Navient
(Q4 2024 Earnings Transcript)

January 29, 2025

Corporate Speakers:

- Jen Earyes; Navient; Head of Investor Relations
- David Yowan; Navient; Chief Executive Officer
- Edward Bramson; Navient; Vice Chair
- Joe Fisher; Navient; Chief Financial Officer

Participants:

- Sanjay Sakhrani; KBW; Analyst
- William Ryan; Seaport Research; Analyst
- Richard Shane; JPMorgan; Analyst
- Moshe Orenbuch; Analyst
- Nathaniel Richam-Odoi; Bank of America; Analyst
- Terry Ma; Barclays; Analyst
- Jeffrey Adelson; Morgan Stanley; Analyst
- Mark DeVries; Deutsche Bank; Analyst
- Ryan Shelley; Bank of America; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by. And welcome to Navient's Fourth Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would like now to turn the conference over to Jen Earyes, Head of Investor Relations. Please go ahead.

Jen Earyes^ Hello, good morning. And welcome to the Navient's earnings call for the fourth quarter of 2024. With me today are David Yowan, Navient's CEO; Edward Bramson, Vice Chair of the Navient Board of Directors; and Joe Fisher, Navient's CFO.

Navient has updates to share with you this morning and has posted two separate presentations that will be referred to during this call. Both are available on navient.com/investors.

First, we will refer to the January 2025 Strategy Update Presentation posted on our website. Then, we will move to discuss the fourth quarter results and outlook for 2025.

During this portion, we will refer to the fourth quarter 2024 earnings presentation, which you'll also find posted to our website. After the prepared remarks, we will open up the call for questions.

Before we begin, keep in mind, our discussion will contain predictions, expectations, forward-looking statements and other information about our business that is based on management's current expectations as of the date of this presentation.

Actual results in the future may be materially different from those discussed here. This could be due to a variety of factors. Listeners should refer to the discussion of those factors on the company's Form 10-K and other filings with the SEC.

During this conference call we will refer to non-GAAP financial measures including core earnings, adjusted tangible equity ratio and various other non-GAAP financial measures that are derived from core earnings.

Our GAAP results, description of our non-GAAP financial measures and a reconciliation of core earnings to GAAP results can be found beginning in Navient's fourth quarter 2024 earnings release, which is posted on our website. Thank you. And I now will turn the call over to Dave.

David Yowan^ Thanks, Jen. Good morning, everyone. Thank you for joining and for your interest in Navient. Let me start by laying out what we will share on this morning's call. I'll provide a recap of 2024 and share some of our plans for 2025.

Ed will then provide a strategy update, where we are in our transformation journey and how the actions we have taken deliver value and better position us for the future. Lastly, Joe will share our fourth quarter results and our outlook for 2025.

We'll then open it up for Q&A. A year ago, we set out to create a more focused and streamlined company. We set an ambitious goal of finalizing several key transactions during 2024 on an aggressive timeline.

I'm pleased to say we achieved our objectives within that aggressive timeline. These transactions create a platform consisting of a Consumer segment focused on growth through Earnest, and a legacy portfolio focused on maximizing cash flows through cost efficiency.

During the fourth quarter, we signed an agreement to divest the government services businesses within our Business Processing Solutions Segment.

We anticipate that this transaction will close during the first quarter. This follows our servicing outsourcing agreement and the sale of our healthcare business earlier in the year.

In many ways, the government services is the most important of the three actions. Divesting GS enables us to eliminate the substantial shared service infrastructure and related expenses that supported servicing and BPS.

We now have clear line of sight on the transition services we will provide under all three of these transactions. The transition services we provide for outsourcing and for healthcare are expected to wind down during the first half of this year. The government services transition services are expected to extend into early 2026 with many services completing before then.

We have aggressive plans to eliminate these expenses as the TSAs expire. And we will not stop there. We're identifying additional opportunities in all parts of our business to become more efficient.

We have already begun to realize the expense reducing benefits of a variable cost servicing model. This has occurred sooner than we expected as our loan portfolios, especially our FFELP portfolio, paid down more quickly.

The healthcare sale unlocked value in a nonstrategic business that was not reflected in our stock price. Proceeds from that sale gave us the flexibility to increase our share repurchases during Q4 and retire some unsecured debt.

There were a number of factors that impacted 2024 results. Most significant was high levels of prepayment activity, which accelerated cash flows as well as the amortization expense of loan premium. The loss of a contract delayed the sale of government services and impaired its value. We recorded regulatory and restructuring costs associated with our transformation and settlement of the CFPB's lawsuit.

In short, we put a number of significant headwinds behind us. Our Consumer Lending business generated strong loan origination growth during 2024. We saw a volume growth exceeded $1 billion, 60% higher than the prior year, despite a slightly higher average rate environment.

In-school volume grew 13% with improving margins and unit acquisition costs, achieving the growth we set within our targeted segment in this market. Consumer Lending is well positioned to continue to grow origination volume and demonstrate operating leverage in 2025.

We plan to increase loan origination volume by 30% this year. A large portion of that growth is expected in the second half of the year based on the current interest rate environment and the seasonal pattern of in-school originations. There are, as you all know a number of comprehensive proposals the new administration may consider in determining Federal Education Loan policies and practices. These proposals contain elements that would produce expanded opportunities for private lending.

