

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_ to \_.

Commission File Number: 001-31924

**NELNET, INC.**

(Exact name of registrant as specified in its charter)

**NEBRASKA**

(State or other jurisdiction of incorporation or organization)

**84-0748903**

(I.R.S. Employer Identification No.)

**121 SOUTH 13TH STREET  
SUITE 100**

**LINCOLN, NEBRASKA**

(Address of principal executive offices)

**68508**

(Zip Code)

**(402) 458-2370**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]

Non-accelerated filer [ ]

Accelerated filer [ ]

Smaller reporting company [ ]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of October 31, 2018, there were 29,257,880 and 11,468,587 shares of Class A Common Stock and Class B Common Stock, par value \$0.01 per share, outstanding, respectively (excluding a total of 11,305,731 shares of Class A Common Stock held by wholly owned subsidiaries).

**NELNET, INC.**  
**FORM 10-Q**  
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**September 30, 2018**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share data)  
(unaudited)**

	As of September 30, 2018	As of December 31, 2017
<b>Assets:</b>		
Loans receivable (net of allowance for loan losses of \$60,217 and \$54,590, respectively)	\$ 22,528,362	21,814,507
<b>Cash and cash equivalents:</b>		
Cash and cash equivalents - not held at a related party	10,766	6,982
Cash and cash equivalents - held at a related party	72,771	59,770
Total cash and cash equivalents	83,537	66,752
Investments and notes receivable	246,815	240,538
Restricted cash	723,338	688,193
Restricted cash - due to customers	188,591	187,121
Loan accrued interest receivable	624,259	430,385
Accounts receivable (net of allowance for doubtful accounts of \$2,426 and \$1,436, respectively)	76,899	37,863
Goodwill	153,802	138,759
Intangible assets, net	95,660	38,427
Property and equipment, net	339,730	248,051
Other assets	41,889	73,021
Fair value of derivative instruments	2,043	818
Total assets	<u>\$ 25,104,925</u>	<u>23,964,435</u>
<b>Liabilities:</b>		
Bonds and notes payable	\$ 22,251,433	21,356,573
Accrued interest payable	60,658	50,039
Other liabilities	272,891	198,252
Due to customers	188,591	187,121
Fair value of derivative instruments	4,224	7,063
Total liabilities	<u>22,777,797</u>	<u>21,799,048</u>
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
<b>Nelnet, Inc. shareholders' equity:</b>		
Preferred stock, \$0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding	—	—
<b>Common stock:</b>		
Class A, \$0.01 par value. Authorized 600,000,000 shares; issued and outstanding 29,341,791 shares and 29,341,517 shares, respectively	293	293
Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,468,587 shares	115	115
Additional paid-in capital	4,908	521
Retained earnings	2,307,573	2,143,983
Accumulated other comprehensive earnings	3,975	4,617
Total Nelnet, Inc. shareholders' equity	<u>2,316,864</u>	<u>2,149,529</u>
Noncontrolling interests	10,264	15,858
Total equity	<u>2,327,128</u>	<u>2,165,387</u>
Total liabilities and equity	<u>\$ 25,104,925</u>	<u>23,964,435</u>
<b>Supplemental information - assets and liabilities of consolidated education lending variable interest entities:</b>		
Student loans receivable	\$ 22,536,434	21,909,476
Restricted cash	683,211	641,994
Loan accrued interest receivable and other assets	625,122	431,934
Bonds and notes payable	(22,337,987)	(21,702,298)
Accrued interest payable and other liabilities	(214,554)	(168,637)
Net assets of consolidated education lending variable interest entities	<u>\$ 1,292,226</u>	<u>1,112,469</u>

See accompanying notes to consolidated financial statements.



**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Dollars in thousands, except share data)  
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<b>Interest income:</b>				
Loan interest	\$ 232,320	193,087	653,414	564,173
Investment interest	7,628	3,800	18,581	9,616
Total interest income	239,948	196,887	671,995	573,789
<b>Interest expense:</b>				
Interest on bonds and notes payable	180,175	121,650	487,174	341,787
Net interest income	59,773	75,237	184,821	232,002
Less provision for loan losses	10,500	6,700	18,000	10,700
Net interest income after provision for loan losses	49,273	68,537	166,821	221,302
<b>Other income:</b>				
Loan servicing and systems revenue	112,579	55,950	327,265	167,079
Education technology, services, and payment processing revenue	58,409	50,358	167,372	149,862
Communications revenue	11,818	6,751	31,327	17,577
Other income	16,673	19,756	44,449	44,874
Gain from debt repurchases	—	116	359	5,537
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	17,098	7,173	100,927	(25,568)
Total other income	216,577	140,104	671,699	359,361
<b>Cost of services:</b>				
Cost to provide education technology, services, and payment processing services	19,087	15,151	44,087	37,456
Cost to provide communications services	4,310	2,632	11,892	6,789
Total cost of services	23,397	17,783	55,979	44,245
<b>Operating expenses:</b>				
Salaries and benefits	114,172	74,193	321,932	220,684
Depreciation and amortization	22,992	10,051	62,943	27,687
Loan servicing fees	3,087	8,017	9,428	19,670
Other expenses	45,194	29,500	119,020	81,923
Total operating expenses	185,445	121,761	513,323	349,964
Income before income taxes	57,008	69,097	269,218	186,454
Income tax expense	13,882	25,562	63,369	70,349
Net income	43,126	43,535	205,849	116,105
Net (income) loss attributable to noncontrolling interests	(199)	2,768	438	8,960
Net income attributable to Nelnet, Inc.	\$ 42,927	46,303	206,287	125,065
<b>Earnings per common share:</b>				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	\$ 1.05	1.11	5.04	2.97
Weighted average common shares outstanding - basic and diluted	40,988,965	41,553,316	40,942,177	42,054,532

See accompanying notes to consolidated financial statements.

**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in thousands)  
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$ 43,126	43,535	205,849	116,105
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized holding losses arising during period, net	2,438	405	964	383
Reclassification adjustment for gains recognized in net income, net of losses	(765)	(504)	(817)	(1,244)
Income tax effect	(402)	35	(46)	318
Total other comprehensive income (loss)	1,271	(64)	101	(543)
Comprehensive income	44,397	43,471	205,950	115,562
Comprehensive (income) loss attributable to noncontrolling interests	(199)	2,768	438	8,960
Comprehensive income attributable to Nelnet, Inc.	\$ 44,198	46,239	206,388	124,522

See accompanying notes to consolidated financial statements.

