan debt is among students who borrow increased amounts for living expenses, especially at two-year and graduate programs, and among students who borrow but take extended periods of time to graduate or, worse, do not graduate at all. Others struggle as a result of extended periods of payment postponement which causes balances to grow rather than decline.

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center/student/portfolio. According to our analysis, these figures represent 19 percent of borrowers and 39 percent of dollars eligible for enrollment in an income-driven repayment (IDR) program. Navient-serviced loans in IDR represent the second highest penetration of income-driven repayment options of any major servicer. Borrowers we assist to enroll in income-driven repayment who indicate they will apply for Public Service Loan Forgiveness are automatically reassigned to the designated PSLF servicer and no longer counted as Navient enrolled.

[3] Recent private education loan borrowers were presented with three in-school options: interest only, a flat $25 per month, or defer. In the most recent year prior to the company separation when we were still involved in originating private loans, we found that when presented with the choice, more than 50 percent opted to make a payment in school to save money.

[4] These programs were originally launched under the Sallie Mae name.

[5] College Board, Trends in Student Aid (2014), available at http://trends.collegeboard.org/sites/default/files/2014-trends-student-aid-final-web.pdf.

Four Recommendations to Address Program Challenges

To address these challenges, we offer these four recommendations:

1. ***Facilitate better lending and borrowing decisions.*** Students and families need better tools before deciding which school to attend to help them understand the potential economic impact of an educational program and the full cost of earning their degree, including the costs of borrowing and repayment over time. While the Bureau and Department of Education have provided families with a valuable tool with their model financial aid shopping sheet, additional data tools and insights could help identify potential students at higher risk, in order to provide them with targeted and meaningful financial education to help them make informed educational and borrowing decisions.

2. ***Simplify the federal student loan program.*** We service loans made under an increasingly complex student loan program. Since 1990, the number of repayment options available to borrowers has increased from two to 15—including multiple income-driven repayment plans with similar sounding names and differing eligibility criteria. There are now eight forgiveness programs and over 35 different deferment and forbearance options. This complexity can be overwhelming to some borrowers. Streamlining and consolidating the multiple repayment options could assist borrowers by making their choices easier to understand and thereby enabling them to more confidently select the best option for them.

3. ***Encourage borrowers to connect with their servicers.*** We understand that when people are struggling with their finances, their first inclination may be to avoid the issue. That is especially unfortunate, though, because for student loan borrowers there are options for nearly every situation. In fact, at Navient, nine times out of 10 when we reach a struggling federal borrower we can help them get on a payment plan to successfully manage their loans. In contrast, 90 percent of federal borrowers who default never talk to us at all in the year it takes to reach default—that means that despite prudent, repeated attempts to contact these borrowers through multiple channels, we were unable to reach them. Borrowers who respond to servicer outreach have a greater opportunity to optimize their student loan repayment plan and maintain a positive credit record.

4. ***Place a priority on helping borrowers pay off their loans more quickly.*** Working together, educators, policymakers and consumer groups can do more to

> "Pharmacy school was expensive and student loans helped me bridge the gap so I can complete a lifelong goal I set when I was 13 years old. Do not take out more money then you need! I played around for 2 years and didn't really start paying back my student loans until I was in my late 20's. I went back to school and put them in forbearance. I called and asked to pay a smaller amount. I have been making great money since I passed my boards, and I just didn't want to pay my loans back. I woke up one day and realized that if my student loan company could commit to giving me money for my education, I am supposed to honor my signature by paying them back. I was able to pay it in full within 3 years. If I can do it anyone can!"
>
> — Sue, Illinois

help borrowers understand the economic value of paying off their loans early and avoid costly choices that increase the length of time and cost to pay off loans. For example, in many cases, income-driven repayment options can cost more over the life of the loan, and borrowers should be encouraged to pay extra as their capabilities grow.

Ways We've Enhanced Our Service

Navient recently conducted research to identify the top five factors most associated with successfully managing student loan payments. We tested multiple attributes across a sample of 6.8 million borrowers. The resulting analysis[6] showed that (1) student loan borrowers who don't postpone their payments—in any payment plan—and who (2) track their progress by logging into their online account, (3) graduate, (4) stick with repayment, and (5) communicate with their servicer increase their chances of successful repayment. Furthermore, we found that the total loan amount owed was not a top factor in borrower success. Navient is sharing these five success factors with Class of 2015 graduates as part of our redesigned grace period campaign to assist customers to successfully transition into repayment.

In the past year, we have made additional and substantial investments designed to help our customers, drawing from a variety of inputs including customer surveys, analysis of customer inquiries and complaint data, regulator commentary, and website activity. For example:

- We launched a new mobile website and mobile app to make it easier for customers to target payments to one or more loans.
- Customers who need to renew their income-driven repayment plan benefit from the services of a specially trained group of service representatives to assist them.
- We created Navient Path to Success (navient.com/path), a series of free and award-winning interactive online modules on student loan repayment, income-driven plans, budgeting, credit scores, and saving and investing.
- We established the Voice of the Customer Panel comprised of customers at different stages of repayment to gather real-time feedback to inform enhancements underway, and formed the Navient Class of Champions, a group of frontline customer service team members who suggest and review planned improvements.
- We made further modifications to the way we work with customers with disabilities and families who have lost a loved one.
- We continue to make it easier for our customers to do business with us the way they want to and to track their positive progress. We're rewriting letters, redesigning monthly billing statements and launching a new online experience to enhance clarity and promote customer engagement.

[6] Navient news release (April 1, 2015), available at http://news.navient.com/releasedetail.cfm?ReleaseID=904432.

Additional Opportunities for Program Enhancements

We have also identified key opportunities for enhancements that would require coordination or guidance from federal agencies or legislation, as well as our combined efforts with other participants in the higher education and personal finance community.

1. Improve Process to Enroll and Renew in Income-Driven Repayment

Navient has been a leader in promoting income-driven repayment programs, and the borrowers we service have told us how important these plans are. The Department of Education has taken important steps to make borrowers more aware of the availability of income-driven repayment plans. The online application at studentloans.gov has improved the process. Even so, borrowers need to recertify each year, which remains a cumbersome process they cannot conduct through their servicer. There is still room to further improve, especially in the application and recertification processes to make them easier to navigate. For example, we recommend that the studentloans.gov application process be improved by prepopulating the information with data from the National Student Loan Data System (NSLDS) to reduce errors and streamline the process for borrowers. We also proposed that a single application be developed for loan rehabilitation and income-driven repayment to help borrowers who rehabilitate their loans more easily transition to an affordable repayment plan. Further, we previously recommended to the Department of Education and continue to support efforts to move towards a multiyear IDR enrollment process so that borrowers can allow the IRS to automatically recertify their income annually rather than requiring the borrower to essentially reapply every year. We discuss these ideas in more detail in the attached response.

2. Establish a Private Loan Rehabilitation Program and Credit Bureau Flexibility

The Higher Education Act authorizes a program whereby a borrower with defaulted federal loans can make a series of on-time payments and “rehabilitate” their loans, that is have the default removed from their credit history. Unlike federal student loans, there is currently no opportunity to rehabilitate private student loans. Navient supports bipartisan efforts to create a pathway to help private education loan borrowers get back on track to manage their payments successfully, improve their credit report, and enhance their financial outlook for the future. In addition, Navient has offered the idea of a one-time credit bureau retraction for student loan borrowers – both private and federal -- who miss a payment while transitioning into repayment.

3. Expand Efforts to Promote Financial Literacy

Student loans are often a young person’s first experience with credit and, second to a home mortgage, can be one of the most significant financial decisions in a lifetime. Unlike any other form of credit, however, federal student loans are widely available without underwriting. We regularly counsel borrowers on the increased costs of putting off payments and have revised communications to help increase borrowers’ understanding of the impact of postponing payments. We welcome the opportunity to work with federal agencies, schools, consumer groups and employers to expand the availability of financial literacy tools to help students understand these concepts and know the full cost of obtaining their degree before they borrow.

4. Explore Risk-Based Servicing and Pre-Loan Origination Counseling

Borrowing is an individual decision and obligation. We can help inform those decisions by providing better information and counseling for individuals who could be put at risk by easy access to credit, without discouraging access to higher education. Using 40 years of data and results, we base our servicing communications and outreach strategies on data analytics that tell us which borrowers are more likely to become delinquent or default. We can then provide the right information at the right time to help borrowers get back on track. These strategies have resulted in our industry-leading default prevention. Private sector lenders use predictive analytics in the underwriting process to make a decision about the ability and willingness of a borrower to pay. These techniques can be adapted and applied at different points in the student loan life cycle to improve outcomes for federal student loan borrowers. For example, predictive analytics could easily be used prior to loan disbursement, not to deny access but to tailor the appropriate level and type of information and counseling to ensure that students and families receive the right information at the right time to promote smarter borrowing. Another area where predictive analytics could improve outcomes is in federal student loan servicing fee and performance metrics. Using data to analyze the likelihood of delinquency and default for groups of borrowers can improve the comparison of servicer performance and assess whether fees are appropriately calibrated to provide the right level of support for borrowers at risk.