Among these are a reduction or elimination of loan forgiveness programs and the elimination of the Grad PLUS Loan program. The Grad PLUS Loans include a program for graduate students.

Origination levels in this program are roughly the current size of private student lending. A majority of our in-school lending is to graduate students.

It's a market we understand well and are offering products and a customer experience tailored to the needs of this segment. It's too soon to tell what elements may be implemented or when they'll be implemented.

But we possess the capacity, flexibility, products and customer experience and are excited about this potential sizeable opportunity. With that said, our 2025 plans do not yet assume any expanded opportunities for our products as a result of policy changes. With that, let me turn it over to Ed.

Edward Bramson^ Thank you, David. The -- what we want to achieve today is to update you on the longer presentation that we did this time about a year ago. And at that time we identified four areas to improve shareholder value, each of which we're going to touch on to some extent today, some of them in more detail than others and we'll get into that as we go through it.

Before we start though, it might be worth saying that we are a firm that's invested in Navient, only invest in turnarounds and has done that for decades. And one of the things you find about turnarounds is that often it seems like there's a lot of work going on and nothing's really happening as a result and then suddenly it does.

So it's good to be able to report on some positive things that are happening as we go through things today.

So to begin with the areas that we're putting the primary focus on today. The first one is cost reductions and we're going to talk about Phase one of that right now. And if we go to Page 3, entitling the cost reductions as Phase 1, which implies, as David said, that there's quite a bit more to come. And as David said, the disposal of BPS and the outsourcing of loan servicing not just simplified the business, but it was critical to being able to go after one of the first major cost reduction opportunities.

And what that is, you may recall last year, we classified the business into two pieces. Our total operating expenses in '23 were ~$700 million.

Of that, about $200 million was incurred by Earnest and the Xtend part of BPS. Both of those entities essentially were standalone from a financial standpoint. So what that leaves is the Corporate and Shared Expense segment that David referred to.

And what was in that in '23 was the government services part of BPS, our internal loan servicing operations and then our corporate overheads. And all of those things were significantly shared expenses.

So if you take just that part of last year, we've spent $523 million. And you can see that on the table. It also brought in $200 million of revenue. So a simple way to think about it is that loan servicing and corporate overheads on a net basis were about $320 million in 2023.

If you look at the 2025 column, we're calling it continuing because it doesn't -- it takes account of all of the reductions in transition service expenses that David identified and Joe will talk about later. So a way to think about it is that $204 million that you see is something you could call a run rate that we're currently at.

So if you take the difference, what that shows is that the first phase of cost reductions has yielded something like a $120 million of annual savings. And I think what's interesting about that is that that's almost 40% of our shared costs and overhead that have been reduced already.

But importantly, none of the costs that have come out have any effect on our ability to grow or introduce new products or anything else. They're strictly in essence recurring overhead costs or reduced cost of servicing from outsourcing.

So if you go to Page 4, sometimes it's important to put cost reductions in context. And if you think about it, the cash flow impact, which is the first one, basically says that our legacy loan portfolio, I think Joe's latest number later in the presentation, after unsecured debt, it has a positive inflow of about $6.5 billion and that's before the cost of collecting it.

So by reducing our cost of collection and overheads by $120 million, you've added something like $1 billion to $1.5 billion of future cash flow to what we would previously have had.

And I think an aspect of that to focus on is that what it also means is you have a recurring source of new capital to invest or return to shareholders each year. And so how you deploy that gets to be important. Another aspect of the cost reductions is the impact on earnings.

And in essence, what we get is roughly $1 uplift one-time in huge earnings capacity. And at the moment, it's a little bit less than $1 actually. But as the benefits from the outsourcing of servicing continue to grow, it's going to trend towards more than $1.

So we're calling it $1 earnings per share for simplicity. The third point on the chart is actually the strategic part because now that we've reduced our cost by this amount and hopefully more, our breakeven level for the Consumer business in essence is less than it used to be. And what that means is two things.

First of all, you can now grow the Consumer business and carry the expenses of doing that while remaining profitable because your breakeven is lower.

The other thing is our expenses are lower. And what that means is Navient is now more competitive in anything it chooses to do. And that's an important strategic item I think going forward. The other piece of context is that if we've chosen just to grow the Consumer business to get to the same point, we would have had to add net something like $10 billion of new Consumer loans. That would have taken quite a while to do and quite a lot of capital as well.

Where we are today is we have the equivalent of adding those loans. We got them now and there's no additional capital involved. So I think it does put us in a much better competitive and strategic position going forward.

If you turn to Page 5, we mentioned the Consumer segment various times. And the reason for that is that the Federal segment, although it's a nice business, can't grow. They don't make FFELP anymore. So the Consumer segment could grow. It's actually -- we don't always focus on this. It's more than 70% of revenue nowadays.

It's about $500 million in gross revenue. And what's been happening in part is that five years ago, the FFELP revenue was 60% of the total, now it's down to 30%. And that's as a result of the shrinkage of the product.

But what it's also doing is it's making it easier for us to generate net revenue growth in the future than it has been in the past. David also mentioned Earnest. And last year, we focused to quite some extent on Earnest, and you can go back and look at last year's slides to refresh yourself if you'd like to.

But we, in essence, write all of our new business under the Earnest brand. And the brand has very positive attributes and Earnest has very positive consumer ratings. So it's a major asset if we want to grow the thing. The other thing is that its business model is distinct from what Navient has done in the past. It's essentially online.