**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Dollars in thousands, except share data)  
(unaudited)

Nelnet, Inc. Shareholders											
	Preferred stock shares	Common stock shares		Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) earnings	Noncontrolling interests	Total equity
		Class A	Class B								
Balance as of June 30, 2017	—	30,373,691	11,476,932	\$ —	304	115	366	2,110,158	4,251	15,215	2,130,409
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	6,901	6,901
Net income (loss)	—	—	—	—	—	—	—	46,303	—	(2,768)	43,535
Other comprehensive loss	—	—	—	—	—	—	—	—	(64)	—	(64)
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(759)	(759)
Cash dividend on Class A and Class B common stock - \$0.14 per share	—	—	—	—	—	—	—	(5,766)	—	—	(5,766)
Issuance of common stock, net of forfeitures	—	10,125	—	—	—	—	278	—	—	—	278
Compensation expense for stock based awards	—	—	—	—	—	—	1,042	—	—	—	1,042
Repurchase of common stock	—	(947,794)	—	—	(10)	—	(1,326)	(43,800)	—	—	(45,136)
Balance as of September 30, 2017	—	29,436,022	11,476,932	\$ —	294	115	360	2,106,895	4,187	18,589	2,130,440
Balance as of June 30, 2018	—	29,331,002	11,468,587	\$ —	293	115	2,586	2,271,171	2,704	9,834	2,286,703
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	326	326
Net income	—	—	—	—	—	—	—	42,927	—	199	43,126
Other comprehensive income	—	—	—	—	—	—	—	—	1,271	—	1,271
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(95)	(95)
Cash dividend on Class A and Class B common stock - \$0.16 per share	—	—	—	—	—	—	—	(6,525)	—	—	(6,525)
Issuance of common stock, net of forfeitures	—	14,086	—	—	—	—	580	—	—	—	580
Compensation expense for stock based awards	—	—	—	—	—	—	1,934	—	—	—	1,934
Repurchase of common stock	—	(3,297)	—	—	—	—	(192)	—	—	—	(192)
Balance as of September 30, 2018	—	29,341,791	11,468,587	\$ —	293	115	4,908	2,307,573	3,975	10,264	2,327,128
Balance as of December 31, 2016	—	30,628,112	11,476,932	\$ —	306	115	420	2,056,084	4,730	9,270	2,070,925
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	19,553	19,553
Net income (loss)	—	—	—	—	—	—	—	125,065	—	(8,960)	116,105
Other comprehensive loss	—	—	—	—	—	—	—	—	(543)	—	(543)
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(1,274)	(1,274)
Cash dividends on Class A and Class B common stock - \$0.42 per share	—	—	—	—	—	—	—	(17,569)	—	—	(17,569)
Issuance of common stock, net of forfeitures	—	171,481	—	—	2	—	3,359	—	—	—	3,361
Compensation expense for stock based awards	—	—	—	—	—	—	3,213	—	—	—	3,213
Repurchase of common stock	—	(1,363,571)	—	—	(14)	—	(6,632)	(56,685)	—	—	(63,331)
Balance as of September 30, 2017	—	29,436,022	11,476,932	\$ —	294	115	360	2,106,895	4,187	18,589	2,130,440
Balance as of December 31, 2017	—	29,341,517	11,468,587	\$ —	293	115	521	2,143,983	4,617	15,858	2,165,387
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	847	847
Net income (loss)	—	—	—	—	—	—	—	206,287	—	(438)	205,849
Other comprehensive income	—	—	—	—	—	—	—	—	101	—	101
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(351)	(351)
Cash dividends on Class A and Class B common stock - \$0.48 per share	—	—	—	—	—	—	—	(19,539)	—	—	(19,539)
Issuance of common stock, net of forfeitures	—	319,365	—	—	3	—	4,662	—	—	—	4,665
Compensation expense for stock based awards	—	—	—	—	—	—	4,526	—	—	—	4,526
Repurchase of common stock	—	(319,091)	—	—	(3)	—	(4,801)	(11,716)	—	—	(16,520)
Impact of adoption of new accounting standards	—	—	—	—	—	—	—	2,007	(743)	—	1,264
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	(13,449)	—	(5,652)	(19,101)
Balance as of September 30, 2018	—	29,341,791	11,468,587	\$ —	293	115	4,908	2,307,573	3,975	10,264	2,327,128

See accompanying notes to consolidated financial statements.

**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(unaudited)

	Nine months ended September 30,	
	2018	2017
Net income attributable to Nelnet, Inc.	\$ 206,287	125,065
Net loss attributable to noncontrolling interests	(438)	(8,960)
Net income	205,849	116,105
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisition:		
Depreciation and amortization, including debt discounts and loan premiums and deferred origination costs	136,816	99,826
Loan discount accretion	(31,315)	(32,820)
Provision for loan losses	18,000	10,700
Derivative market value adjustment	(49,909)	(22,381)
Unrealized foreign currency transaction adjustment	—	45,635
Proceeds from clearinghouse - initial and variation margin, net	46,418	58,900
Gain from debt repurchases	(359)	(5,537)
Gain from equity securities, net of losses	(8,280)	—
Deferred income tax expense (benefit)	23,574	(15,012)
Non-cash compensation expense	4,781	3,370
Impairment expense	3,907	—
Other	(856)	3,451
Increase in loan accrued interest receivable	(193,926)	(5,572)
Increase in accounts receivable	(15,328)	(19,209)
Decrease (increase) in other assets	49,255	(8,660)
Increase in accrued interest payable	10,619	2,147
(Decrease) increase in other liabilities	(7,159)	20,548
Increase (decrease) in due to customers	1,470	(14,403)
Net cash provided by operating activities	193,557	237,088
Cash flows from investing activities, net of acquisition:		
Purchases of loans	(3,231,956)	(183,466)
Net proceeds from loan repayments, claims, capitalized interest, and other	2,484,596	2,520,197
Proceeds from sale of loans	23,712	—
Purchases of available-for-sale securities	(38,064)	(109,666)
Proceeds from sales of available-for-sale securities	58,594	141,206
Purchases of investments and issuance of notes receivable	(49,216)	(21,823)
Proceeds from investments and notes receivable	21,461	6,174
Purchases of property and equipment	(96,480)	(106,656)
Business acquisition, net of cash acquired	(109,152)	—
Net cash (used in) provided by investing activities	(936,505)	2,245,966
Cash flows from financing activities:		
Payments on bonds and notes payable	(2,149,449)	(3,679,592)
Proceeds from issuance of bonds and notes payable	3,004,848	1,178,027
Payments of debt issuance costs	(10,953)	(4,411)
Dividends paid	(19,539)	(17,569)
Repurchases of common stock	(16,520)	(63,331)
Proceeds from issuance of common stock	993	457
Acquisition of noncontrolling interest	(13,449)	—
Issuance of noncontrolling interests	768	19,475
Distribution to noncontrolling interests	(351)	(1,274)
Net cash provided by (used in) financing activities	796,348	(2,568,218)
Net increase (decrease) in cash, cash equivalents, and restricted cash	53,400	(85,164)
Cash, cash equivalents, and restricted cash, beginning of period	942,066	1,170,317
Cash, cash equivalents, and restricted cash, end of period	\$ 995,466	1,085,153





**NELNET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
(Dollars in thousands)  
(unaudited)

	Nine months ended September 30,	
	2018	2017
<b>Supplemental disclosures of cash flow information:</b>		
Cash disbursements made for interest	\$ 425,782	287,265
Cash (refunds received) disbursements made for income taxes, net	\$ (6,491)	71,431

Supplemental disclosures of noncash operating and investing activities regarding the Company's business acquisition during the nine months ended September 30, 2018 are contained in note 7.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets to the total of the amounts reported in the consolidated statements of cash flows.

	As of September 30, 2018	As of December 31, 2017	As of September 30, 2017	As of December 31, 2016
Total cash and cash equivalents	\$ 83,537	66,752	254,391	69,654
Restricted cash	723,338	688,193	725,463	980,961
Restricted cash - due to customers	188,591	187,121	105,299	119,702
Cash, cash equivalents, and restricted cash	\$ 995,466	942,066	1,085,153	1,170,317

See accompanying notes to consolidated financial statements.

**NELNET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands, except per share amounts, unless otherwise noted)**  
**(unaudited)**

**1. Basis of Financial Reporting**

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2017 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results for the year ending December 31, 2018. The unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Annual Report").