Navient is pleased to provide insights for the Bureau's consideration on several areas identified in the Request for Information. Attached to this letter are our answers to specific questions.

As the leading servicer of student loans, we're passionate about helping student loan borrowers succeed. We look forward to continuing to work with the Bureau and others to support better borrowing choices and repayment success.

Thank you for the opportunity to provide our insights and perspectives on these important topics.

Sincerely,

Jack Remondi
President and CEO

Attachment:
Navient Response to the Consumer Financial Protection Bureau
Request for Information Regarding Student Loan Servicing

Navient Response to the

Consumer Financial Protection Bureau Request for Information

Regarding Student Loan Servicing

July 13, 2015

Part One: General Questions on Common Industry Practices Related to Student Loan Repayment

Increase Efforts to Promote Financial Literacy

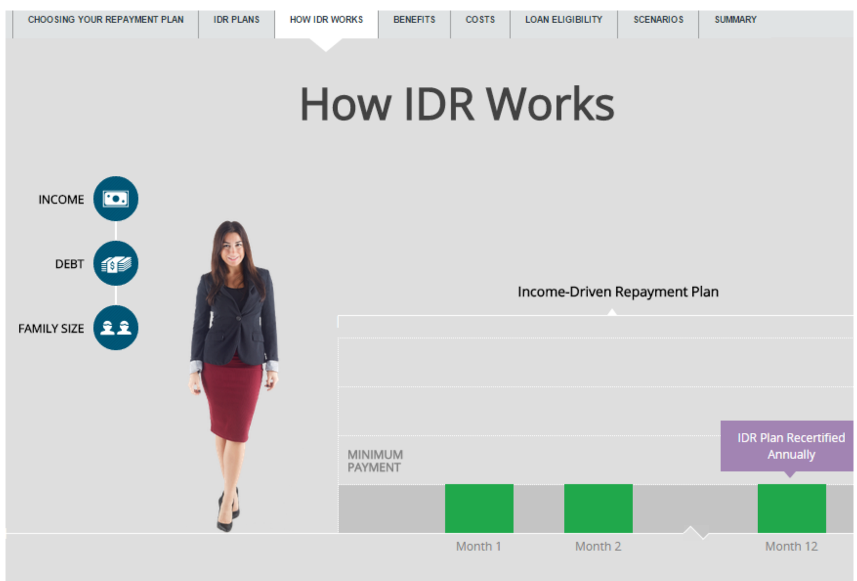
Student loans are often a young person's first experience with credit and, second to a home purchase, a college education can be one of the most significant purchases in a lifetime. Unlike any other form of credit, federal student loans are widely available without underwriting. They are easily available in relatively large amounts[7] without consideration of earnings potential, current or future debt-to-income ratio, collateral or credit experience. Further, the process for applying for a student loan is embedded into the grant application and borrowers do not receive customized "truth in lending" disclosures like they would with other forms of credit. There are multiple programs that postpone payments or increase the repayment term, resulting in "negative amortization," where payments do not cover current interest charges and the loan balance grows rather than declines.

As noted by one student loan user in a recent New America Foundation study,[8] "… they had a check mark for whatever you can't pay through scholarship or grant, do you want this to go to a loan? And I just checked yes. It was so easy; it was just one check mark."

We commonly hear from new graduates who for the first time focused on their loan statements and realized that their balance has grown since borrowing freshman year.

One speaker at the Bureau's recent field hearing in Milwaukee said that he has paid pursuant to the income-based repayment program for three years but owes $10,000 more than when he graduated despite trying to make more than the minimum payments.

Navient regularly reminds students in school of their loan balance and how they can make voluntary payments to defray interest



Navient Path to Success Financial Literacy Modules

[7] First-time credit card users may receive approval for a credit limit of $500, whereas a first-time student loan borrower can access $5,500 for freshman year, and borrow more each successive year before demonstrating a track record of repayment.

[8] New America Foundation, "Why Student Loans Are Different" (March 2015), available at https://www.insidehighered.com/sites/default/server_files/files/StudentLoansAreDifferent_March11_Embargo.pdf.

charges. We also regularly counsel borrowers on the increased costs of putting off payments, and have revised communications to help increase borrowers' understanding of the impact of postponing payments. Our Navient Path to Success financial literacy tools help bring these concepts to life, and a new module on how interest works is under development.

Future students need to have a basic understanding of how financial products work, including:

- Impact of borrowing and the overall financial obligation this debt creates
- Benefits of graduating as quickly as possible and the impact of taking longer to graduate
- Impact of postponing or missing payments
- Potential income needed to manage the financial obligation

"Just keep swimming! There are years to pay those loans back. They seem horrible and huge and scary — but slowly and surely — you will pay it off. The total will start to come down and you will see the difference your monthly payments are making. Build it [your student loans] into your budget. It's not going to go away unless you work at it. Stay on track and do not miss payments. The easiest way is to set up an auto-payment system either through your bank or directly through Navient. That way your payment is always sent on time!"

— Sarah, California

We welcome the opportunity to work with federal agencies, schools, consumer groups and employers to expand the availability of financial literacy tools to help students understand these concepts before they borrow.

Risk-Based Servicing and Pre-Loan Origination Counseling

Federal loans to student borrowers are intended to create access to education for individuals who do not currently have the personal resources to fund the investment in higher education and do not have the credit history to qualify for financing provided by the private sector marketplace. As such, federal student loans are designed to be available to virtually any U.S. citizen regardless of income or credit history. This is a laudable public policy goal and has resulted in substantial growth in the number of Americans with a college degree. The increase in Americans with degrees is essential given the growth in the number of jobs that require post-secondary education to remain competitive in the global economy. However, even with repayment and forgiveness options, borrowing is a significant individual decision and obligation, so policymakers and others must find ways to provide better information and counseling to individuals who could be put at risk by easy access to credit while not discouraging access to higher education.

Financial education can improve outcomes. A letter sent by University of Indiana shows that simple, regular information on debt and academic progress can improve borrowing decisions. Indiana students reduced their borrowing for the new school year after receiving a university letter telling them how much they had borrowed thus far, what their monthly payment would be after graduation, and the expected cost of more loans.[9] Our experience with servicing shows us that all borrowers do not require the same level of intervention or support to succeed in repayment. Using 40 years of data and results, we base our servicing communications and outreach strategies on data analytics that tell us which borrowers are more likely to become delinquent or default, so that we can provide the right information at the right time to help borrowers get back on track. These strategies have resulted in our industry-leading default prevention. Predictive analytics could easily be used prior to loan disbursement to ensure that students and families are receiving the right information at the right time to promote smarter borrowing.

Model Proposed by Navient

Timeline /Event	FAFSA Submission (Pre-College)	Pre-Loan Origination (College External)	Serial Loan Requests (In School)	Transition to Repayment
Risk Based Outreach	Computer based planning tools Webinars One-on-one counseling	Risk based counseling • *Low risk* – Paper or email communication • *Medium Risk* – Above + Computer based tutorial • *High risk* – Above + phone based counseling	Risk based counseling • *Low risk* – Paper or email communication • *Medium Risk* – Above + Computer based interactive tutorial • High risk – Above + phone based counseling Quarterly statements Annual statement including estimated life of loan cost & monthly payment amount	Risk based counseling • *Low risk* –Paper or email communication • *Medium Risk* – Above + Computer based interactive tutorial • *High risk*- Above + phone based counseling Computer based planning tools Webinars

Data analytics and risk assessment could be used to strengthen the management of federal student loan servicing and ensure that servicing resources are directed to the borrowers who are most at risk of delinquency and default. Today's servicing performance metrics treat all borrowers the same, yet data show that borrowers who have attended certain school types or who have failed to complete their education are far more at risk of delinquency and default than

[9] Bloomberg, "How Students at a U.S. University Borrowed $31 Million Less," (July 5, 2014), available at http://www.bloomberg.com/news/articles/2014-07-03/here-s-how-indiana-university-students-borrowed-31-million-less.

other borrowers. As a result, today's performance metrics inadvertently encourage underinvestment in the borrowers at highest risk.

The Department broadly recognizes this concept at a high level by separating the performance assessment of the larger Title IV Additional Servicers (TIVAS) from the smaller, not-for-profit servicers (NFPs) who secured their contracts through statutory directive. The Department has stated that the performance of these two groups of servicers is not comparable due to the borrower attributes of the two portfolios. The TIVAS have newer borrowers who, at the early stage of repayment, are more likely to move in and out of delinquency and default; the TIVAS service nearly all for-profit school borrowers; and the TIVAS service borrowers who have previously defaulted and returned to repayment through rehabilitation. Until January of this year, all of the loans that the not-for-profit servicers received had been in repayment for two years or more and were current at time of transfer to the NFPs.[10]

> "Remember that your loans and debts should always come before anything extra or unnecessary. Skipping a dinner out with friends is no fun, but it beats drowning in debt and late charges, and it will make a world of difference to you when you start to see your balance shrink! The automatic monthly payment system was a lifesaver for me. I never had to worry about forgetting a payment or facing late charges. But I also always tried to pay a little extra whenever I had a few dollars to spare. It really made a difference."
>
> — Hannah, Georgia

Clearly, it is incorrect to compare the performance of loans that were well into repayment and current at the time of assignment to loans that are entering repayment or are returning to repayment after default. In the same vein, we recommend using a more refined and granular understanding of portfolio data to compare servicer performance across all federal loan servicers. Competition for servicing allocation is one of the strengths of the current system and could be enhanced by using data analytics and risk assessment to make more comparable assessments among portfolios. Comparing performance based on the attributes of the loans would improve the allocation process, drive better servicing performance, and most importantly improve customer success. Further, building risk assessment into the performance metrics could help ensure that servicing resources are targeted to borrowers who are at most risk of delinquency and default.

