

Lord Abbett Affiliated Fund, Inc. v. Navient Corporation

COURT: U.S. District Court for the District of Delaware
CASE NUMBER: 1:16-cv-00112-MN
CLASS PERIOD: 04/17/2014 - 09/28/2015
CASE CONTACTS: Salvatore J. Graziano, Jeremy P. Robinson, Jesse L. Jensen, R. Ryan Dykhouse

This case asserts claims against Navient Corporation and its top executives for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 as well as SEC Rule 10b-5 on behalf of investors who purchased the publicly-traded securities of Navient from April 17, 2014 through September 29, 2015, and for violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 in connection with public offerings of Navient's 5.000% Senior Notes due 2020 (CUSIP 63938CAA6), 5.875% Senior Notes due 2024 (CUSIP 63938CAB4), and 5.875% Senior Notes due 2021 (CUSIP 63938CAC2) from November 3, 2014 through December 28, 2015.

On June 30, 2016, the Court appointed Lord Abbett Affiliated Fund, Inc., Lord Abbett Equity Trust – Lord Abbett Calibrated Mid Cap Value Fund, Lord Abbett Bond-Debenture Fund, Inc., and Lord Abbett Investment Trust – Lord Abbett High Yield Fund as Lead Plaintiff. On January 29, 2019, the Court sustained the claims in Lead Plaintiff's Second Amended Complaint that Defendants made numerous false or misleading statements of fact with respect to Navient's business operations and financial results, which caused the price of Navient securities to be artificially inflated, and caused significant damages to purchasers of Navient stock and notes when they ultimately learned facts revealing that Defendants' prior representations were false or misleading when made. Specifically:

Exchange Act Claims. The Court sustained Plaintiffs' Exchange Act claims arising from Defendants' class-wide misrepresentations about Navient's loans, including its purportedly high-quality loan portfolio, forbearance practices, loan loss reserves and related SOX certifications. Unbeknownst to investors, Defendants manipulated Navient's delinquency and default rates, misrepresented its risks, depressed loan loss reserves and artificially inflated earnings through various improper means, including by indiscriminately pushing Navient's most financially vulnerable student-borrowers into forbearance. Investors learned the truth about Defendants' loan-related misconduct through a series of partial disclosures beginning in July 2015, and culminating on September 29, 2015, when a CFPB report exposed the reality that loan servicers like Navient systematically pushed student-borrowers into forbearance. Indeed, Navient is now the target of numerous government actions, including by the CFPB as well as dozens of state Attorneys General.

The Securities Act Claims. The Court also sustained Plaintiffs' claims under the Securities Act arising from Defendants' class-wide misstatements made in Offering Documents filed in connection with the 2014 Debt Offering and the 2015 Debt Offering. Specifically, the Securities Act claims concern two categories of misrepresentations: (i) misstatements about Navient's loan portfolio (as summarized above); and (ii) misrepresentations concerning Navient's credit facilities. On the latter issue, Defendants reported Navient's borrowing capacity under its credit facilities, but misleadingly failed to disclose the likelihood that its access to favorable credit terms would be terminated by an impending FHFA rule that blocked non-eligible entities from FHLB membership. On December 28, 2015, after the rule was implemented, Navient disclosed that its credit facilities had been significantly reduced and were nearly fully drawn.