***Reporting Segment Name Changes***

During the first quarter of 2018, the Company changed the name of the Tuition Payment Processing and Campus Commerce operating segment to Education Technology, Services, and Payment Processing to better describe the evolution of services this operating segment provides. In addition, the Loan Systems and Servicing segment was retitled as Loan Servicing and Systems. As a result, the line items "tuition payment processing, school information, and campus commerce revenue" and "loan systems and servicing revenue" on the consolidated statements of income were changed to "education technology, services, and payment processing revenue" and "loan servicing and systems revenue," respectively.

***Reclassifications***

Certain amounts previously reported within the Company's consolidated balance sheet, statements of income, and statements of cash flows have been reclassified to conform to the current period presentation. These reclassifications include:

- Reclassifying certain non-customer receivables, which were previously included in "accounts receivable," to "other assets."
- Reclassifying direct costs to provide services for education technology, services, and payment processing, which were previously included in "other expenses," to "cost to provide education technology, services, and payment processing services."
- Reclassifying the line item "cost to provide communications services" on the consolidated statements of income from part of "operating expenses" and presenting such costs as part of "cost of services."
- Reclassifying consumer loan activity on the consolidated statements of income, which was previously included in "investment interest" and "other expenses," to "loan interest" and "provision for loan losses" and "loan servicing fees," respectively, and reclassifying consumer loan activity on the consolidated statements of cash flows as appropriate. This did not result in a change in the Company's previously reported net cash provided by operating or investing activities.

***Accounting Standards Adopted in 2018***

In the first quarter of 2018, the Company adopted the following new accounting standards and other guidance:

***Revenue Recognition***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC Topic 606"). Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted the standard effective January 1, 2018, using the full retrospective method, which required it to restate each prior reporting period presented. As a result, the Company changed its accounting policy for revenue recognition as detailed in note 2, "Summary of Significant Accounting Policies and Practices."

The most significant impact of the standard relates to identifying the Company's fee-based Education Technology, Services, and Payment Processing operating segment as the principal in its payment services transactions. As a result of this change, the Company presents the payment services revenue gross, with the direct costs to provide these services presented separately. The Company's other fee-based operating segments will recognize revenue consistent with historical revenue recognition patterns. The majority of the Company's revenue earned in its non-fee-based Asset Generation and Management operating segment, including loan interest and derivative activity, is explicitly excluded from the scope of the new standard.

*Impacts to Previously Reported Results*

Adoption of the revenue recognition standard impacted the Company's previously reported results on the consolidated statements of income as follows:

<b>Three months ended September 30, 2017</b>			
	<b>As previously reported</b>	<b>Impact of adoption</b>	<b>As restated</b>
Education technology, services, and payment processing revenue	\$ 35,450	14,908	50,358
Cost to provide education technology, services, and payment processing services	—	14,908	14,908 (a)

<b>Nine months ended September 30, 2017</b>			
	<b>As previously reported</b>	<b>Impact of adoption</b>	<b>As restated</b>
Education technology, services, and payment processing revenue	\$ 113,293	36,569	149,862
Cost to provide education technology, services, and payment processing services	—	36,569	36,569 (a)

- (a) In addition to the impact of adopting the new revenue recognition standard, as discussed above, the Company reclassified other direct costs to provide education technology, services, and payment processing services which were previously reported as part of "other expenses" to "cost to provide education technology, services, and payment processing services."

Adoption of the new revenue recognition standard had no impact to the consolidated balance sheets or cash provided by or used in operating, investing, or financing activities on the consolidated statements of cash flows.

Equity Investments

In January 2016, the FASB issued new accounting guidance related to the recognition and measurement of financial assets and financial liabilities. The guidance, including a related clarifying update, requires equity investments with readily determinable fair values to be measured at fair value, with changes in the fair value recognized through net income (other than those equity investments accounted for under the equity method of accounting or those that result in consolidation of the investee). An entity may choose to measure equity investments without readily determinable fair values at fair value or use the measurement alternative of cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. In addition, the impairment assessment is simplified by requiring a qualitative assessment to identify impairment.

The guidance requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities with readily determinable fair values previously recognized in accumulated other comprehensive income, and was adopted by the Company as of January 1, 2018. Upon adoption, the Company recorded an immaterial cumulative-effect adjustment to retained earnings, accumulated other comprehensive earnings, and investments and notes receivable. Subsequent to the adoption, the Company is accounting for the majority of its equity investments without readily determinable fair values using the measurement alternative.

### Other Comprehensive Income

In February 2018, the FASB issued guidance which allows a reclassification from accumulated other comprehensive earnings to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, which became effective on January 1, 2018. This guidance is effective for fiscal years beginning after December 15, 2018, but early adoption is permitted. The Company elected to early adopt this guidance as of January 1, 2018. Upon adoption, the Company recorded an immaterial reclassification between accumulated other comprehensive earnings and retained earnings.

### Restricted Cash

In November 2016, the FASB issued accounting guidance related to restricted cash. The new guidance requires that the statement of cash flows present the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, and a reconciliation of such total to amounts on the balance sheet. The Company adopted the standard effective January 1, 2018 using the retrospective transition method. Adoption of this standard impacted the Company's previously reported amounts on the consolidated statements of cash flows as follows:

	Nine months ended September 30, 2017		
	As previously reported	Impact of adoption	As restated
Decrease in due to customers	\$ —	(14,403)	(14,403)
Proceeds from clearinghouse - initial and variation margin, net	37,744	21,156	58,900
Net cash provided by operating activities	230,335	6,753	237,088
Decrease in restricted cash, net	276,654	(276,654)	—
Net cash provided by investing activities	2,522,620	(276,654)	2,245,966

## 2. Summary of Significant Accounting Policies and Practices

Except for the changes below, no significant changes have been made to the Company's significant accounting policies and practices disclosed in note 3, Summary of Significant Accounting Policies and Practices, in the 2017 Annual Report.

### Revenue Recognition

The Company applies the provisions of ASC Topic 606 to its fee-based operating segments. The majority of the Company's revenue earned in its Asset Generation and Management operating segment, including loan interest and derivative activity, is explicitly excluded from the scope of ASC Topic 606. The Company recognizes revenue under the core principle of ASC Topic 606 to depict the transfer of control of products and services to the Company's customers in an amount reflecting the consideration to which the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. Additional information related to the Company's revenue recognition of specific items is provided below.

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Loan servicing and systems revenue - Loan servicing and systems revenue consists of the following items:

- *Loan servicing revenue* - Loan servicing revenue consideration is determined from individual contracts with customers and is calculated monthly based on the dollar value of loans, number of loans, number of borrowers serviced for each customer, or number of transactions. Loan servicing requires a significant level of integration and the individual components are not considered distinct. The Company will perform various services, including, but not limited to, (i) application processing, (ii) monthly servicing, (iii) conversion processing, and (iv) fulfillment services, during each distinct service period. Even though the mix and quantity of activities that the Company performs each period may differ, the nature of the activities are substantially the same. Revenue is allocated to the distinct service period, typically a month, and recognized as control transfers as customers simultaneously receive and consume benefits.

- *Software services revenue* - Software services revenue consideration is determined from individual contracts with customers and includes license and maintenance fees associated with loan software products, generally in a remote hosted environment, and computer and software consulting. Usage-based revenue from remote hosted licenses is allocated to the distinct service period, typically a month, and recognized as control transfers as customers simultaneously receive and consume benefits. Revenue from any non-refundable up-front fee is recognized ratably over the contract period, as the fee relates to set-up activities that provide no incremental benefit to the customers. Computer and software consulting is also capable of being distinct and accounted for as a separate performance obligation. Revenue allocated to computer and software consulting is recognized as services are provided.
- *Outsourced services revenue* - Outsourced services revenue consideration is determined from individual contracts with customers and is calculated monthly based on the volume of services. Revenue is allocated to the distinct service period, typically a month, and recognized as control transfers as customers simultaneously receive and consume benefits.