[10] U.S. Department of Education, "Loan Servicing Information - Third Quarter's Customer Service Performance Results" (July 9, 2015), available at http://www.ifap.ed.gov/eannouncements/070815LSI1415ThirdQuarterCustServPerformResults.html. The Department notes: "In the portfolio reports by servicer, the not-for-profit servicers (NFPs) should not be directly compared to the Title IV Additional Servicers (TIVAS) due to differences in their portfolio composition. The NFP portfolio is overwhelmingly made up of accounts received from the Direct Loan Servicing Center in 2011-2012. These loans were already in repayment and current at the time they were transferred. As a result, the loans are more much stable and mature than the TIVAS portfolios. The TIVAS have high volumes of new borrowers who are much more likely to go in and out of delinquency. The TIVAS also service FFEL Program loans purchased through ECASLA and loans of all statuses received from the Direct Loan Servicing Center. Although the NFPs started getting new borrowers in January 2015, most of those loans are still in an in-school status."

Structural Features

As part of the RFI, the Bureau asked for information on the structural aspects of servicing including models for compensation. The fundamental questions for policymakers are whether the level of investment in loan servicing is adequate to achieve program goals and whether there are better ways to align servicer incentives with borrower and taxpayer interests.

In fiscal year 2014, the Department expended approximately $730 million for loan servicing. [11] Today, this equates to less than $1.80 per month per borrower to service federal loans. For loans under the Federal Family Loan Education Program (FFELP), in our experience, servicing investment runs about double that of the Direct Loan program. After covering fixed costs such as IT and facilities, and certain variable costs such as customer service center costs, transaction processing and letter/postage expenses, about 15 percent is available for default prevention activities. In other asset classes, lenders spend $7-$10 per month for mortgage servicing and $4-$6 per month for unsecured consumer loans.[12] While comparison to other asset classes is informative, differences in underwriting, including whether a loan is underwritten and whether a loan is secured, will impact the cost to service a loan. A concern that the Bureau[13] has raised in the past with respect to mortgage servicing was that fees were fixed and typically did not increase to cover additional costs when loans became delinquent and needed more work. For Direct Loan student loan servicing, the fee is reduced as the loan progresses through delinquency. While designed to encourage and reward efforts to keep borrowers current, the fee structure reduces the revenue available to servicers to provide outreach to struggling borrowers and could result in several unintended consequences.

First, it is clear that there would not be sufficient resources available if delinquency and default rates increased materially in the event of an economic downturn. Delinquency and default rates can certainly be influenced by servicer performance; however factors such as school or program quality, program completion, the amount borrowed compared to earnings potential, and general employment conditions have a sizable impact on delinquency and default performance. Delinquencies and defaults generally increase in economic downturns, when unemployment rates increase especially for those entering the workforce. Limited and fixed fee structures, that decrease resources available for delinquent borrowers, could make delinquency and defaults worse in the event of a serious economic downturn, when the amounts available for default prevention would actually decline and would be spread across a larger base of delinquent loan customers.

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[11] U.S. Department of Education, Federal Student Aid Fiscal Year 2014 Performance Report; U.S. Department of Education, FY 2016 President's Budget Request, Budget Tables.

[12] Mortgage Bankers Association – Based on conventional loan and Lending Club's S-1 (assumes balance of $5,000 to $7,000)

[13] Testimony of Raj Date, Associate Director for Research, Markets, and Regulation Consumer Financial Protection Bureau Before the Subcommittee on Financial Institutions and Consumer Credit and the Subcommittee on Oversight and Investigations Committee on Financial Services United States House of Representatives, (July 8, 2011), available at http://www.consumerfinance.gov/newsroom/testimony-of-raj-date-before-the-subcommittee-on-financial-institutions-and-consumer-credit-and-the-subcommittee-on-oversight-and-investigations/.

Second, performance metrics should strike a better balance in the emphasis of on-time payment versus default prevention. Under the current direct loan student loan servicing contracts, servicers are incented to help borrowers avoid early stage delinquency; with significantly less emphasis on helping a customer avoid later stage delinquency and default.[14] Given this structure, servicers dedicate a higher share of resources otherwise available for default prevention to instead support grace and early stage delinquency activity. In some cases, resources are focused on outreach to borrowers who would self-correct within a few days of missing a payment.[15] The compensation structure's focus on customers to be less than five days past due significantly reduces the available resources to help customers approaching late stage delinquency and default. Despite these disincentives, Navient continues to support enhanced and specialized servicing for late stage delinquencies to further help borrowers avoid default because we believe it is the right thing to do for customers. Appropriate level of investment in default prevention is one of the most important, if not the most important, consumer protection that could be made. Taxpayers benefit as well through lower defaults and collection costs.

Navient previously proposed and continues to support the following framework for servicing investment:

- *Status-based fee* – A modified, streamlined status-based fee structure that retains focus on keeping customers in an up-to-date status. Fees should be adjusted to reflect differences in effort required to support customer success based on year in repayment and school type.
- *Default performance incentive fee* – We propose increasing the default performance incentive fee to a much more meaningful portion of servicer compensation to better align servicer success with customer success. As portfolio composition shifts or there are general economic changes, servicer compensation should be appropriately adjusted to cover spikes or declines in the delinquent loan population.
- *Activity-based fee* – Activity-based fees should be designed to allow policymakers the flexibility to determine the appropriate investment and portfolio activities. This element would cover servicer incremental costs that are principally driven by changes in federal policy, such as new income-driven plans or enhanced counseling for certain high-risk loans.

[14] Under the TIVAS contract, servicers are compensated $2.85 per borrower per month for borrowers who make payments within five days of the due date, $2.11 for borrowers up to 30 days late, and $1.46 per month for borrowers who make payments 90 days late. This fee continues to decline to $0.45 after 270 days delinquency, where it remains until the loan is transferred to collections at 360 days in default status. U.S. Department of Education, Loan Servicing Contracts (August 2014), available at https://studentaid.ed.gov/sa/about/data-center/business-info/contracts/loan-servicing.

[15] Under the Direct Loan program, no late fees are charged, and Navient does not report missed payments to the credit bureau until 90 days delinquency. Not surprisingly, then, servicing data show that significant numbers of federal loan borrowers miss payments by 10 to 20 days but then course-correct quickly.

Practices Related to Student Loan Repayment

Processing, Allocation and Application of Payment

Navient supports the Bureau's focus on ensuring fair and transparent payment processing across the industry. Large student loan servicers, facilitated by Navient, have formed a task force to develop proposals for common payment processing policies and practices, including policies to govern payment allocation, payment tolerance, and the treatment of over and underpayments when a borrower does not provide instruction.

Navient's billing statement provides detail on how the most recent payment was applied – both in terms of which loans the payment was allocated to as well as the amount that was applied to principal and interest for a given loan. This allows borrowers to clearly see if their payment was applied according to their instructions.

Through our work with other servicers, we see that most practices are already consistent. We believe a fully standardized approach across servicers and across loan types will support an enhanced borrower experience, particularly for borrowers with federal and private loans, or loans with more than one servicer. In addition, common policies will support the development of consistent and enhanced consumer education programs by servicers and government agencies, as well as by entities, such as schools and consumer groups, that offer information on repayment tips and features.

> "Education has helped me feel as though I can do anything I put my mind to. I have obtained goals I never knew I could. Essentially whittling down payments worked best for me. I'd pay some here and some there, always paying a little more than the minimum balance. Navient.com made it easy for me to maintain my student loan balance and made my life a whole lot simpler!"
>
> — Seth, Texas

As we work toward a common model, there are unique aspects of student loans that warrant careful consideration. These include:

- Borrowers may have multiple loans including subsidized and unsubsidized loans.
- Many servicers group a borrower's loans into a single billing statement. The monthly payment is the total due for each of the loans combined on the statement. This approach offers borrowers the convenience of a single monthly payment for all of his or her loans.
- Federal policy currently requires due date advancement when a borrower prepays an amount that covers at least one full monthly payment, unless the borrower provides instruction to not advance the due date. As such, most servicers allocate extra payments across all of a borrower's loans to provide for a common next due date. This approach reduces customer confusion that can occur when the borrower has multiple due dates. Many student loan borrowers are still establishing their personal finances, careers and living arrangements, and as such are more likely than many other consumers to adopt unconventional payment routines to manage current cash flow. Our data show that about half of the borrowers who are paid ahead consistently make payments thereafter; the other half do not make payments at all or make payments in some months and not others.