And the impact of that is that you can generate very positive economics from growth because online costs tend to stay fixed as the revenue grows. So it's an interesting opportunity for us.

At the moment, with the additional capital that we're generating from the cost savings and so on, you can certainly see opportunities to grow revenue in the products we currently have. And we're probably going to do some of that just to get some revenue momentum going again.

In the longer run, there are other products that we're considering moving into. At the moment, they're in testing. So we'll probably talk about those a bit more later in the year. If you go to Page 6, another item that we touched on last year was our cost of equity, which puts us at a significant disadvantage today.

We have a high cost of equity relative to any of our peers and also in the absolute sense. And what essentially accounts for that is that because our legacy portfolios have been running off for quite a higher rate on a rate that's higher than our expenses have been coming down, our profitability has declined and our return on equity has come down.

You see that in the valuation metrics. As you can tell from what we've been talking about already, we're getting ahead of that expense issue. But nonetheless, as you sit here today, we traded at 60% roughly of tangible book value.

So when you're looking at allocating capital, if you look at it statically, what you would say is for every dollar that you put into something new, you end up with market value of $0.60.

So that's not an attractive position to be in. And that's where the cost of equity is going to be an issue for us going forward. We put a little table on the chart. Typically, you wouldn't use price to book for calculating cost of equity, but it's a good way of illustrating our point.

So for the reasons we mentioned, Navient is trading at about 60% of book. The peer group and we've put there who they are at the bottom of the page, is not particularly aspirational, but they are the ones that we're compared to. They, on average, trade at something like twice book and you can see what the range is from the chart.

Interestingly, if you get facts and just scan them, what you'll see is that the return on equity generally runs from low to middle teens and the expected growth rate in revenue is 3% to 4%. And both of those are better than Navient has been doing, but neither of them are things that we couldn't reasonably aspire to do. And starting to do that, obviously getting the Consumer segment growing again organically is something that might have the effect of driving a re-raising and have a positive effect on our cost of equity.

So if you go to Page 7, this is also something that we talked about last year. And a shorthand way of saying capital allocation as we see it is that you put $1 into something and you end up with market value of more than $1, that's your objective.

So if you look at where we are today, we have the likelihood of more cash to invest in the future because of what we're doing. And we're moving our philosophy of how you make that decision a little bit based on what we think the market value to shareholders is going to be from allocating one way or another. And obviously the change -- a change in the evaluation metrics would affect that decision.

So share repurchases in recent years have been our default option because it's really been probably the best way of returning capital efficiently. It's not a bad use of capital by any means, if we're trading at 60% of book and we're still growing our earnings, we may be buying stock at less than 50% of future value.

So it's not a bad investment, but there two things that goes against continuing to do it exclusively. One of them is, obviously it could reduce your capital to grow in the future. I don't think that's a significant issue for management today, but it is something to think about.

I think probably more -- more important, somewhat nuanced is that we've already done more than $5 billion of buybacks in the last 10 years. And leaving aside the investment merits, one of the things that's done is to shrink our market capitalization to the point where our liquidity is not what it used to be.

So one of the things that we will be keeping in the back of our minds is the effect of share repurchases on the investability, if you like, of investors who become interested in that area. Growth, I think the benefits speak for themselves.

In our particular case, what we're looking to do is to get to a good competitive cost position and keep it that way and have the operating leverage come through. So it would basically trade off the way we do and that takes us to the final page which I'm not really going to go through.

But what we're trying to do now is to provide perspective on what our new strategy and the turnaround is directed towards doing and to tie the various strands of it together. And in a very simple sense, what we're saying is we're reducing our fixed cost base in ways that don't affect our ability to grow and that gives us the opportunity to get positive operating leverage.

We're financing that growth with equity that we generate internally from our improved cost position. And the -- if as we expect that produces better returns on equity and better earnings, we hope to leverage that by recapturing that valuation discount that we have.

So a combination of improving returns and improving valuation is what we're working towards and it's potentially an interesting investment thesis.

So there is more to come and I will come back and update you again in the second half of the year. But for now I'm going to turn it over to Joe to review last year's performance and some guidance and all of us will stay around for questions at the end.

Joe Fisher^ Thank you, Ed, and everyone on today's call for your interest in Navient. I will review the fourth quarter and full year results for 2024 and provide our outlook for 2025 earnings per share.

Our fourth quarter GAAP earnings per share were $0.22, bringing our full year GAAP earnings per share to $1.18. On a core earnings basis, the fourth quarter results were loss per share of $0.24. Full year core earnings per share were $2.

Significant items included in the quarter included a $0.20 loss from the expected sale of our Government Services business, $0.06 of regulatory and restructuring expenses, primarily driven by the strategic actions we are undertaking to reshape and right-size the expense base of the company. And $0.23 related to lower expected recovery rates and reserve build for our private Education Loan portfolio. Adjusting for these significant items, we earned $0.25 on a core basis.

Before I go into the segments, I would like to pause and acknowledge the devastating wildfires that struck Southern California this month.

I encourage all borrowers who have been impacted by this disaster and other natural disasters in recent quarters to take advantage of the various relief programs that we and the Department of Education offer to help you during these challenging times.