The following table provides disaggregated revenue by service offering:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Government servicing - Nelnet	\$ 38,907	38,594	118,015	117,409
Government servicing - Great Lakes (a)	45,671	—	122,107	—
FFELP servicing	7,422	3,979	24,259	11,693
Private education and consumer loan servicing	10,007	7,596	31,990	20,535
Software services	8,201	4,430	24,461	13,093
Outsourced services and other	2,371	1,351	6,433	4,349
Loan servicing and systems revenue	\$ 112,579	55,950	327,265	167,079

- (a) Great Lakes Educational Loan Services, Inc. ("Great Lakes") was acquired by the Company on February 7, 2018. For additional information about the acquisition, see note 7.

Education technology, services, and payment processing revenue - Education technology, services, and payment processing revenue consists of the following items:

- *Tuition payment plan services* - Tuition payment plan services consideration is determined from individual plan agreements, which are governed by plan service agreements, and includes access to a remote hosted environment and management of payment processing. The management of payment processing is considered a distinct performance obligation when sold with the remote hosted environment. Revenue for each performance obligation is allocated to the distinct service period, the academic school term, and recognized ratably over the service period as customers simultaneously receive and consume benefits.
- *Payment processing* - Payment processing consideration is determined from individual contracts with customers and includes electronic transfer and credit card processing, reporting, virtual terminal solutions, and specialized integrations to business software for education and non-education markets. Volume-based revenue from payment processing is allocated and recognized to the distinct service period, based on when each transaction is completed, and recognized as control transfers as customers simultaneously receive and consume benefits.
- *Education technology and services* - Education technology and services consideration is determined from individual contracts with customers and is based on the services selected by the customer. Services in K-12 private and faith based schools include (i) assistance with financial needs assessment, (ii) automating administrative processes such as admissions, online applications and enrollment services, scheduling, student billing, attendance, and grade book management, and (iii) professional development and educational instruction services. Revenue for these services is recognized for the consideration the Company has a right to invoice, the amount of which corresponds directly with the value provided to the customer based on the performance completed. Services provided to the higher education market include innovative education-focused technologies, services, and support solutions to help schools with the everyday challenges of collecting and processing commerce data. These services are considered distinct performance obligations. Revenue for each performance obligation is allocated to the distinct service period, typically a month or based on when each transaction is completed, and recognized as control transfers as customers simultaneously receive and consume benefits.

The following table provides disaggregated revenue by service offering:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Tuition payment plan services	\$ 19,771	17,885	63,209	58,543
Payment processing	26,956	22,541	62,908	55,371
Education technology and services	11,419	9,831	40,411	35,804
Other	263	101	844	144
Education technology, services, and payment processing revenue	\$ 58,409	50,358	167,372	149,862

Cost to provide education technology, services, and payment processing services is primarily associated with providing payment processing services. Interchange and payment network fees are charged by the card associations or payment networks. Depending upon the transaction type, the fees are a percentage of the transaction's dollar value, a fixed amount, or a combination of the two methods. Other items included in cost to provide education technology, services, and payment processing services include salaries and benefits and third-party professional service costs directly related to providing professional development and educational instruction services to teachers, school leaders, and students.

*Communications revenue* - Communications revenue is derived principally from internet, television, and telephone services and is billed as a flat fee in advance of providing the service. Revenues for usage-based services, such as access charges billed to other telephone carriers for originating and terminating long-distance calls on the Company's network, are billed in arrears. These are each considered distinct performance obligations. Revenue is recognized monthly for the consideration the Company has a right to invoice, the amount of which corresponds directly with the value provided to the customer based on the performance completed. The Company recognizes revenue from these services in the period the services are rendered rather than billed. Revenue received or receivable in advance of the delivery of services is included in deferred revenue. Earned but unbilled usage-based services are recorded in accounts receivable.

The following table provides disaggregated revenue by service offering and customer type:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Internet	\$ 6,456	3,205	16,547	7,978
Television	3,385	2,115	9,250	5,498
Telephone	1,957	1,413	5,471	4,018
Other	20	18	59	83
Communications revenue	\$ 11,818	6,751	31,327	17,577
Residential revenue	\$ 8,896	4,680	23,367	11,851
Business revenue	2,861	2,013	7,779	5,525
Other	61	58	181	201
Communications revenue	\$ 11,818	6,751	31,327	17,577

Cost to provide communications services is primarily associated with television programming costs. The Company has various contracts to obtain television programming from programming vendors whose compensation is typically based on a flat fee per customer. The cost of the right to exhibit network programming under such arrangements is recorded in the month the programming is available for exhibition. Programming costs are paid each month based on calculations performed by the Company and are subject to periodic audits performed by the programmers. Other items in cost to provide communications services include connectivity, franchise, and other regulatory costs directly related to providing internet and telephone services.

Other income - The following table provides the components of "other income" on the consolidated statements of income:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Realized and unrealized gains on investments, net	\$ 1,288	2,201	11,505	3,818
Borrower late fee income	3,253	2,731	8,994	9,098
Investment advisory fees	1,183	5,852	4,169	11,661
Management fee revenue	1,756	—	4,673	—
Peterson's revenue	—	3,402	—	9,282
Other	9,193	5,570	15,108	11,015
Other income	\$ 16,673	19,756	44,449	44,874

- *Borrower late fee income* - Late fee income is earned by the education lending subsidiaries. Revenue is allocated to the distinct service period, based on when each transaction is completed.
- *Investment advisory fees* - Investment advisory services are provided by the Company through an SEC-registered investment advisor subsidiary under various arrangements. The Company earns monthly fees based on the monthly outstanding balance of investments and certain performance measures, which are recognized monthly as the uncertainty of the transaction price is resolved.
- *Management fee revenue* - Management fee revenue is earned for technology and certain administrative support services provided to Great Lakes' former parent company. Revenue is allocated to the distinct service period, based on when each transaction is completed.
- *Peterson's revenue* - The Company earned revenue related to digital marketing and content solution products and services under the brand name Peterson's. These products and services included test preparation study guides, school directories and databases, career exploration guides, on-line courses and test preparation, scholarship search and selection data, career planning information and guides, and on-line information about colleges and universities. Several content solutions services included services to connect students to colleges and universities, and were sold based on subscriptions. Revenue from sales of subscription services was recognized ratably over the term of the contract as it was earned. Subscription revenue received or receivable in advance of the delivery of services was included in deferred revenue. Revenue from the sale of print products was generally earned and recognized, net of estimated returns, upon shipment or delivery. All other digital marketing and content solutions revenue was recognized over the period in which services were provided to customers. On December 31, 2017, the Company sold Peterson's. The Company applied a practical expedient allowed for the retrospective comparative period which does not require the Company to restate revenue from contracts that began and were completed within the same annual reporting period.

Contract Balances - The following table provides information about liabilities from contracts with customers:

	As of September 30, 2018	As of December 31, 2017
Deferred revenue, which is included in "other liabilities" on the consolidated balance sheets	\$ 42,831	32,276

Timing of revenue recognition may differ from the timing of invoicing to customers. The Company records deferred revenue when revenue is received or receivable in advance of the delivery of service. For multi-year contracts, the Company generally invoices customers annually at the beginning of each annual coverage period. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts do not include a significant financing component.