- Customers with private education loans may have more than one cosigner. While Navient provides billing groups for borrowers, cosigners are billed at an individual loan level. In addition, cosigners have separate payment addresses ensuring that payments are applied only to loans that they cosigned.

As we work toward a common payment allocation proposal, we are seeking to address these unique factors while maximizing the service experience for all customers. We are also leveraging payment data as well as insights from customer research to inform our recommendations. Highlights of the data include:

- Nearly half of all payments are for the exact payment amount – the majority of these customers likely leverage autopay functionality to remit the same amount each month.
- More than 80 percent of all payments are either autopay or made through online payment portals. Our online portal offers the borrower the flexibility to allocate any excess payment amount to a specific loan(s) and select whether he or she would like to pay the federal loan account ahead or continue to be billed the following month.
- Most overpayments are created by borrowers rounding up their payment to the nearest whole dollar or five dollars. Only a small percentage of customers pay an amount sufficient to cover a full additional payment amount.
- When asked about preferences for treatment of overpayments in customer research, applying the payment to the highest interest was a frequent response, but not by a majority. Other preferences included applying the payment across all loans, applying the payment to the loan with the highest balance, and applying the payment to the loan with the smallest balance. Those wishing to apply the payment to the loan with the smallest balance are often working towards paying off one of their loans, thus reducing the total amount due each month. For borrowers seeking to apply for mortgages or other loans, reducing their monthly payment amount by paying off individual loans can be a wise repayment strategy.

In addition to a common industry policy as described above, Navient offers the following commentary relating to the other payment processing topics covered in the RFI.

1. *Payment Posting* – Navient supports a common payment posting effective date policy. Currently, payments received by Navient prior to 6 p.m. ET Monday through Friday are posted effective the same day. Payments made online after 6 p.m. ET or on nonbusiness days are posted effective the next business day. In addition, payments made via autopay are posted with an effective date of the payment due date.

   Navient is developing a new online payment system to be released in the coming months. As part of that system design, several enhancements relating to online payment posting will be introduced including:

   - Enhanced payment status information will be provided online enabling customers to see that their payment has been received and is being processed. Today, there are cases where a payment, while applied effective on the same date, is not viewable to the customer online until one or two days later. For example, under the required process for receiving Department of Education loan payment information, the transaction is first processed by another financial institution, then transmitted to the U.S. Treasury, after which a document number is passed to Navient. Navient is required to capture that number as part of the borrower's record to reconcile payment information, and as such, it may take a day or two for the payment to be displayed on the borrower's online payment history. Our system enhancement will more clearly display to the customer that the payment is being processed and when the confirmation is received, the payment will be viewable on their account.

- Payment posting effective date will be extended beyond 6 p.m. ET.
- Navient previously introduced enhanced functionality to customers paying via mobile devices, which will become available to customers using desktops and tablets later this year. With this functionality, individual loans are displayed and borrowers can pay all loans or pay individual loans. In addition, the enhancements will allow customers to more easily view or target a specific loan. Currently, the online option to pay an individual loan is limited to borrowers who make an overpayment. In the future, the ability to pay a specific loan will be available even if a customer is not paying extra. When the new functionality is implemented, borrowers will have the option – regardless of billing groups – to display all loans, display loan by due date, display delinquent loans, or other preferences selected by the customer, without regard to the billing group.

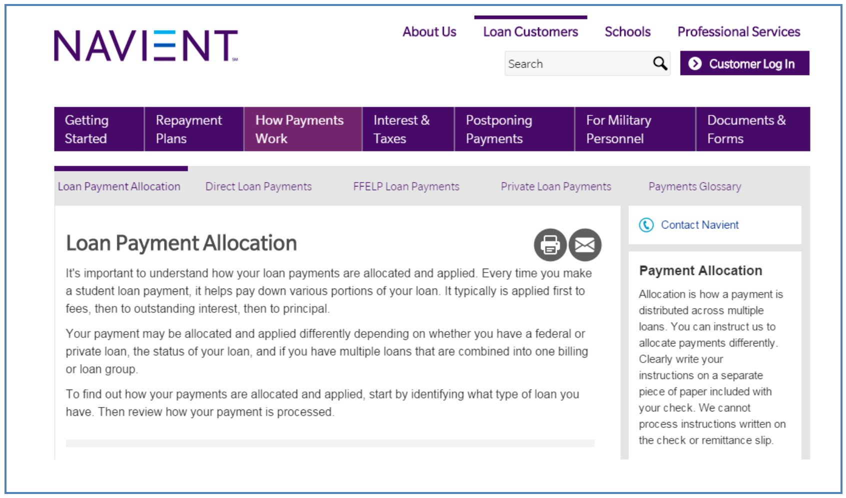
2. *Payment Tolerance* – For private loans, the Federal Financial Institutions Examination Council (FFIEC) adopted a payment tolerance of 10 percent – that is, if a payment is remitted that is within 10 percent of the required payment amount, the lender may consider the payment satisfied and advance the next due. For private education loans, Navient follows the FFIEC tolerance policy. For federal loans, the standard is $5 regardless of the monthly payment amount. Navient supports adoption of a consistent policy and proposes that a 10 percent policy be adopted as the tolerance for both federal and private education loans. We believe this is the most consumer-friendly option.

3. *Processing Partial Payments* – Underpayments are generally less than 10 percent of payments processed, with approximately a third of underpayments being slight underpayments that fall within the payment tolerance. Absent a customer's instructions, we follow payment models that first attempt to satisfy any outstanding delinquency amounts, thereby helping a customer avoid adverse or later stage delinquency credit bureau impact. If loans are current, the partial payment would be prorated based on the current amount due. If any late fees are due, the fee is calculated on the total payment shortfall (not per individual loan), thus the total fee assessed is the same whether the payment is applied to one loan or several loans.

4. *Periodic Billing Statements* – While there is no existing standard for the timing of the billing statement for student loans, Navient has adopted existing guidance for credit card

servicers requiring billing statements to be mailed or delivered at least 21 days before a payment is due.

5. *Customer Education* - Navient offers several customer tools to assist with understanding how interest accrues on a loan. These resources include billing statement information, information on our customer payment portals, as well as website information and examples. Just after the implementation of our new customer account website, we will launch a new online module under our Navient Path to Success financial literacy series dedicated to helping customers understand simple interest loans.



We encourage others to join our efforts to help students and families understand concepts such as interest accrual and how they can minimize their total borrowing costs. For example, more can be done to help consumers fully understand that interest is calculated on the outstanding balance and the number of days since the last payment was made, and thus a portion of any regular payment applies to both interest and principal.

Imposition and Disclosure of Late Fees, Including the Impact of Fees Across Billing Groups

Navient supports adoption of policies relating to minimum or flat late fees. That is, if a minimum or flat fee is assessed, the lender or servicer should ensure that the payment allocation logic used when a customer has more than one loan does not result in higher fees for the borrower.

Where late fees are assessed,[16] Navient provides customers with a 10- to 15-day grace period prior to assessing the fee. In addition, if a full payment has not been made within the grace period, the fee is based on a percentage of the payment shortfall. For example, if the fee is 5 percent and the borrower pays $100 of a $150 monthly payment amount, a fee of $2.50 would be assessed on the loan (5 percent of $50). We do not assess a minimum fee.

Transfer of Loans Between Lender, Holders, and Student Loan Servicers

Navient has already adopted the relevant portions of the mortgage transfer rules for its FFELP and private loan portfolio conversion practices, and had its practices evaluated by independent experts with deep knowledge of the Bureau's mortgage transfer regulations. We follow the

[16] Under the Direct Loan program, no late fees are assessed.

mortgage dual notice requirement for major commercial student loan transfers. For transfers of direct loans, we defer to the Department of Education with respect to any policies applicable to such transfers.

Specifically, the practices already adopted by Navient include:

Pre-conversion:
- Customer notices before and after the transfer.
- Splitting larger portfolios into separate "waves" to ensure a smoother conversion.
- Multiple scheduled diligence and error resolution meetings with the transferor servicer.
- Adoption of robust pre-conversion data quality and data mapping to ensure that customer information is accurately transferred to our processing systems.

During conversion:
- Ensuring that payments received by the prior servicer are forwarded to Navient on a timely basis and applied effective on the prior servicer's receipt date.
- Ensuring timely transfer and/or access to documents received by the prior servicer.
- Ensuring that customer payment and benefit programs such as autopay, borrower benefits, Servicemembers Civil Relief Act (SCRA), loan modifications or income-driven repayment program enrollment or pending documents are transferred to ensure continuous enrollment in such programs and uninterrupted payments.

Post-conversion:
- Establishing a specialized call team to respond to customer inquiries relating to the transfer.
- Management call listening to identify areas of opportunity.
- Daily review of "hot topics" from customer calls and website comments to ensure timely attention to any issues that arise.
- Payment and delinquency monitoring to support early detection of any issues or concerns.
- Creation of "lessons learned" documents for future transfers.