Let me now provide further detail on results by segment, beginning with the Federal Education Loan segment on Slide 4. The net interest margin for Q4 was 43 basis points, 3 basis points lower than the prior quarter.

For the full year, segment NIM was 45 basis points and we expect full year NIM to increase in 2025 to a range of 45 to 60 basis points. Prepayment activity was significantly lower in the fourth quarter than we experienced earlier in the year. Prepayments were $300 million or 1% of the FFELP portfolio in the fourth quarter.

This compared to average prepayments for the first nine months of the year of $1.7 billion per quarter. Recently issued injunctions paused certain federal forgiveness benefits and resulted in the lower consolidation activity.

We anticipate that our FFELP portfolio balance will total nearly $27 billion at the end of 2025. Compared to the prior year, our greater than 90-day delinquency rates increased to 8.7%, the charge-off rate improved to 11 basis points and forbearance rates decreased to 14.7%.

Now let’s turn to our Consumer Lending segment on Slide 5. Net interest margin in this segment was 277 basis points in the quarter, compared to 284 basis points in the third quarter.

For 2025, we anticipate our Consumer Lending NIM will be between 270 and 280 basis points and our balance of Private Education Loans will decline by 4% as our legacy book runs off and the refinance loans become a greater percentage of our consumer lending book.

Originations grew over 60% to $363 million, compared to $223 million a year ago. Full year origination volume grew to $1.4 billion compared to $970 million a year ago. Late stage delinquencies increased from the prior quarter to 2.7%, while forbearance rates decreased from the prior quarter to 2.7%.

The decrease in forbearance is primarily a result of the disaster relief that was granted to borrowers impacted by federally declared natural disasters in the third quarter that returned to repayment in the fourth quarter.

Our allowance for loan loss, excluding expected future recoveries on previously charge-off loans for our entire Education Loan portfolio is $800 million, which is highlighted on Slide 6. Private Education Loan origination volume during the quarter added $6 million to the allowance. $32 million is related to the build for Private Education Loan balances as we continue to see reduced collections for Private Education Loans.

Slide 7 shows the results from our Business Processing segment. We anticipate closing on our divestment of the Government Services business in the first quarter.

During the fourth quarter, we classified the business as held for sale and recognized a loss of $28 million or $0.20 per share. After this reclassification, the Government Services business had a book value of approximately $40 million.

In the third quarter, we completed the sale of our equity interest in the healthcare services business for $369 million, resulting in a $290 million gain on sale. Together, these two transactions will result in over $400 million of net proceeds and represent the divestment of the entirety of Navient's Business Processing segment.

Under the terms of these agreements, we will continue to provide services to BPS businesses for a period of time.

Our expenses in providing these services and the revenue we receive under these transition services agreements, or TSAs as well as the TSA supporting the transfer of servicing will be reported in the other segment. Let's turn to expenses beginning on Slide 8. Total expenses for the quarter were lower by 25% to $151 million.

We anticipate that the expenses related to the total transition costs of our BPS businesses and outsource servicing will total approximately $60 million for 2025 with approximately 40% offset by revenues related to the TSAs. The completion of the TSAs are important steps in our ability to remove these expenses.

We remain confident in our ability to achieve the level of expense savings outlined in the slides that Ed reviewed with you earlier. Let's turn to our capital allocation and financing activity that is highlighted on Slide 9. In the quarter, we repurchased 4.4 million shares for $65 million.

In the year, we reduced our share count by 9% through the repurchase of 11.5 million shares, while increasing our adjusted tangible equity ratio to 10% from 8.2% a year ago. In total, we returned $249 million to shareholders through share repurchase and dividends. We continue to maintain disciplined asset liability and financing strategies.

As we look to the next 12 months, we have $722 million of cash on hand and are well positioned to significantly grow our high-quality loan products, manage our outstanding debt and distribute to shareholders.

Our 2025 outlook reflects a transition year in which we begin to take advantage of the more streamlined and leaner enterprise we are creating. Our primary focus will be on growing loan originations while delivering expense reduction.

Our 2025 core earnings guidance is $1 to $1.20 per share. This range is after the $0.26 of net expenses related to the transition services agreements discussed earlier. Separately, identifying these net expenses is designed to provide a sense of earnings on a continuing basis.

We anticipate full year total loan originations to grow by 30% as we remain focused on high-quality borrowers. With the current expectation for moderately lower rates in the back half of 2025, we expect this growth to be back-loaded into the second half of the year.

Our approach to share repurchases during 2025 will balance capital we allocate to loan growth with excess capital available to repurchase shares. We have $111 million of remaining authorization to repurchase shares, which we plan to deploy opportunistically in 2025.

Our EPS range does not assume any additional share repurchases. Our current cash and capital positions provide ample capacity to repurchase shares and we believe the current discount to tangible book value presents an attractive opportunity.

As I close, I'd like to thank all of our Navient team members for their significant accomplishments over the past year and continued dedication to generating value for all stakeholders. Thank you for your time and I will now open the call for any questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And the first question will come from Sanjay Sakhrani with KBW.

Sanjay Sakhrani^ So a question for David and Ed. I definitely appreciate the strategic discussion and sort of fleshing out the progress being made and how to think about it going forward.

I'm just curious, like is that -- is the decision to do this firm, so we should really expect you guys to curtail capital return and really focus on growth? And then maybe just specific to the growth, could you just talk about how you guys plan to accelerate originations and growth and when we can get to that expense run rate that you guys discussed on the $200 million?