Activity in the deferred revenue balance is shown below:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 25,660	25,954	32,276	33,141
Deferral of revenue	45,174	38,705	97,726	79,435
Recognition of revenue	(27,992)	(22,181)	(87,303)	(70,128)
Other	(11)	27	132	57
Balance, end of period	\$ 42,831	42,505	42,831	42,505

*Assets Recognized from the Costs to Obtain a Contract with a Customer* - The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company has determined that certain sales incentive programs meet the requirements to be capitalized. Total capitalized costs to obtain a contract were immaterial during the periods presented and are included in "other assets" on the consolidated balance sheets.

### 3. Loans Receivable and Allowance for Loan Losses

Loans receivable consisted of the following:

	As of September 30, 2018	As of December 31, 2017
Federally insured student loans:		
Stafford and other	\$ 4,956,324	4,418,881
Consolidation	17,434,419	17,302,725
Total	22,390,743	21,721,606
Private education loans	169,467	212,160
Consumer loans	112,547	62,111
	22,672,757	21,995,877
Loan discount, net of unamortized loan premiums and deferred origination costs	(63,566)	(113,695)
Non-accretable discount	(20,612)	(13,085)
Allowance for loan losses:		
Federally insured loans	(43,053)	(38,706)
Private education loans	(11,253)	(12,629)
Consumer loans	(5,911)	(3,255)
	\$ 22,528,362	21,814,507

*Activity in the Allowance for Loan Losses*

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of loans. Activity in the allowance for loan losses is shown below.

<b>Three months ended September 30, 2018</b>						
	<b>Balance at beginning of period</b>	<b>Provision for loan losses</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>Other</b>	<b>Balance at end of period</b>
Federally insured loans	\$ 37,263	8,000	(2,210)	—	—	43,053
Private education loans	11,664	—	(535)	124	—	11,253
Consumer loans	4,788	2,500	(1,403)	26	—	5,911
	<u>\$ 53,715</u>	<u>10,500</u>	<u>(4,148)</u>	<u>150</u>	<u>—</u>	<u>60,217</u>
<b>Three months ended September 30, 2017</b>						
Federally insured loans	\$ 35,862	7,000	(3,464)	—	—	39,398
Private education loans	13,846	(1,000)	(491)	161	50	12,566
Consumer loans	1,000	700	(33)	—	—	1,667
	<u>\$ 50,708</u>	<u>6,700</u>	<u>(3,988)</u>	<u>161</u>	<u>50</u>	<u>53,631</u>
<b>Nine months ended September 30, 2018</b>						
Federally insured loans	\$ 38,706	12,000	(8,653)	—	1,000	43,053
Private education loans	12,629	—	(1,846)	470	—	11,253
Consumer loans	3,255	6,000	(3,376)	32	—	5,911
	<u>\$ 54,590</u>	<u>18,000</u>	<u>(13,875)</u>	<u>502</u>	<u>1,000</u>	<u>60,217</u>
<b>Nine months ended September 30, 2017</b>						
Federally insured loans	\$ 37,268	11,000	(8,870)	—	—	39,398
Private education loans	14,574	(2,000)	(861)	603	250	12,566
Consumer loans	—	1,700	(33)	—	—	1,667
	<u>\$ 51,842</u>	<u>10,700</u>	<u>(9,764)</u>	<u>603</u>	<u>250</u>	<u>53,631</u>

**Student Loan Status and Delinquencies**

Delinquencies have the potential to adversely impact the Company's earnings through increased servicing and collection costs and account charge-offs. The table below shows the Company's loan delinquency amounts for federally insured and private education loans.

	<u>As of September 30, 2018</u>		<u>As of December 31, 2017</u>		<u>As of September 30, 2017</u>		
<b>Federally insured loans:</b>							
Loans in-school/grace/deferment	\$	1,410,902	\$	1,260,394	\$	1,448,172	
Loans in forbearance		1,487,107		1,774,405		2,406,346	
Loans in repayment status:							
Loans current		16,921,119	86.8%	16,477,004	88.2%	16,534,795	88.7%
Loans delinquent 31-60 days		689,454	3.5	682,586	3.7	579,665	3.1
Loans delinquent 61-90 days		412,639	2.1	374,534	2.0	334,085	1.8
Loans delinquent 91-120 days		347,013	1.8	287,922	1.5	255,567	1.4
Loans delinquent 121-270 days		853,224	4.4	629,480	3.4	700,319	3.8
Loans delinquent 271 days or greater		269,285	1.4	235,281	1.2	228,335	1.2
Total loans in repayment		19,492,734	100.0%	18,686,807	100.0%	18,632,766	100.0%
Total federally insured loans	\$	<u>22,390,743</u>		<u>21,721,606</u>		<u>22,487,284</u>	
<b>Private education loans:</b>							
Loans in-school/grace/deferment	\$	3,550	\$	6,053	\$	27,188	
Loans in forbearance		1,577		2,237		2,904	
Loans in repayment status:							
Loans current		156,383	95.2%	196,720	96.5%	190,153	96.8%
Loans delinquent 31-60 days		1,796	1.1	1,867	0.9	1,200	0.6
Loans delinquent 61-90 days		1,155	0.7	1,052	0.5	1,195	0.6
Loans delinquent 91 days or greater		5,006	3.0	4,231	2.1	3,989	2.0
Total loans in repayment		164,340	100.0%	203,870	100.0%	196,537	100.0%
Total private education loans	\$	<u>169,467</u>		<u>212,160</u>		<u>226,629</u>	

#### 4. Bonds and Notes Payable

The following tables summarize the Company's outstanding debt obligations by type of instrument:

	<b>As of September 30, 2018</b>		
	<b>Carrying amount</b>	<b>Interest rate range</b>	<b>Final maturity</b>
Variable-rate bonds and notes issued in FFELP loan asset-backed securitizations:			
Bonds and notes based on indices	\$ 20,695,887	2.38% - 4.07%	4/25/24 - 10/25/66
Bonds and notes based on auction	799,576	2.77% - 3.51%	3/22/32 - 11/26/46
Total FFELP variable-rate bonds and notes	21,495,463		
FFELP warehouse facilities	705,144	2.34% / 2.38%	11/19/19 / 5/31/21
Variable-rate bonds and notes issued in private education loan asset-backed securitization	55,406	3.97%	12/26/40
Fixed-rate bonds and notes issued in private education loan asset-backed securitization	66,975	3.60% / 5.35%	12/26/40 / 12/28/43
Unsecured line of credit	160,000	3.65%	6/22/23
Unsecured debt - Junior Subordinated Hybrid Securities	20,381	6.91%	9/15/61
Other borrowings	79,669	2.77% - 5.22%	10/1/18 - 12/15/45
	22,583,038		
Discount on bonds and notes payable and debt issuance costs	(331,605)		
<b>Total</b>	<b>\$ 22,251,433</b>		
	<b>As of December 31, 2017</b>		
	<b>Carrying amount</b>	<b>Interest rate range</b>	<b>Final maturity</b>
Variable-rate bonds and notes issued in FFELP loan asset-backed securitizations:			
Bonds and notes based on indices	\$ 20,352,045	1.47% - 3.37%	8/25/21 - 2/25/66
Bonds and notes based on auction	780,829	2.09% - 2.69%	3/22/32 - 11/26/46
Total FFELP variable-rate bonds and notes	21,132,874		
FFELP warehouse facilities	335,992	1.55% / 1.56%	11/19/19 / 5/31/20
Variable-rate bonds and notes issued in private education loan asset-backed securitization	74,717	3.30%	12/26/40
Fixed-rate bonds and notes issued in private education loan asset-backed securitization	82,647	3.60% / 5.35%	12/26/40 / 12/28/43
Unsecured line of credit	10,000	2.98%	12/12/21
Unsecured debt - Junior Subordinated Hybrid Securities	20,381	5.07%	9/15/61
Other borrowings	70,516	2.44% - 3.38%	1/12/18 - 12/15/45
	21,727,127		
Discount on bonds and notes payable and debt issuance costs	(370,554)		
<b>Total</b>	<b>\$ 21,356,573</b>		

### **FFELP Warehouse Facilities**

The Company funds a portion of its Federal Family Education Loan Program (the "FFEL Program" or "FFELP") loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements.