Further, depending on the size of the transfer, Navient may supplement the conversion experience with a customized microsite (navient.com/newtonavient) where our new customers can become familiar with Navient and learn more about the conversion prior to the loan transfer. In addition, we may communicate via social media to supplement the information the customer may receive from Navient or the prior servicer.

Navient adopted these practices and others for the conversion of our 12 million customers to the Navient brand in 2014. While Navient customers continued to be serviced on the same platform, educating customers of the name change and any other impacts was a high priority. Customers received at least four communications regarding the change, including communications that were customized to their specific servicing situation (for example, if they used a bill pay service, communications detailed any actions they needed to take). We also programmed phone systems and websites with smart logic to automatically route customers to

Navient or Sallie Mae, depending on which entity had a relationship with the customer post-separation. Navient received the ClearMark Award of Distinction from the Center for Plain Language in recognition of our effective communications that welcomed customers to the new brand. A sample of our customer communications for the Navient transition is provided.

Say hello to Navient℠ - Department of Education Loan Servicing.

We're pleased to announce that starting October 13th you'll be a Navient – Department of Education Loan Servicing customer. This past spring we communicated to you that Sallie Mae became two separate and distinct companies—Sallie Mae and Navient. We did this in order to maximize our focus, expertise and serve you better. It's an exciting time here at Navient as we embark on this new journey with you in mind.

Visit Navient.com

- Check us out at Navient.com to learn more. Bookmark our site now for future use.
- **Starting October 13th, log in to Navient.com to view, manage, and repay your loans.**
- Use the same user ID and password you've always used to log in to your account.

We've worked to make this transition as smooth as possible for you.

As a result, there will be no change to:

- Our phone numbers and addresses
- Terms, conditions, and benefits of your existing loans

If you're currently not required to make payments on your loan(s), there's nothing else you need to do. If you're already making payments, please review the information below for simple changes:

GO Paperless

Log in to your account and sign up for emails today.

Select "MY ACCOUNT" at the top of the page — then select "Edit email address and permissions."

If you currently pay through...	Here's what you'll need to do beginning October 13th...
Our auto debit program	• There's nothing you need to do. We'll take care of it for you. • The withdrawals from your bank account will reflect Navient. • To view your set up, cancel or make updates, log in to Navient.com.
Online bill pay service through your bank	• Log in to the website you use to send payments. • Update our payee information with the name Navient.
Our website	• You'll make payments on Navient.com. • Bookmark Navient.com today for future use. • Note: our website will be temporarily unavailable beginning Friday night October 10th thru Saturday afternoon October 11th while we complete this transition.
Personal check	• Write your check out to Navient. • Use the same payment address you use today.

Here's a timeline to keep you in the loop every step of the way:

May	August	Today	October 13th
FIRST LOOK Introduction to Navient.	ALMOST THERE Heads up on what's changing.	GET READY What you need to do to prepare.	IT'S OFFICIAL Welcome to Navient! New name, new look, new focus: you.

We appreciate the opportunity to help you navigate the path to financial success. If you have questions, give us a call at 800-722-1300 and we'll be more than happy to help you out.

Paperwork and Account Information / Complaint Resolution Process

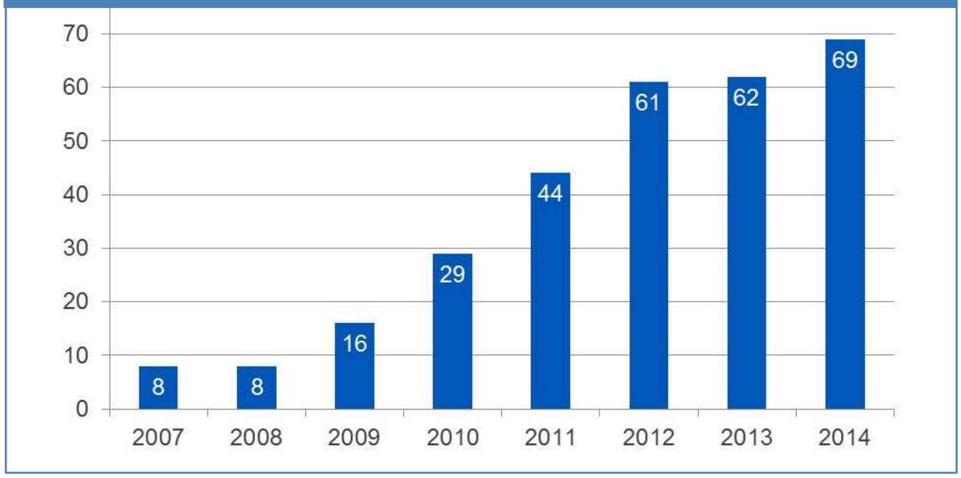
Navient fully supports providing customers with convenient ways to request information, ask routine questions, and to resolve errors. Today, Navient customers are offered multiple convenient ways to make inquiries and resolve issues including telephone, secure website, email and live chat. We also offer a dedicated toll-free line for the Office of the Customer Advocate for escalated inquires and complaints. A dedicated representative works with the customer on the inquiry or complaint until it is resolved. Each of these entry points has specific timeframe standards for responding to the customer and resolving the issue. While we believe these timeframes are consistent with standards the Bureau has established for other asset classes, we would be happy to work with the Bureau on a specific proposal applicable to student loans or to address concerns or recommendations the Bureau may have regarding timelines for responses to customer inquiries, complaints or error resolution.

> "Going to college, working part time, and caring for two children was very stressful at times. But every day I dreamed about my future, and how one day all this hard work would pay off…If you start repaying as soon as you graduate, and have a set amount, after a few months you don't miss it. Everybody has hard times and needs extra time to find job, or something happens and you can't pay the full amount. You are very easy to work with, very accommodating to my needs."
>
> — Lisa (a customer enrolled in income-driven repayment)

Navient also launched a program we refer to as "close the loop," designed to update customers on processing status when forms are received. At the end of 2014, we also enhanced our internal processes for transferring and tracking customer requests. This centralized process allows our customer service team members to provide customers with up-to-date information on the status of pending change requests, including account adjustments required due to customer request or Navient processing error.

In the RFI, the Bureau noted that some consumers encountered difficulty in accessing basic account information including their payment history. The Navient customer website includes real-time customer access to payment histories and the ability for customers to review how a payment made for a group of loans was applied to the individual loans in the billing group. The payment history also includes detailed information on the principal and interest application, along with any fees that may have been incurred. Borrowers and cosigners have separate access so that cosigners only have access to the loans that they cosigned and can easily make payments on the loans for which they cosigned. Customers may also use the online payment portal to secure pay-off information. Pay-off information is also available through Navient's automated voice response system as well as through our telephone call centers.

The number of call center personnel training modules has substantially grown in recent years.



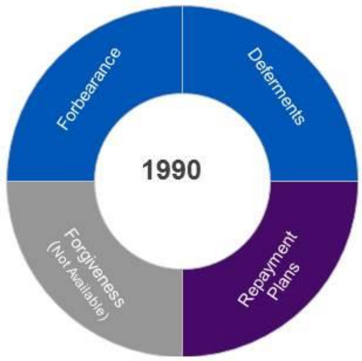
We believe the greatest opportunity to enhance service and ensure consistency and accuracy of servicing is program simplification. Navient customer service personnel complete seven weeks of advance training covering programs, systems, products and customer engagement. Once call center representatives complete classroom training, they are “nested” with experienced team members for additional training and assistance while interacting with customers. Simplifying the program will benefit both customers and service providers. The above graphic shows the expansion in modules for call center new hire personnel training from 2007 to 2014.

Incremental changes made to federal loan programs in the last several years have created enormous complexity for customers and for servicers to administer. The charts that follow show the changes made to deferments, forbearance, repayment options and forgiveness programs from 1990 to 2014.

In the coming months, Navient will launch a new customer portal as well as a new state-of-the-art inbound call system – both of which are designed to simplify and enhance service experience. (See Processing, Allocation and Application of Payments section for highlights of website enhancements.) The enhanced inbound call system will leverage advanced speech recognition tools and human-assisted technology to better route callers to the Navient specialist with the most expertise in that area to assist callers with their specific question. Today, we already segment calls based on payment status, loan lifecycle, language preference, and recent online activity, to name a few factors. Using this new technology, we will be able to more effectively segment inbound calls and increase the use of specialized service teams that are able to build subject matter expertise around a specific topic, rather than being required to support any one of the hundreds of reasons a customer may contact Navient for assistance. Navient previously launched dedicated teams to assist service members, support customers needing assistance with death or disablity claims, and process renewals for income-driven repayment plans. This new technology will enable us to expand the availability of such expert teams.