Edward Bramson^ Sanjay, this is Ed. It looks like my colleagues are pointing at me. So I think just to put the thing in context, we said, look, we're in the middle of a turnaround. So there's a lot more detail that needs to be fleshed out, which we'll do in the second half. But I think the basic question you're asking is what's the company going to look like?

And what we're saying is that at the moment, it's valued as if it's sort of going away. So just take those existing assets and value them. I think what we're saying is there's an opportunity here to have it start to be stable to growing and that will change perceptions.

I don't want -- I don't think it's right to get ahead of ourselves because we're in the middle of the turnaround. I can't tell you everything. But hopefully we'll have good news for you later in the year.

Sanjay Sakhrani^ And the expense run rate?

Edward Bramson^ Sorry, what's your question on expenses?

Sanjay Sakhrani^ You guys talked about how sort of the core can come down to something more like $200 million. Is that just a philosophical? I'm sorry, I just want to make sure I understood that.

Edward Bramson^ That's a real number based on TSA expenses running off from what we're currently spending on. What it doesn't include is the next set of things we'll be doing, which we don't want to give you a number for yet. And it also doesn't include Earnest, by the way, which wasn't part of that process.

Sanjay Sakhrani^ Got it. And maybe just a follow-up question for Joe. Same question I had last earnings call on sort of the right -- on the provisions. Maybe you could just talk about how you feel about recovery rates now that you've taken another one.

It sounded like you guys were comfortable last quarter, but there's been more adjustments. Can you just walk through that again?

Joe Fisher^ Thank you, Sanjay. And I would say that as we continue to just monitor our portfolio, we have seen delinquencies pick up both in the FFELP and private portfolios. And so a portion of our reserve, $14 million was related to a reserve build on the roughly $16 billion portfolio. That's -- obviously there's a number of factors here at play, whether it's inflation, interest rates and some of the -- obviously the federal portfolio and changes in policy potentially impacting the private portfolio.

But at this point, we certainly feel appropriately reserved, but it is something that we'll monitor throughout the year.

Operator^ And the next question will come from Bill Ryan with Seaport Research.

William Ryan^ First one, obviously there's some incremental excitement in student lending about the possibility of some government programs, which you mentioned moving to the private sector.

Some of your peer stocks have kind of responded already to it in anticipation of the move. I was wondering if you can maybe talk a little bit about your infrastructure.

I know you're predominantly graduate loans in the in-school channel already and you're in over 1,000 schools. But what is the capacity that you see in the company right now to ramp that up if that opportunity becomes available?

David Yowan^ Yes. Thanks, Bill. As you know there's a number of comprehensive proposals. Some focus more on Federal Education Lending policy, some focus on broader parts of the government structure, but they include potential changes in Federal Education Loan policy. And within those proposals, there's a large number of elements.

I think there's two things in all those proposals that are foreseeable and the impact and potential opportunity for us are foreseeable as well. The first is lower levels of loan forgiveness and perhaps changes in IDR programs. Those have an impact on our federal -- our FFELP portfolio, for example, which was impacted last year by a high level of consolidation activity, which in turn was driven by high level of loan forgiveness programs that were offered in the Federal Loan program.

So to the extent those are more predictable and even lower than they have been in the past, that extends the life of our existing FFELP portfolio, which obviously we think is a good thing.

The second impact of lower levels of forgiveness is that if you have a federal loan today and you're considering refinancing it to a lower rate, you have to consider the possibility of that loan being forgiven or having some other IDR or other payment programs that might make that debt a little less burdensome than it is today. And so you hold off and not do that.

So forgiveness could have two impacts on us that are foreseeable. The second is -- foreseeable impact is the discussion about the potential elimination of the Grad PLUS program. And that's a federal market today that is about equal to the size of the private loan market as it exists today.

And this is a customer segment, the graduate, that we have emphasized where a majority of our in-school origination is in the grad program. So we absolutely feel like we've got the products that meet the needs of those -- of that segment.

We've got the customer experience that seems to delight them based on all of the work that we do. And we certainly have the financial and operational capacity to take on greater volumes if and when they present themselves.

William Ryan^ Okay. And just one quick follow-up. You're talking about the $0.26 of expenses, some of that kind of carrying through into 2026 as well. Just kind of thinking about the elimination of it is it going to be like first quarter of 2026? And how much residual spillover will there be into the next year?

Joe Fisher^ So the way I think about it, we've made some really great progress so far today, as Ed highlighted. If you think about -- if you go to Slide 8 and look at the corporate expenses, one thing to think about there is we had $55 million in the fourth quarter of '23.

We have $50 million of expenses in the fourth quarter of '24. Roughly $7 million of that is related to TSA expenses. So that gives you about a $12 million quarterly delta between the two years. So it just demonstrates the progress we've made year-over-year.

I would say if you factor that in and thinking about how we'll end at the end of the year, you're roughly about 50% of the way there in terms of taking out expenses. So I'll say a wildcard in all of this is TSAs could go longer than we anticipated.

But as I highlighted in the last quarter's call our expectation is that our Xtend transaction here with CorroHealth, that would end at some point in the first quarter. And with MOHELA, we're anticipating that, that would end in the first half of the year, towards the backend of the first half.