As of September 30, 2018, the Company had two FFELP warehouse facilities as summarized below.

	<b>NFSLW-I (a)</b>	<b>NHELP-II (b)</b>	<b>Total</b>
Maximum financing amount	\$ 550,000	500,000	1,050,000
Amount outstanding	531,782	173,362	705,144
Amount available	\$ 18,218	326,638	344,856
Expiration of liquidity provisions	September 20, 2019	May 31, 2019	
Final maturity date	November 19, 2019	May 31, 2021	
Maximum advance rates	92 - 98%	85 - 95%	
Minimum advance rates	84 - 90%	85 - 95%	
Advanced as equity support	\$ 21,349	14,797	36,146

- (a) On April 24, 2018, the Company increased the maximum financing amount for this warehouse facility from \$500.0 million to \$1.25 billion. On May 3, 2018, the Company temporarily increased the maximum financing amount for this warehouse facility an additional \$75.0 million to \$1.325 billion. During the three months ended September 30, 2018, the Company decreased the maximum financing amount for this warehouse facility to \$550.0 million.

On November 6, 2018, the Company amended the agreement for this warehouse facility, which changed the expiration date for the liquidity provisions to May 20, 2019 and changed the final maturity date to May 20, 2020. In addition, the amendment changed the advance rates on this facility that provides for formula-based advance rates that are static until the expiration date of the liquidity provisions. In the event the liquidity provisions are not extended, the valuation agent has the right to perform a one-time mark to market on the underlying loans funded in this facility, subject to a floor. The loans would then be funded at this new advance rate until the final maturity date of the facility.

- (b) On April 24, 2018, the Company amended the agreement for this warehouse facility, which changed the expiration date for the liquidity provisions to May 31, 2019 and changed the final maturity date to May 31, 2021.

## Asset-Backed Securitizations

The following table summarizes the asset-backed securitization transactions completed during the first nine months of 2018 .

	2018-1			2018-2	2018-3				2018-4			Total
	Class A-1 Notes	Class A-2 Notes	2018-1 total		Class A-1 Notes	Class A-2 Notes	Class A-3 Notes	2018-3 total	Class A-1 Notes	Class A-2 Notes	2018-4 total	
Date securities issued	3/29/18	3/29/18	3/29/18	6/7/18	7/26/18	7/26/18	7/26/18	7/26/18	8/30/18	8/30/18	8/30/18	
Total original principal amount	\$ 98,000	375,750	473,750	509,800	220,000	546,900	220,000	1,001,900	30,500	451,900	495,700	\$ 2,481,150
Class A senior notes:												
Total principal amount	\$ 98,000	375,750	473,750	509,800	220,000	546,900	220,000	986,900	30,500	451,900	482,400	2,452,850
Cost of funds (1-month LIBOR plus:)	0.32%	0.76%		0.65%	0.30%	0.44%	0.75%		0.26%	0.70%		
Final maturity date	5/25/66	5/25/66		7/26/66	9/27/66	9/27/66	9/27/66		10/25/66	10/25/66		
Class B subordinated notes:												
Total original principal amount								\$ 15,000			13,300	28,300
Bond discount								(229)			—	(229)
Issue price								\$ 14,771			13,300	28,071
Cost of funds (1-month LIBOR plus:)								1.20%			1.40%	
Final maturity date								9/27/66			10/25/66	

## Unsecured Line of Credit

On June 22, 2018, the Company amended its \$350.0 million unsecured line of credit. The following provisions were modified under the amendment:

- The maturity date was extended from December 12, 2021 to June 22, 2023.
- The definition of the Company's line of business was expanded and other terms were modified to allow the formation or acquisition of a chartered bank subsidiary.
- The definition for permitted acquisitions was revised to increase the aggregate amount of consideration that may be paid for the acquisition in any fiscal year of a business or businesses not in the Company's defined line of business.
- The provisions for permitted investments were expanded to allow (i) a one-time, initial capital contribution of up to \$150.0 million by the Company in connection with the formation or acquisition of a chartered bank subsidiary, and (ii) investments in pools of consumer loans.
- The amount of loans not originated under the FFEL Program that the Company is permitted to own was increased from \$500.0 million to \$850.0 million .

The facility size of \$350.0 million and the cost of funds did not change as part of the amendment. As of September 30, 2018 , \$160.0 million was outstanding under the line of credit and \$190.0 million was available for future use.

### Debt Repurchases

The following table summarizes the Company's repurchases of its own debt. Gains recorded by the Company from the repurchase of debt are included in "gain from debt repurchases" on the Company's consolidated statements of income.

	Par value	Purchase price	Gain	Par value	Purchase price	Gain
<b>Three months ended</b>						
	<b>September 30, 2018</b>			<b>September 30, 2017</b>		
Asset-backed securities	\$ —	—	—	14,702	14,586	116
<b>Nine months ended</b>						
	<b>September 30, 2018</b>			<b>September 30, 2017</b>		
Asset-backed securities	\$ 12,905	12,546	359	18,790	17,670	1,120
Unsecured debt - Hybrid Securities	—	—	—	29,658	25,241	4,417
	\$ 12,905	12,546	359	48,448	42,911	5,537

### 5. Derivative Financial Instruments

The Company uses derivative financial instruments primarily to manage interest rate risk. In addition, the Company previously used derivative financial instruments to manage foreign currency exchange risk associated with student loan asset-backed notes that were denominated in Euros prior to a remarketing of such notes in October 2017. Derivative instruments used as part of the Company's risk management strategy are further described in note 6 of the notes to consolidated financial statements included in the 2017 Annual Report. A tabular presentation of such derivatives outstanding as of September 30, 2018 and December 31, 2017 is presented below.

#### Basis Swaps

The following table summarizes the Company's outstanding basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps").

Maturity	As of September 30,	As of December 31,
	2018	2017
	Notional amount	Notional amount
2018	\$ 250,000	4,250,000
2019	3,500,000	3,500,000
2020	1,000,000	—
2021	250,000	—
2022	2,000,000	1,000,000
2023	750,000	—
2024	250,000	250,000
2026	1,150,000	1,150,000
2027	375,000	375,000
2028	325,000	325,000
2029	100,000	100,000
2031	300,000	300,000
	\$ 10,250,000	11,250,000

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of September 30, 2018 and December 31, 2017 was one-month LIBOR plus 9.4 basis points and 12.5 basis points, respectively.

### Interest Rate Swaps – Floor Income Hedges

The following table summarizes the outstanding derivative instruments used by the Company to economically hedge loans earning fixed rate floor income.