In 1990 Student Loan Repayment Complexity Centered Around Eligibility Criteria for Qualifying Deferments

Forbearance
Discretionary Forbearance
- Hardship Forbearance



Deferment
- School Full-Time
- School Half-Time
- Graduate Fellowship
- Unemployment Deferment – 2 years
- Rehabilitation Training Program
- Teacher Shortage
- Internship/Residency Training
- Temporary Total Disability
- Armed Forces or Public Health Services
- National Oceanic and Atmospheric Administration Corps
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer
- Parental Leave
- Mother Entering/Re-entering Work Force

Repayment Plans
- Standard
- Graduated

In 1990, there was a single forbearance option, 2 repayment plans and 13 deferment options.

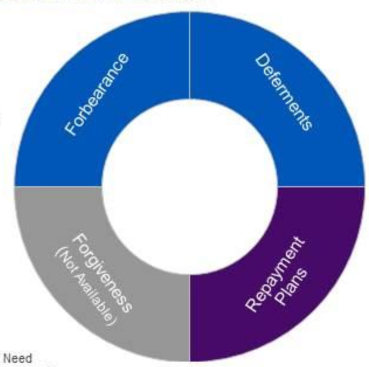
By 2014, An Array Of Choices Are Available. More Complexity Is Likely As New Programs Are Adopted by Regulation And Reauthorization

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
- Death
- Teacher Loan Forgiveness

Forgiveness
- Teacher Loan Forgiveness
- Loan Forgiveness for Service in Areas of National Need
- Civil Legal Assistance Attorney Student Loan Repayment Program
- Income Contingent Repayment Plan Forgiveness
- Income Based Repayment Plan Forgiveness
- Pay As You Earn Repayment Plan Forgiveness
- Income Based 2014 Repayment Plan Forgiveness
- Public Service Loan Forgiveness



Deferment
- School (1)
- School Full-Time (2)
- School Half-Time (2)
- Post Enrollment (1)
- Graduate Fellowship (3)
- Unemployment Deferment – 2 years (2)
- Unemployment Deferment – 3 years (1)
- Economic Hardship (1)
- Rehabilitation Training Program (3)
- Military Service (3)
- Post-Active Duty Student (3)
- Teacher Shortage(2)
- Internship/Residency Training (2)
- Temporary Total Disability (2)
- Armed Forces or Public Health Services (2)
- National Oceanic and Atmospheric Administration Corps (2)
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer (2)
- Parental Leave (2)
- Mother Entering/Re-entering Work Force (2)

Repayment Plans
- DL Standard Pre-HERA
- FFELP/DL Standard Post-HERA (4)
- DL Graduated Pre-HERA
- FFELP/DL Graduated Post –HERA (4)
- DL Extended Pre-HERA
- FFELP/DL Extended Post-HERA (4)
- Income-Sensitive
- Income-Contingent Ver. 1& Ver. 2 (5)
- Income-Contingent Ver. 3
- Forced Income-Contingent
- Income-Based
- Pay As You Earn
- Income-Based 2014
- Alternative (6)
- **REPAY (Pending for 2015)**

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 4 alternative repayment plans: Fixed Payment Amount, Fixed Term, Graduated Repayment, or Negative Amortization.

By 2014, there were 13 forbearance options, 8 specialty forgiveness programs, 19 deferments, and 15 different repayment options.

Furnishing of Credit Information to Credit Reporting Agencies

As a servicer, it is our responsibility to provide information to the credit reporting agencies for loans we begin to service. Monthly updates are provided thereafter. Navient generally reports delinquency information 45 to 60 days after missing a payment for private loans and 90 days after missing a payment for federal loans. We support retaining these reporting timeframes given the uniqueness of student loans including potential changes to school status information and the longer timeframe prior to charge off (270 days for federal loans and 210 days for our private loans) compared to other asset classes.[17] Borrowers enrolled in federal income-driven plans or private loan modification programs are reported based on timeliness of payments under the modified plan.

Navient follows the standards adopted by the national credit reporting standards committee, the Consumer Data Industry Association. We continue to partner with the credit reporting agencies to ensure our credit bureau reporting program follows best practices, and we recently received positive feedback from a third party expert after a detailed review of our credit bureau reporting practices. Still, we believe there are opportunities to standardize student loan reporting among loan servicers and lenders, and we are actively supporting the Student Loan Servicing Alliance with this initiative. The reporting topics we believe would benefit most from standardization and Bureau guidance include:

- Total and permanent disability
- Bankruptcy
- Use of special comment codes
- Consumer disputes
- Forbearance and deferment

We welcome the opportunity to work with the Bureau and other service providers to complete and implement this standardization initiative.

Creating a program that enables private loan rehabilitation would provide significant assistance to at-risk borrowers and cosigners. The Fair Credit Reporting Act (FCRA) requires servicers to report accurately.[18] As a matter of law, servicers may only request to delete information from a credit file if it was reported inaccurately. An exception to this requirement is with the loan rehabilitation program for defaulted federal student loans. The HEA authorizes a program whereby a borrower with defaulted federal loans can make a series of on-time payments and "rehabilitate" their loans. One of the benefits of this program is the default is removed from the borrower's credit history. The federal rehabilitation program relies on a specific provision in the

[17] Other consumer loans are typically charged off sooner. For example, most installment loans charge off after 120 days delinquency and credit cards charge off after 180 days delinquency. See Comptroller of the Currency, Uniform Retail Credit Classification and Account Management Policy (June 20, 2000), available at http://ithandbook.ffiec.gov/media/resources/3677/occ-bl2000-20_ffiec_uniform_retail_credit_class.pdf.

[18] Section 623(a)(1)(A) states: "Reporting information with actual knowledge of errors. A person shall not furnish any information relating to a consumer to any consumer reporting agency if the person knows or has reasonable cause to believe that the information is inaccurate."

HEA that requires the guaranty agency or the Department of Education to notify the credit bureaus and request removal of the default from the borrower's credit history.[19] Private lenders do not have such a provision to allow them to change the reporting of an actual default. Further, there does appear to be some conflict between the FCRA and the HEA authority that would benefit from clarification.[20] We recommend amending the FCRA statute to clarify the authority for the federal rehabilitation program to remove the default and to make it possible to offer a loan rehabilitation program to private education loan borrowers.

A recently introduced bipartisan bill[21] would help private student loan borrowers rehabilitate defaulted loans. The Federal Adjustment in Reporting (FAIR) Student Credit Act would enable a borrower who has successfully completed a series of on-time payments to remove the student loan default from their credit report. Navient supports this bipartisan effort to create a pathway to help private education loan borrowers get back on track to manage their payments successfully, improve their credit report, and enhance their future financial outlook.

> "I recently applied for a mortgage and was told by the loan officer that my chances for approval are very slim due to the serious delinquencies reported by Navient. Although I know this reporting is correct, I would like to know if you could possibly do me a favor. I am requesting that you give me a second chance at a positive credit rating by revising those trade lines and possibly deleting the lates."
>
> — Customer from Mississippi

We would like to work with the Bureau on another aspect of credit reporting: a retraction policy for delinquencies that occur in the early stages of repayment. About 6 percent of complaints received relate to requests for retractions of accurately reported delinquent loan information. Under the terms of the FCRA, Navient is not able to retract accurate information. However, we are sympathetic to customers who due to inexperience with credit or transition into the workforce during the early stages of repayment may have had delinquency information reported. Built off the framework of the loan rehabilitation program, we believe a policy that permits a courtesy or automatic retraction of early repayment delinquency information following a series of on-time payments would greatly assist customers who have transitioned into a better financial situation and seek to qualify for an apartment, job, or home purchase.

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[19] Higher Education Act, Section 428F

[20] The HEA requires the guaranty agency and the Department of Education to request that the credit bureau remove the record of default. However, there is no requirement for the credit bureau to accept such change. Further, the FCRA requires that credit bureaus accurately reflect a consumer's credit, with no exception.

[21] [21] Senators Gary Peters (D-MI) and Shelly Moore Capito (R-WV) introduced S. 1309, the Federal Adjustment in Reporting (FAIR) Student Credit Act (May 12, 2015), available at http://www.peters.senate.gov/content/peters-capito-introduce-bipartisan-student-loan-rehabilitation-bill. In the U.S. House, Representatives John Carney (D-DE) and Stephen Fincher (R-TN) have introduced the House companion bill, H.R.2363.