Operator^ And the next question will come from Rick Shane with JPMorgan.

Richard Shane^ I apologize if I'm a bit confused, but we'll try to -- hopefully, we'll get some clarity here. So when we -- there's $110 million remaining on the repurchase authorization. Are you -- guidance excludes any additional repurchases, are you going to be opportunistic? Are you going to be programmatic? Or are you essentially saying, hey, in anticipation of these potential opportunities, we're going to really dial back on the repurchases?

Joe Fisher^ So in the past, when we've given this guidance in terms of what our plans are for the year, that was fairly programmatic throughout the year and done for modeling purposes. We will be opportunistic here and we plan -- or we expect to be purchasers at these levels. So certainly, the discount to tangible book value is attractive to us.

But what we want you to take away is for modeling purposes to assume zero. That in no way means that we will not be buying shares this year. In fact, we are looking at it today and our purchasers as well.

Richard Shane^ Got it. Yes. Obviously if you're going to be opportunistic given where you're trading versus tangible, that's helpful clarification. Look, the other thing here is and there's been conversation, you guys pointed out your discount to book, you pointed it out on a relative basis.

Implicitly, your guidance at the midpoint for 2025 suggests about a 5% ROE. If you add back the potential expense savings, which don't sound like they're going to materialize until really '26, you're talking about maybe a 6% ROE.

In that context versus the peers that you guys pointed out, the valuation actually kind of makes sense. I'm curious what you think the potential ROTCE of this business is? And how long it's going to take to achieve it?

David Yowan^ Yes. So Rick, I mean the first thing I'd say is that it's -- the valuation isn't just the static about ROE and I know you understand that. I think your math on where we are in 2025 is probably about right. But the valuation is also going to depend on our ability to demonstrate growth and growth potential.

I would call you back to last year, we managed to increase refi originations by 60% in a relatively stable, even slightly headwind interest rate environment. We're planning on increasing loan originations by 30% this year. Again, most of that will be back-loaded.

So it's going to be a combination of factors of return, et cetera. Ed talked about the fact that one of the benefits of the expense reduction that we've done is it gives us an opportunity to lower our breakeven, which helps us grow a little faster as well. And so we'll come back to you in the second half of the year with a better sense of what those growth opportunities are and the levels that we can achieve with a lower expense base and the opportunities we see to grow that.

Edward Bramson^ Okay. I would like to just add something by way of clarification because it probably hasn't come across very clearly. I mean if you phrase the question like what does it take to get to book value? You can sort of say arithmetically what it is because nothing else has changed.

One of the things that we're trying to evaluate in the next few months is -- and if you think about it, let's say that you're not growing and your return on equity has to be 10%, 12% to make book. So that's what you need to do. If you're starting to grow, you might need a lower return on equity to justify that.

So the reason I think that David might have given you a less than direct answer is because we're trying to figure out what the best combination of growth and return would be for future share price.

Richard Shane^ Got it. And is the way somewhat to think of this that your generating a return that is below hurdle rate now because you're essentially preserving capital for a potential opportunity, again, effectively a doubling -- some probability of a doubling of your TAM and so it's a little bit like insurance, you have to pay for it now. You don't necessarily like it, but if you need it in the future, you need that capital in the future, you're going to be really glad you have it?

Edward Bramson^ That's exactly right.

Richard Shane^ Maybe I'm less confused than I thought. Thanks, guys.

Operator^ And the next question will come from Moshe Orenbuch with TD Cowen.

Moshe Orenbuch^ Great. Hoping -- I guess, given that your guidance for the -- I mean the FFELP portfolio is running off and the guidance for originations at 30% higher basically still leaves you with 4% decline in the private portfolio in 2025.

I mean how long do you think it would take to get -- how many years would it take to get to a point where the business actually in total is growing? Or I mean are there other products? I mean or is this just reliant on kind of changes in the grad program from an administrative or regulatory standpoint?

David Yowan^ Moshe, I think there's three parts of our answer to that, at least three parts of our answer to that. One part is, I think we've demonstrated growth and we think there's additional growth in the products that we've had and that's reflected in the refi origination growth that we've had and that we're targeting.

There are potential opportunities to expand growth in those products, particularly in the in-school market if there's Federal Education Loan policy changes. We're not counting on those. We're not assuming any of those, but we have the capacity to do that.

And if those opportunities present themselves, we want to be ready for that. And the third opportunity is expansion in the product set, which we talked about somewhat last year, a little bit more. That's more to come on that, but that's another opportunity for us to grow our balances more rapidly than we have historically.

Moshe Orenbuch^ Got it. And maybe just to put a finer point on the 2025 guidance, the $1 to $1.20, if you think about it, besides the $0.26, which you'll get back as the expenses are reduced and the TSAs run off.

But besides that, that $1 to $1.20, is the run rate higher or lower at the end of 2025 than it is at the beginning? Because you've got, as we said, a smaller portfolio. You do have some element of share repurchase, although it sounds like it's going to be significantly smaller after 2025.

So when you think about that run rate of $0.25 to $0.30 a quarter or the average of that $1 to $1.20, is that going up or down over the course of 2025? And if so what are the drivers that you're thinking of?

Joe Fisher^ Yes. So there's a couple of things. It's not just a straight line in every single quarter and I'll try to avoid giving quarterly guidance here specifically. But I would say that you are at the -- our anticipation would be that you're at the high end of that range that you're talking about by the time you enter the fourth quarter.