Maturity	As of September 30, 2018		As of December 31, 2017	
	Notional amount	Weighted average fixed rate paid by the Company (a)	Notional amount	Weighted average fixed rate paid by the Company (a)
2018	\$ 250,000	0.92%	\$ 1,350,000	1.07%
2019	3,250,000	0.97	3,250,000	0.97
2020	1,500,000	1.01	1,500,000	1.01
2023	750,000	2.28	750,000	2.28
2024	300,000	2.28	300,000	2.28
2025	100,000	2.32	100,000	2.32
2027	50,000	2.32	50,000	2.32
2028	100,000	3.03	—	—
	<u>\$ 6,300,000</u>	<u>1.26%</u>	<u>\$ 7,300,000</u>	<u>1.21%</u>

(a) For all interest rate derivatives, the Company receives discrete three-month LIBOR.

On August 20, 2014, the Company paid \$9.1 million for an interest rate swap option to economically hedge loans earning fixed rate floor income. The interest rate swap option gives the Company the right, but not the obligation, to enter into a \$250.0 million notional interest rate swap in which the Company would pay a fixed amount of 3.30% and receive discrete one-month LIBOR. If the interest rate swap option is exercised, the swap would become effective on August 21, 2019 and mature on August 21, 2024.

### Interest Rate Caps

In June 2015, in conjunction with the entry into a \$275.0 million private education loan warehouse facility, the Company paid \$2.9 million for two interest rate cap contracts with a total notional amount of \$275.0 million. The first interest rate cap has a notional amount of \$125.0 million and a one-month LIBOR strike rate of 2.50%, and the second interest rate cap has a notional amount of \$150.0 million and a one-month LIBOR strike rate of 4.99%. In the event that the one-month LIBOR rate rises above the applicable strike rate, the Company would receive monthly payments related to the spread difference. Both interest rate cap contracts have a maturity date of July 15, 2020. The private education loan warehouse facility was terminated by the Company on December 21, 2016. During the first quarter of 2017, the Company received \$913,000 to terminate the interest rate cap contracts that were held in the private education loan warehouse legal entity and paid \$929,000 to enter into new interest rate cap contracts with identical terms at Nelnet, Inc. (the parent company). The Company currently intends to keep these derivatives outstanding to partially mitigate a rise in interest rates and its impact on earnings related to the Company's student loan portfolio earning a fixed rate.

### Interest Rate Swaps – Unsecured Debt Hedges

As of September 30, 2018 and December 31, 2017, the Company had \$20.4 million of unsecured Hybrid Securities outstanding. The interest rate on the Hybrid Securities through September 29, 2036 is equal to three-month LIBOR plus 3.375%, payable quarterly. The Company had the following derivatives outstanding as of September 30, 2018 and December 31, 2017 that are used to effectively convert the variable interest rate on a designated notional amount with respect to the Hybrid Securities to a fixed rate of 7.66%.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2036	<u>\$ 25,000</u>	<u>4.28%</u>

(a) For all interest rate derivatives, the Company receives discrete three-month LIBOR.



*Consolidated Financial Statement Impact Related to Derivatives*

Balance Sheet

The following table summarizes the fair value of the Company's derivatives as reflected in the consolidated balance sheets:

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of September 30, 2018	As of December 31, 2017	As of September 30, 2018	As of December 31, 2017
Interest rate swap option - floor income hedge	\$ 1,200	543	—	—
Interest rate caps	843	275	—	—
Interest rate swaps - hybrid debt hedges	—	—	4,224	7,063
<b>Total</b>	<b>\$ 2,043</b>	<b>818</b>	<b>4,224</b>	<b>7,063</b>

Offsetting of Derivative Assets/Liabilities

The following tables include the gross amounts related to the Company's derivative portfolio recognized in the consolidated balance sheets, reconciled to the net amount when excluding derivatives subject to enforceable master netting arrangements and cash collateral received/pledged.

Derivative assets	Gross amounts of recognized assets presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		Net asset
		Derivatives subject to enforceable master netting arrangement	Cash collateral received	
Balance as of September 30, 2018	\$ 2,043	—	—	2,043
Balance as of December 31, 2017	818	—	—	818

Derivative liabilities	Gross amounts of recognized liabilities presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		Net asset (liability)
		Derivatives subject to enforceable master netting arrangement	Cash collateral pledged	
Balance as of September 30, 2018	\$ (4,224)	—	7,520	3,296
Balance as of December 31, 2017	(7,063)	—	8,520	1,457

*Income Statement Impact*

The following table summarizes the components of "derivative market value and foreign currency transaction adjustments and derivative settlements, net" included in the consolidated statements of income.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Settlements:</b>				
1:3 basis swaps	\$ 3,361	(2,172)	4,676	(1,836)
Interest rate swaps - floor income hedges	19,087	3,883	46,752	5,877
Interest rate swaps - hybrid debt hedges	(124)	(191)	(410)	(593)
Cross-currency interest rate swap	—	(2,093)	—	(5,762)
Total settlements - income (expense)	22,324	(573)	51,018	(2,314)
<b>Change in fair value:</b>				
1:3 basis swaps	1,283	5,916	12,058	(5,499)
Interest rate swaps - floor income hedges	(7,427)	(185)	34,008	(13,670)
Interest rate swap option - floor income hedge	(31)	(500)	437	(2,212)
Interest rate caps	119	(103)	567	(936)
Interest rate swaps - hybrid debt hedges	830	44	2,839	10
Cross-currency interest rate swap	—	16,257	—	44,831
Other	—	—	—	(143)
Total change in fair value - income (expense)	(5,226)	21,429	49,909	22,381
Re-measurement of Euro Notes (foreign currency transaction adjustment)	—	(13,683)	—	(45,635)
Derivative market value and foreign currency transaction adjustments and derivative settlements, net - income (expense)	\$ 17,098	7,173	100,927	(25,568)

## 6. Investments and Notes Receivable

A summary of the Company's investments and notes receivable follows:

	As of September 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Investments (at fair value):</b>				
Student loan asset-backed and other debt securities - available-for-sale (a)	\$ 52,232	5,178	—	57,410
Equity securities	12,318	4,835	(380)	16,773
Total investments (at fair value)	<u>\$ 64,550</u>	<u>10,013</u>	<u>(380)</u>	<u>74,183</u>
<b>Other Investments and Notes Receivable (not measured at fair value):</b>				
Venture capital and funds:				
Measurement alternative (b)				70,881
Equity method				17,526
Other				883
Total venture capital and funds				<u>89,290</u>
Real estate:				
Equity method				30,135
Other				29,058
Total real estate				<u>59,193</u>
Notes receivable				16,373
Tax liens and affordable housing				7,776
Total investments and notes receivable (not measured at fair value)				<u>172,632</u>
Total investments and notes receivable				<u>\$ 246,815</u>

	As of December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Investments (at fair value):</b>				
Available-for-sale investments:				
Student loan asset-backed and other debt securities	\$ 71,943	5,056	(25)	76,974
Equity securities	1,630	2,298	—	3,928
Total available-for-sale investments	<u>\$ 73,573</u>	<u>7,354</u>	<u>(25)</u>	<u>80,902</u>
<b>Other Investments and Notes Receivable (not measured at fair value):</b>				
Venture capital and funds				84,752
Real estate				49,464
Notes receivable				16,393
Tax liens and affordable housing				9,027
Total investments and notes receivable				<u>\$ 240,538</u>

(a) As of September 30, 2018, the stated maturities of substantially all of the Company's student loan asset-backed and other debt securities classified as available-for-sale were greater than 10 years.