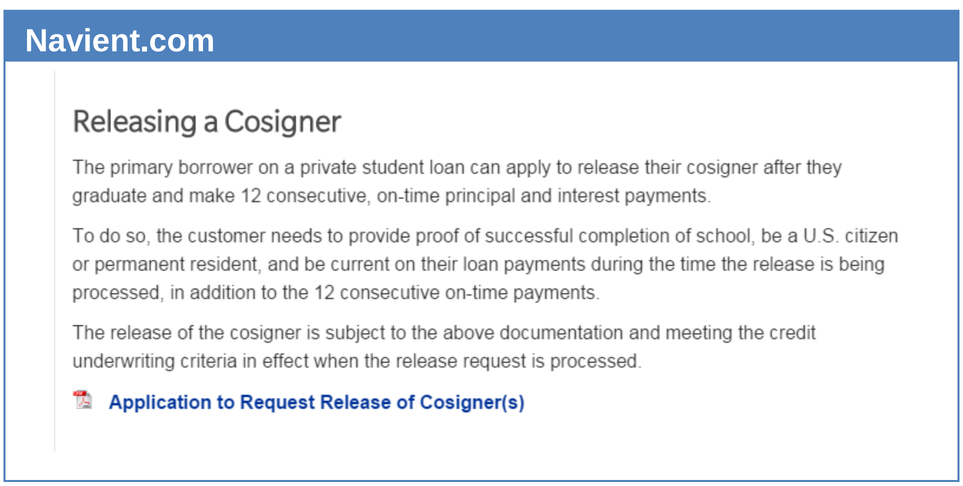
Repayment Benefits, Such as Rate Reductions for Enrolling in Auto-Debit

Navient was one of the first loan servicers to encourage on-time payment through offering borrowers an interest rate reduction when the customer enrolled in autopay. Further, confirmation of benefits is a part of our ongoing compliance monitoring program. We regularly sponsor campaigns to encourage customers to enroll in autopay. In the past six months, we have enrolled nearly 140,000 new customers in this program. Overall, nearly 40 percent of payments are made through autopay. Immediately upon enrolling, the interest rate reduction is applied. We do not permanently remove the benefit if a borrower misses a single payment, however, to protect the consumer against incurring fees assessed by their bank, we do un-enroll a borrower after several instances of insufficient funds.

Making it even easier for customers to enroll and modify enrollment in autopay is an important feature of our new website to be launched in the coming months. We developed the new, streamlined process leveraging customer feedback from our Voice of the Customer panel,[22] customer focus groups, and one-on-one phone interviews, as well as feedback from our Class of Champions.[23] In addition to a simpler, easier-to-use flow, enhancements will include a new, tested name to more clearly describe the program, option to enroll all loans at one time or separately, and the option to pay extra through automatic payments.

Cosigner Release Provisions

For private education loans, which are underwritten, credit-based loans, cosigners often allow a borrower to qualify for loan financing to cover a portion of enrollment costs and to access such financing at a lower interest rate. The presence of a cosigner also can ensure the ability to make payments on the loan, similar to the requirement for a young consumer obtaining a credit card. As specified in the promissory note, the cosigner is jointly liable for the repayment of the loan. Navient offers the cosigner separate online account access and a different payment remittance address to ensure that any payments made by the cosigner are applied only to the loans for which the cosigner is obligated.



Cosigner release is a program that allows the primary borrower to request the release of the cosigner once the primary borrower has graduated and is able to manage the loan payments on his/her own. Release

[22] Navient's Voice of the Customer panel is a standing group of customers engaged to provide regular feedback on service enhancements under development.
[23] Navient's Class of Champions is a team of front-line employees who meet regularly to identify and advance customer experience enhancements.

of the cosigner prior to the borrower being able to repay the loan on his/her own is harmful to the borrower and can result in delinquency or even default. Prior to granting release, Navient undertakes a careful review of the borrower's ability to repay the loan, including both a credit and income review. Customers seeking to qualify for release of the cosigner must provide evidence of graduation, demonstrate sufficient income to repay the loan, and must have made 12 consecutive on-time payments to be considered for cosigner release. Previous delinquency or use of forbearance does not permanently disqualify a borrower; the borrower must make the required payments following either of these events.

Based on customer feedback and the Bureau's Student Loan Ombudsman Annual Report commentary, we have made several enhancements to our cosigner release process over the past 12 to 18 months. These enhancements include: adding the cosigner release application and release conditions to the forms section of our website; standardizing the payment requirement for all loan programs, which previously varied from 12 to 24 months, to 12 months; reducing the minimum qualifying FICO score; and expanding the methods to document graduation.

The recent Ombudsman's Report highlights the Bureau's preference for lenders or servicers to notify borrowers when it appears a borrower may qualify for cosigner release. We would be pleased to work with the Bureau and other lenders and servicers on expanding borrower awareness of cosigner release while balancing circumstances by which a borrower pursues an option for which they are not eligible.

One of the concerns raised by the Bureau is that if a cosigner files for bankruptcy, the primary borrower could have a default reported to the credit bureau. Navient does not follow this practice. It is our policy to report the bankruptcy status only for the party filing bankruptcy, not the non-filing party. The primary borrower's credit bureau reporting is based on his or her payment status only.

- In the case of a cosigner declaring Chapter 7 bankruptcy, the bankruptcy code allows the borrower to continue to make regular payments and does not affect the borrowers' standing.
- The bankruptcy code does provide challenges for borrowers who are in good standing and whose cosigner declares either Chapter 12 or 13 bankruptcy. For these accounts, the bankruptcy code requires servicers to automatically suspend the requirement to make monthly payments and prohibits servicers from communicating or interacting with primary borrowers when their cosigner files for Chapter 12 or 13 bankruptcy. In other words, the bankruptcy code prohibits billing statements and other communications with the primary borrower, even if the borrower is in good standing. It is Navient's policy is to put these loans in forbearance where the primary borrower is not required to make payments. Further, we updated our online account logic to no longer restrict access to loan account for which the cosigner filed for Chapter 12 or 13 bankruptcy. Special disclosures are provided in our online servicing system that make it clear that the borrower is not required to make payments on the loan (as required by the bankruptcy

code). If the borrower does choose to make payments, payments are applied to the loan account consistent with the allocation and application provisions for all other payments.
- For either Chapter 7, 12, or 13 bankruptcy claims by cosigners, Navient does not require a primary borrower who is making regular payments to pay the loan in full.

While we have worked to ensure that borrowers in good standing are not affected by their cosigners' Chapter 12 or 13 bankruptcy, this is not available generally under the banking rules where forbearance is limited. With limited forbearance and the bankruptcy code's strict limits on borrowers' access to their accounts, the Chapter 12 or 13 bankruptcy declaration of the cosigner can be an automatic path to default even for a primary borrower in good standing. Last year, we worked with members of Congress and other private education lenders on legislation that would provide relief in this area. We are eager to work with all parties for a legislative solution to allow servicers to facilitate payments from primary borrowers who desire to make them when their cosigner is involved in a Chapter 12 or 13 bankruptcy.

Availability of Options to Discharge to Reduce Student Loan Debt in the Event of Death or Disability of a Borrower or Cosigner

Most private education loans originated in 2009 or later and held by Navient (Smart Option Student Loans) include discharge provisions if the primary borrower dies or becomes totally and permanently disabled. In the event of such a tragedy, the outstanding balance is canceled and no further payments are required from the estate or the cosigner.[24] For older private loan programs where this feature was not part of the loan agreement, a Navient Customer Advocate works with the family or cosigner to address repayment options and any loan adjustments that may be applicable on the loan. Such adjustment may include reducing the interest rate, setting the interest rate to zero, and principal reductions. We then work with the cosigner to develop a payment plan on the loan.

Section 2 – Practices Related to Student Loan Repayment for Borrowers in Distress

Alternative Repayment Options

Income-Driven Repayment Process Improvements

Navient has been a leader in promoting income-driven repayment programs, and the borrowers we service have told us how important these plans are. In a recent survey, we found that nine out of 10 of borrowers on Income-Based Repayment or Pay-as-You-Earn said that it was very important to have these plans available to them. Essentially no one disagreed. The Department of Education has taken important steps to make borrowers more aware of the availability of income-driven repayment plans. The online application at studentloans.gov, first for Direct Loan borrowers and subsequently for FFELP borrowers, has improved the process. There is still

[24] In 2009, (then as Sallie Mae prior to the separation of the company), we became the first national private student loan provider to provide this safeguard. Since then most major lenders have adopted this policy.

room to further improve, especially in the application and recertification processes to make them easier to navigate. Currently, borrowers who wish to enroll in an income-driven repayment plan cannot do so from their servicer-provided online accounts. They must either request and submit a completed paper application or go through the Department's centralized application portal. Borrowers must repeat a similar process annually to recertify their income and family size.

This process appears to pose unwarranted challenges for many borrowers. Based on data from Navient's servicing records, we found that more than half of borrowers enrolling in IDR for the first time could not navigate the options on their own and one in five customers renewing required support. Only 40 percent of applications were submitted using a fully electronic method through studentaid.gov; nearly half were submitted using paper only, while the remaining used studentaid.gov but submitted hardcopy income documentation. From application receipt to application approval, processing time is longest for the significant number of borrowers who use studentaid.gov to apply for an IDR plan but submit income information by paper.

From a servicer's perspective, we have taken several steps to improve the process, including having our call center representatives "pre-qualify" borrowers to determine which IDR plan a borrower is eligible for before directing them to the application process; improving the content, delivery and number of reenrollment communications to ensure borrowers are aware of the upcoming deadlines; and establishing a dedicated team to assist borrowers in the reenrollment process.