In the first and third quarter, there are seasonal factors that do pressure some of the expenses. So notably in the third quarter, your in-school originations where you're taking a larger provision at that time and you tend to have higher expenses associated with that in the quarter.

Also in the first quarter, we will have a little bit of additional expenses from the BPS business, as Dave and I both mentioned. It has not closed at this point in time.

So there were I think about $40 million of expenses for the fourth quarter. And depending on if that close date is at the end of this month or next month, you would have expenses that are offset by revenue.

So I know it's a long answer, but a long way of saying that we would anticipate that you'd be on the higher end of that range as we enter into the fourth quarter, absent anything that is out of our current forecast from the interest rate environment.

Operator^ And our next question will come from Nate Richam with Bank of America.

Nathaniel Richam-Odoi^ I was just curious how you all are thinking about approaching this year in terms of the in-school loan product.

I think you noted 30% origination growth on the total private portfolio. Just wondering if you can break that down further between in-school and refinance. And then on that topic, just how many rate cuts are you guys expecting in your outlook?

Joe Fisher^ Sure. So I'll tackle the second question first and then address the first one as well. So the second question, it's two rate cuts, so a relatively flat curve at this point. So the first one being in the first half of the year towards the back-end and then the last cut at the end of the year.

So there would be obviously pressure associated with that on the FFELP portfolio, which you wouldn't necessarily get the benefit as it relates to additional floor income in this year.

So that would be a positive going into '26 should those two rate cuts occur. In terms of origination guidance, the way we think about it is, as Dave highlighted and I did as well that we do think that originations, we'll see that in the back-half of the year.

But breaking down that 30%, it's roughly what you've seen from an in-school perspective, 10% consistent growth, high-quality borrowers, predominantly the graduate students. And on the refi side, that would translate to roughly about 40% to 50% growth again in the back-half of the year.

Nathaniel Richam-Odoi^ Okay. And then I apologize if you addressed this with Rick's question, but can you just talk a little further about the return profile of the Earnest business? I think you guys previously mentioned you're targeting around like mid-teens returns there.

But just given the dynamics that we're seeing with like higher loss rates and delinquency rates and the lower recovery outlook, I guess, like, how do these recent vintages line up with the target return profile?

David Yowan^ Yes. So we're targeting -- we have said we targeted mid-teen returns on Earnest. That's dependent on growth rates and our operating expenses, the operating leverage that we have in that business.

You may see us take advantage of opportunities we see in the market to grow a little more rapidly. But in a steady state run rate, we think that business could be a double-digit return business. And then your second question on the recovery rate, I'm sorry?

Nathaniel Richam-Odoi^ Yes. I was just curious like your recovery outlook just changed anything or if that's like related to certain vintages or no?

David Yowan^ Yes. So look, I'd characterize the recovery rate as a really small change on a large volume amount that is very much a legacy issue for us.

We've got a large number of loans that were originated decades ago. Many of them were charged-off years and years ago. And as we continue to try to recover against those loans, we have a set of assumptions about that recovery that's in our reserve rate and we're continuously updating that.

But this is not a reflection obviously of credit quality on the existing portfolio and the recovery rate on the much smaller amount of charge-off loans, more recent vintages is absolutely in line with our expectations.

So this is very much a legacy issue and a relatively small change that we continue to update as we learn more and have more experience in recovering against those loans.

Operator^ And our next question comes from Terry Ma with Barclays.

Terry Ma^ I just want to follow up on the Grad PLUS opportunity. I would imagine if that materializes, you would kind of compete for it more aggressively.

So maybe just talk about how that business or potential business could kind of fit alongside Earnest because it kind of looks like Earnest mainly refis kind of grad loans, but then you would potentially be also kind of originating grad loans should the PLUS program be curtailed.

So can those two businesses be complementary?

Joe Fisher^ Yes.

So they are complementary today in terms of we are originating to graduate students.

So the opportunity, if I'm understanding the question right, is if Grad PLUS were eliminated, is there additional opportunity for us? And I would say, yes, that is very much in our wheelhouse. That is, as Dave mentioned, the majority of what we're doing today from an in-school origination perspective. So we feel that that's attractive and fits very well with the Earnest brand.

Terry Ma^ Got it. I guess I'm just questioning what's to stop potential grad students from kind of walking next door and just kind of refinancing with Earnest?

Joe Fisher^ So once they graduated? Sorry. So once the...

Terry Ma^ Yes.

Joe Fisher^ I was thinking about a Grad PLUS loans, yes. So once they have graduated from school, they will certainly evaluate their options and that's going to be an interest rate play at that point for most of those borrowers. And it's going to depend on their credit history, certainly how quickly they went from an undergrad to a graduate program and then graduated for that, whether they would get a better rate or not.

It's also going to depend on whether they have a cosigner. But we think that establishing the brand early on and that familiarity with Earnest, as Ed highlighted, they have very high promoter scores, very well received. So we think that relationship would just add value to the fact that while interest rates do play a significant part in refinancing, I would think the relationship would help as well.

Operator^ And our next question will come from Jeff Adelson with Morgan Stanley.

Jeffrey Adelson^ Just on the new product expansion potential, I know you're in the testing phase still. It sounds like we'll get something later this year and we've asked about this in prior calls.

