Edward Jones
MAKING SENSE OF INVESTING

NAVIENT CORP.

Corporate Bond Research

Rating: Sell

Investment Classifications

Investment Category: Aggressive Income

Sector: Financial

Recommended Sector Weight: 30% - 45%

Entity Description

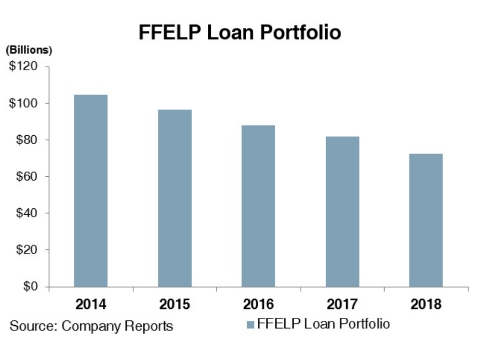
Navient is a leading servicer, holder and originator of U.S. education loans. The majority of its loan portfolio is comprised of government-backed loans issued through the Federal Family Education Loan Program, which was discontinued in 2010. The company also provides revenue cycle management and business processing services.

Related Bonds

Navient bonds show as SLM EdNotes in client accounts. Navient was separated from SLM Corp in 2014.

Credit Ratings

Moody's	Ba3 / Stable
S&P	B+ / Stable
Fitch	BB / Negative



Analyst: Brian Therien, CFA

INVESTMENT SUMMARY

We rate Navient bonds a Sell. We believe the company faces financial challenges due to its high level of secured debt, low capital position, narrow business mix, and legal and regulatory risks. Navient's financial condition has worsened in recent years as management has taken shareholder-friendly actions, such as paying dividends and repurchasing stock. The company benefits from the predictable cash flows with low risk that its government-backed student loan portfolio provides. However, we don't expect this portfolio to provide long-term benefits because it has been in decline for several years as borrowers pay down the principal balance of these loans, which will likely continue. Overall, we expect Navient to continue to face financial challenges, which may pose risks for bond holders.

BOND OVERVIEW

Level of secured debt is high. Navient has issued a significant amount of secured debt, which is backed by liens on its loan portfolio. The company relies heavily on this type of funding, representing more than 85% of its total debt, because it costs less than unsecured debt. The liens on its loans reduce financial flexibility because these loans cannot be sold or otherwise used to generate cash or funding. We believe this reduced financial flexibility poses risks to the company, especially if it needs to raise cash for liquidity or to pay down debt.

Capital level is low. The company's capital position, measured as tangible equity (equity net of intangible assets), is less than 3% of its loans and investments. This provides a small cushion to absorb losses that could be driven by delinquencies or defaults on its loan portfolio. If the company's equity is not sufficient to absorb potential losses, they could be passed along to debt holders.

Business focus is narrow. The majority of Navient's revenues and cash flows are generated by interest and servicing fees on student loans. This narrow focus results in concentrated exposure to a single business segment. In our view, the company's other operations are not sufficient to provide meaningful diversification away from its core business.

Legal and regulatory risks create uncertainty. Navient is the focus of litigation, investigations and inquiries from the Consumer Financial Protection Bureau and several U.S. state attorneys general relating to its business practices, disclosures and fee assessments. While there is uncertainty around the final resolution of these proceedings, they could have a negative impact on the company, including settlements, enforcement actions and reputational damage.

Government-backed loan portfolio provides stable cash flows with low risk. The company's Federal Family Education Loan Program (FFELP) portfolio provides predictable cash flows with minimal credit concerns given a 97% government backing on the payment of principal and interest. However, we don't expect this portfolio to provide long-term benefits since it has been in decline for several years as borrowers pay down the principal balance of these loans. Given that the FFELP program ended in 2010, Navient has limited ability to grow this portfolio.

Risks to Opinion – Upside risks include the possibility that the company may successfully grow its private student loan business with minimal credit losses over time and profitably expand its business focus beyond student loans.

Valuation - Valuation is based on our analysis of a range of potential outcomes, including credit spread relative to bonds of comparable quality and potential recovery in the event of default. Credit spread can be described as excess yield.

Please see important disclosures and certification on page 2 of the report.

Required Research Disclosures

September 26, 2019	BUY	HOLD	SELL
Corporate Credits	0%	63%	38%
Investment Banking Services	0%	0%	0%

The table lists the percent of corporate credits we follow globally in each of the equivalent rating categories. We do not assign a "Buy" rating to any corporate credits. Investment banking services indicate the percentage of those subject companies that have been investment banking clients within the last 12 months.

Appropriate for Income	Appropriate for Aggressive Income	Sell	FYI
Appropriate for Income – We consider bonds to be an appropriate holding for investors seeking Income within a well-diversified portfolio. Our time horizon is 3-5 years.	**Appropriate for Aggressive Income –** We consider bonds appropriate only as a small Aggressive Income portion within a well-diversified portfolio. Bonds within this category are riskier, with a higher possibility of loss due to default, than bonds classified as Income. Our time horizon is 3-5 years.	**Sell –** We recommend investors sell these bonds. We believe these bonds are no longer an appropriate fixed-income holding because, in our opinion, they offer an unattractive risk/reward scenario at current prices. Our time horizon is 3-5 years.	FYI - For informational purposes only; factual, no opinion.

Initiated coverage (SELL) 12/20/16

Analyst Certification

- I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Brian Therien, CFA

- Analysts receive compensation that is derived from revenues of the firm as a whole which include, but are not limited to, investment banking, sales, and trading revenues.
- Edward Jones trades as principal in the debt securities that are the subject of this research report.

Other Disclosures

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- Before investing in bonds, you should understand the risks involved, including interest rate risk, credit risk and market risk. Bond investments are subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.
- Edward Jones limits inventory positions for fixed income securities. This security may currently be subject to these internal limits; however, this should not be considered contrary to our current recommendation.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- This issuer may have issued bonds in both large and small offering sizes. Bonds which are part of small offerings are generally less liquid, which may cause the price you receive in the secondary market to be lower than prices received by investors in large issues of the same issuer's bonds.
- If you sell this security prior to maturity, you may receive more, less, or the same dollar amount you originally invested because the security's market value may fluctuate over time due to various market factors (e.g., interest rates).
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- When investing in issuers incorporated outside your own country of residence, you should consider all other material risks such as currency risk, political risk, liquidity risk and accounting rules differences, which can adversely affect the value of your investment. Please consult your Financial Advisor for more information.
- Ratings from Standard & Poor's ("S&P"), Moody's and Fitch may be shown for certain securities. S&P requires we inform you: (1) Ratings are NOT recommendations to buy, hold, sell or make any investment decisions and DO NOT address suitability or future performance; (2) S&P DOES NOT guarantee the accuracy, completeness, or availability of any ratings and is NOT responsible for results obtained from the use of any ratings. Certain disclaimers related to its ratings are more specifically stated at http://www.standardandpoors.com/disclaimers.