However, the process remains complex from both a borrower and servicer perspective and there are immediate improvements that could be made. Navient offers the following recommendations to make it easier for borrowers to navigate the initial application process as well as to spur timely renewal:

<table>
<tr><th colspan="2">IDR Recommendations:
Steps to Enhance the Current IDR Enrollment Process and Simplify the IDR Renewal Process</th></tr>
<tr><td>Studentloans.gov Recommended Enhancements</td><td>• Incremental Changes
o Pre-populate application with data from NSLDS.
o Perform automated quality control on application data including whether the borrower is eligible for the program which they are seeking to enroll and ensuring application is complete.
o Transmit only the final application to the servicer. The borrower can currently complete several applications in a single day.
o Provide servicers with "test accounts" for servicing experts to walk through and identify enhancements based on frontline experience with customers.
• Substantial Reform of Process
o Conduct an end-to-end process study and build a roadmap to improve process.</td></tr>
<tr><td>Plan Selection</td><td>• Structure program selection approach so that servicers and studentloans.gov select the plan for the borrower that provides the lowest monthly payment amount, when they select an ineligible plan or leave off a selection.</td></tr>
</table>

Qualifying Income	• Determine the borrower's discretionary income using the IRS-reported exemptions instead of collecting family size information from borrower. Family size could be provided on an exception basis (e.g. there is a change after-tax filing).
Renewal Process	• Develop a multiyear IDR enrollment process to allow borrowers to enroll for multiple years with a simple automated annual income verification. • We recommend replacing the current paper-driven and time consuming renewal process with an automated data retrieval that occurs in advance of the plan renewal date.
Loan Rehabilitation	• Develop a single loan rehabilitation and income driven repayment plan application to help borrowers who rehabilitate their loans more easily transition to an affordable repayment plan.

Fees, Including Forbearance Fees

The RFI raised the topic of practices related to forbearance fees. There are no fees or payment requirements for federal loan forbearance. When Navient private education loan customers experiencing temporary financial difficulty ask to suspend scheduled payments through forbearance, we ask for a reduced payment to emphasize the terms and implications of their decision to use forbearance. This payment is applied to their loan balance in the same manner as any other payment. We believe the requirement to make a payment reduces forbearance use for convenience and encourages customers to remain in a payment plan.

Variable Rate Loans that Increase Rate Based on Borrower Behavior

Navient's private education loans as well as federal education loans with variable rates only vary with the underlying interest rate index (such as Prime, LIBOR or T-bill), and do not change based on borrower behavior. The credit-based margin offered to the customer at the time of the loan application is fixed for the life of the loan and remains the same even if payments are missed or the loan enters into default.

Acceleration of Debts

If a cosigner dies, we don't presume to know whether the primary borrower or cosigner intended to be primarily responsible for the loan or if the obligation is a joint responsibility. We also do not want to place the primary borrower in a financial hardship by simply transferring sole repayment responsibility to him/her. Balancing these concerns, we updated our practice last spring. As a result, primary borrowers with a payment history or other evidence of capacity to repay the loan automatically continue as the sole borrower. If our review indicates that the primary borrower does not have the capacity to repay the loan, we may file a claim with the cosigner's estate. In these cases, a specialized team contacts the primary borrower to review the probate claim process. In the conversation, our advocate ensures the primary borrower is aware of the process and understands that there is no impact to his or her payment during the probate process and that credit bureau reporting is not affected by the estate claim. If repayment of the loan creates a hardship, we work with the primary borrower on alternative repayment options.

Modification Options

For private education loans we own and service, we offer a variety of alternative repayment options—such as reduced monthly payments, interest-only payments, extended repayment schedules, and temporary interest rate reductions—that are highly effective at enabling customers experiencing financial hardship to make on-time payments on their loans, and avoid delinquency and default.

One of the tools we have developed for customers struggling with their private education loan payments is our rate reduction program. In 2009, we instituted this program to assist customers in repaying their private education loans through reduced payments, while continuing to reduce their outstanding principal balance. We offer this program when there is a possibility to keep a borrower current in monthly payments through a temporary reduction in the interest rate. To demonstrate the ability and willingness to pay, the customer must make three consecutive monthly payments at the reduced rate to qualify for the program. Once the customer has made the initial three payments, the loan's status is returned to current status and the interest rate is reduced for a 12-month period.

Since the inception of the rate reduction program, we have assisted tens of thousands of borrowers to manage temporary hardship and maintain regular monthly amortizing payments by modifying interest rates and lowering monthly payments. All of the borrowers in the program have had their interest rates reduced to a level (in some cases as low as 1 percent) that can allow them to keep up with monthly payments and reduce their principal balance. Prior to the expiration of the 12-month rate reduction period, we contact the customer for an update on their work situation and financial profile, and together we assess the payment history on their loans. Based on the updated information, we may extend the rate reduction for an additional period.

Most of those entering the rate reduction program have been 90 days or more past due. Borrowers enrolled in the program experience a 12-month successful completion rate of 75 percent or higher. The rate reduction program is remarkably successful in helping these borrowers avoid default—after two years, the default rate for severely delinquent borrowers who participate in the rate reduction program is less than one-third of those who do not use the program.

Our ability to work with customers experiencing temporary hardship and success in helping them avoid default is dependent on our ability to modify loan terms, through programs such as rate reductions, the ability to use targeted forbearance, and our ability to work with borrowers for more than 120 days of delinquency. Currently, prudential bank regulators restrict the use of forbearance and require lenders to charge off a delinquent private education loan at 120 days of delinquency, which may severely impact their ability to work with struggling borrowers. As a nonbank institution, Navient has greater flexibility and additional time to work with borrowers and cosigners to resolve the delinquency (we currently charge off private education loans after 210 days), and would urge the prudential bank regulators to adopt more liberal standards for these practices.

It is important to note that some loan modifications to address the needs of delinquent borrowers, such as our rate reduction program, are classified as a "troubled debt restructuring" (TDR) for accounting purposes and must be reflected as such for the rest of the life of the loan. Even if a borrower successfully completes the rate reduction program and enters into successful repayment, the loan remains classified as a TDR. We support efforts to find ways to reevaluate loans that have been classified as TDR through a borrower's loan modifications in early repayment where the borrower has established a track record of on-time payment.

For those who default, we support the enactment of legislation—modeled off of the federal loan rehabilitation program—that would create a pathway for borrowers to reestablish a positive payment record, improve their credit history, and recover from the default (see section on credit bureau reporting).

Section 3 – Student Loan Repayment for Borrower Segments with Unique Characteristics

Service for Military Customers

Navient takes seriously its commitment to serve our military customers and has developed a best-in-class system to assist service members. Navient was the first student loan servicer to launch a dedicated military benefits customer service team, and was also the first student loan servicer to launch a dedicated military benefits website, Navient.com/military, and toll-free number, 855-284-4879.

> "Knowing that [Navient] has a dedicated team for this now, has made my homecoming so much better to look forward to."
>
> — Military customer

Our military benefits team responds to calls from service members and their families to help them access the benefits designed for them, including interest rate reductions and other options. For example, team members help service members learn about income-driven repayment plans, Public Service Loan Forgiveness, and military deferment. Counseling includes discussion of the potential costs and benefits of such repayment options.

- **Military Benefits Team:** Our military benefits team receives extensive training on military benefits, military service, and special issues facing military families—many of whom are away from home without access to financial documents or computers. Once we receive a request for assistance, a team member is assigned to work one-on-one with the customer. Team members perform multiple follow-ups with customers to help them submit any required documents in order to complete their request.

- **Servicemembers Civil Relief Act Interest Rate Benefit**: Service members who took out a federal or private student loan prior to joining the military qualify for an interest rate reduction to 6 percent. Thanks to a new streamlined procedure, Navient scans our customer list for matches with the Department of Defense personnel database and automatically applies the benefit to anyone eligible. The benefit also applies to cosigners who are in the military.

- **Military Deferment:** Federal loan borrowers may defer their federal student loan payments while serving in the military. Navient also offers the option to postpone payments for private education loan customers on active duty. Except for subsidized federal loans, interest continues to accrue during payment postponement. We encourage military customers to pay the interest as it accrues to help keep their balance from increasing. Our military benefits team also is trained to help federal loan customers asking about deferment to consider the option of income-driven repayment, combined with Public Service Loan Forgiveness.

- **Military Death and Disability Loan Discharge:** If the borrower dies or becomes totally and permanently disabled while serving in the military, Navient cancels the remaining balance and no further payments are due from the cosigner or the estate. We recently changed policies related to cosigners: if a cosigner dies or becomes disabled while servicing in the Armed Forces, neither the cosigner nor the estate have further obligation on the loan.

- **Military Loan Repayment Programs** are unique assistance programs whereby the Department of Defense provides an annual lump sum payment toward the principal of the student loans of certain recruited service members. As directed by the program, we apply the military's annual payment directly to the loan principal. We also work with the service member to ensure he or she is aware of the need to make regular monthly payments and the option to request forbearance during the time period. We support a simpler benefit that allows the Loan Repayment Program benefits to be applied to the total balance (interest and principal) and to substitute for monthly payment requirements.

Conclusion

We welcome the opportunity to engage with the Bureau, the Department of Education, and the Department of Treasury, as well as other groups to continue the dialogue on best practices that better serve student loan borrowers.