But just any sort of incremental learnings you've had on that front as you've gone through the testing? Do you think you've identified something that's tangible that you'll be ready to announce later in the year? And just maybe any more incremental color on what those products or enhancements might look like at this point?

David Yowan^ So I wouldn't go -- it's too soon to go into the products, but I think the way I could describe this, if you think about the assets that we think Earnest brings to the marketplace, right? They include an ability to create a simplified process for people to help manage their debt burdens. That's effectively what the refi product has done.

We feel like our credentials and capabilities there are very, very strong. We've got a customer experience after origination that we also -- that surprises and delights customers as well.

And so we're looking for ways that other market opportunities where we can take the advantages that we have, combine them with some operating leverage given the online capabilities that Earnest has, the reduction in operating expense and try to find a match between the capabilities we can bring to the marketplace that can also provide a substantial return for our shareholders as well.

So it's going to be built off the assets that we think we have relative to the opportunities in the marketplace where we think we can apply those assets.

Jeffrey Adelson^ And just to circle back on Grad PLUS, have you done any work on how much of that volume, that $14 billion, $15 billion would actually be in your sort of credit box or what you'd be willing to actually pursue against others?

David Yowan^ Yes. Look, we've done some internal assessment. I'm not going to share that with you. I would just say that a lot of it's going to depend on exactly what the public policy changes are.

But if you look at a couple of scenarios, I think there's a possibility here where the opportunity for us, a fair share of the underwritable part of that market could be a substantial opportunity for us. And I would just leave it at that.

Edward Bramson^ If I could add something...

David Yowan^ Yes.

Edward Bramson^ On your first question, one of the things that we're really testing for and looking at to talk about later in the year is sort of an overall business model question because there are certain kinds of products you can do that have relatively low headline NIM, but very good operating economics.

And then you've got products that are more expensive to manage and generate and so on, which have higher headline NIMs. The real question I think you're asking is can you run those two in tandem and that's something we want to think about. And when we come back and talk later in the year, we'll be able to tell you what we're going to try. I hope that's helpful.

Operator^ And the next question will come from Mark DeVries with Deutsche Bank.

Mark DeVries^ I had a question for Joe. Could you discuss how expected paydowns on the FFELP portfolio match up with your debt maturities and needs to access lending markets down the road? And how the repositioning you guys are undergoing has kind of impacted your ability to access those markets?

Joe Fisher^ Yes. So over the years, obviously we've done a fairly good job in terms of matching up the maturity profile with our cash flows. You may remember, Mark, you covered us long enough, seven years back when we used to talk about the towers that are ahead of us.

We've really reduced that and given ourselves much more funding flexibility. So we have the ability today to go through multiple periods here without issuance.

Having said that, I think if there's opportunities that are attractive to us, we would look to issue just to continue obviously demonstrating access in that marketplace, but also funding any future opportunities that we see.

So we feel very good with where we are positioned-wise, even considering the slowdown in the FFELP portfolio that we're seeing.

As you know over the last several years, we've seen prepayments tick up and then come down, but our forecast here is more in line with what you've seen historically in terms of prepayments and that should give you a pretty decent sense of how those cash flows will match up.

Mark DeVries^ Okay. Got it. And apologize if I missed this, but I saw there was a more than 500 basis point increase in FFELP delinquencies in the quarter. Could you discuss what drove that and kind of the implications for your business?

Joe Fisher^ Yes. So it's always difficult to say exactly what was the driver, just given that there's a number of factors today that I highlighted of whether that's overall interest rate environment and just the economy in general.

But I would say that the tougher challenge for us on the FFELP portfolio is how much of the noise from just loan forgiveness and loan policy has limited some of the ability for connection with some of these borrowers.

So it's something we'll continue to monitor. Obviously you've seen forbearance and other rates improve here, but the delinquencies in the early stage did spike up and we did take a small provision in the quarter.

Operator^ And our next question comes from Ryan Shelley with Bank of America.

Ryan Shelley^ Most of mine have been answered. Just one quick one here. As we think about sort of the growth opportunities going forward and it sounds like we'll get more color as the year goes on.

But from a debtholder point of view, would you consider funding any of these potential growth opportunities by coming back to the market? And just on capital allocation as well where should we think about ranking repayment of unsecured maturities?

Joe Fisher^ Sure. I'll start with the first part of that question. So certainly, if there's significant growth opportunities in front of us, unsecured debt issuance would play a part of that. Today we have also other funding options available to us.

We have over $700 million of cash on hand. We also have unencumbered loans that we can borrow against totaling about $1.3 billion. And then as we've demonstrated before in our encumbered portfolio, the OC there is another $4.8 billion.

So we do have other levers to pull in terms of pulling cash forward if we want to invest versus unsecured debt issuance. Having said that, I think it really depends on the level of growth that we would see in both the in-school product, the refi and anything else that we determine we're going to pursue going forward.

So I think it would play a role and just it depends on really the size and what changes in the market over the next two years.

Operator^ I show no further questions in the queue at this time. I would now like to turn it back over to Jen for the closing remarks.

Jen Earyes^ Thanks, Michelle. And I want to thank everybody for joining today's call. Please contact me if we were not able to take your question or if you have any other follow-up questions. This concludes today's call.

Operator^ This does conclude today's conference call. Thank you for participating. You may now disconnect.