(b) The Company accounts for the majority of its equity securities without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer (the measurement alternative method). During the three months ended March 31, 2018 and June 30, 2018, the Company recorded upward adjustments of \$6.9 million and \$0.3 million, respectively, on these investments. There were no adjustments recorded by the Company during the three months ended September 30, 2018. The impacts related to the adjustments to these investments are included in "other income" in the consolidated statements of income. The upward adjustments were made as a result of observable price changes. The Company has recorded no impairments in 2018 on these investments.

## 7. Business Combination

### *Great Lakes Educational Loan Services, Inc. ("Great Lakes")*

On February 7, 2018, the Company acquired 100 percent of the outstanding stock of Great Lakes for total cash consideration of \$150.0 million. Great Lakes provides servicing for federally-owned student loans for the U.S. Department of Education (the "Department"), FFELP loans, and private education loans. The acquisition of Great Lakes has expanded the Company's portfolio of loans it services. The operating results of Great Lakes are included in the Loan Servicing and Systems operating segment.

As part of the acquisition, the Company acquired the remaining 50 percent ownership in GreatNet Solutions, LLC ("GreatNet"), a joint venture formed prior to the acquisition between Nelnet Servicing, LLC ("Nelnet Servicing"), a subsidiary of the Company, and Great Lakes. Prior to the acquisition of the remaining 50 percent of GreatNet, the Company consolidated the operating results of GreatNet, as the Company was deemed to have control over the joint venture. The proportionate share of membership interest (equity) and net loss of GreatNet that was attributable to Great Lakes was reflected as a noncontrolling interest in the Company's consolidated financial statements. The Company recognized a \$19.1 million reduction to consolidated shareholders' equity as a result of acquiring Great Lakes' 50 percent ownership in GreatNet. This transaction resulted in a \$5.7 million decrease in noncontrolling interests and a \$13.4 million decrease in retained earnings.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. During the three months ended June 30, 2018, the Company recognized certain adjustments to the provisional amounts recorded on the acquisition date that were needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The net impact of these adjustments was a decrease to goodwill, and the adjustments had no impact on operating results. The fair value assigned to the acquisition of the noncontrolling interest in GreatNet reduced the total consideration allocated to the assets acquired and liabilities assumed of Great Lakes from \$150.0 million to \$136.6 million.

Cash and cash equivalents	\$	27,399
Accounts receivable		23,708
Property and equipment		35,919
Other assets		14,018
Intangible assets		75,329
Excess cost over fair value of net assets acquired (goodwill)		15,043
Other liabilities		(54,865)
Net assets acquired	\$	<u>136,551</u>

The \$75.3 million of acquired intangible assets on the date of acquisition had a weighted-average useful life of approximately 4 years. The intangible assets that made up this amount include customer relationships of \$70.2 million ( 4 -year average useful life) and a trade name of \$5.1 million ( 7 -year useful life).

The \$15.0 million of goodwill was assigned to the Loan Servicing and Systems operating segment and is not expected to be deductible for tax purposes. The amount allocated to goodwill was primarily attributed to the deferred tax liability related to the difference between the carrying amount and tax bases of acquired identifiable intangible assets and the synergies and economies of scale expected from combining the operations of the Company and Great Lakes.

The Great Lakes assets acquired and liabilities assumed were recorded by the Company at their respective fair values at the date of acquisition, and Great Lakes' operating results from the date of acquisition forward are included in the Company's consolidated operating results. During the second quarter of 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet Servicing's servicing platform. In addition, the Company began to combine certain shared services and overhead functions between Great Lakes and the Company. As a result of these operational changes, the results of operations for the three and nine months ended September 30, 2018 attributed to Great Lakes since the acquisition are not provided since the results of the Great Lakes legal entity are no longer reflective of the entity acquired.

The following unaudited pro forma information for the Company has been prepared as if the acquisition of Great Lakes had occurred on January 1, 2017. The information is based on the historical results of the separate companies and may not necessarily be indicative of the results that could have been achieved or of results that may occur in the future. The pro forma adjustments include the impact of depreciation and amortization of property and equipment and intangible assets acquired.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Loan servicing and systems revenue	\$ 112,579	117,044	347,312	348,752
Net income attributable to Nelnet, Inc.	\$ 42,927	48,794	207,783	135,523
Net income per share - basic and diluted	\$ 1.05	1.17	5.08	3.22

## 8. Intangible Assets

Intangible assets consist of the following:

	Weighted average remaining useful life as of September 30, 2018 (months)	As of September 30, 2018	As of December 31, 2017
Amortizable intangible assets, net:			
Customer relationships (net of accumulated amortization of \$28,023 and \$12,715, respectively)	73	\$ 79,070	24,168
Trade names (net of accumulated amortization of \$4,978 and \$2,498, respectively)	86	11,715	9,074
Computer software (net of accumulated amortization of \$14,061 and \$10,013, respectively)	21	4,674	4,958
Covenants not to compete (net of accumulated amortization of \$153 and \$127, respectively)	68	201	227
Total - amortizable intangible assets, net	72	\$ 95,660	38,427

The Company recorded amortization expense on its intangible assets of \$7.9 million and \$2.3 million during the three months ended September 30, 2018 and 2017, respectively, and \$21.9 million and \$7.1 million during the nine months ended September 30, 2018 and 2017, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of September 30, 2018, the Company estimates it will record amortization expense as follows:

2018 (October 1 - December 31)	\$ 7,650
2019	27,854
2020	24,656
2021	14,629
2022	4,671
2023 and thereafter	16,200
	\$ 95,660

## 9. Goodwill

The change in the carrying amount of goodwill by reportable operating segment was as follows:

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Total
Balance as of December 31, 2017	\$ 8,596	67,168	21,112	41,883	—	138,759
Goodwill acquired during the period	19,697	—	—	—	—	19,697
Balance as of March 31, 2018	28,293	67,168	21,112	41,883	—	158,456
Great Lakes purchase price allocation adjustment - second quarter of 2018	(4,654)	—	—	—	—	(4,654)
Balance as of June 30, 2018 and September 30, 2018	\$ 23,639	67,168	21,112	41,883	—	153,802

## 10. Property and Equipment

Property and equipment consisted of the following:

	Useful life	As of September 30, 2018	As of December 31, 2017
<b>Non-communications:</b>			
Computer equipment and software	1-5 years	\$ 146,831	124,708
Building and building improvements	5-48 years	49,128	24,003
Office furniture and equipment	1-10 years	22,445	15,210
Leasehold improvements	1-15 years	9,310	7,759
Transportation equipment	4-10 years	4,447	3,813
Land	—	3,328	2,628
Construction in progress	—	2,073	4,127
		237,562	182,248
Accumulated depreciation - non-communications		(119,535)	(105,017)
<b>Non-communications, net property and equipment</b>		<b>118,027</b>	<b>77,231</b>
<b>Communications:</b>			
Network plant and fiber	5-15 years	195,015	138,122
Customer located property	5-10 years	19,146	13,767
Central office	5-15 years	13,584	10,754
Transportation equipment	4-10 years	6,379	5,759
Computer equipment and software	1-5 years	4,988	3,790
Other	1-39 years	2,669	2,516
Land	—	70	70
Construction in progress	—	11,364	11,620
		253,215	186,398
Accumulated depreciation - communications		(31,512)	(15,578)
<b>Communications, net property and equipment</b>		<b>221,703</b>	<b>170,820</b>
<b>Total property and equipment, net</b>		<b>\$ 339,730</b>	<b>248,051</b>

The Company recorded depreciation expense on its property and equipment of \$15.1 million and \$7.7 million during the three months ended September 30, 2018 and 2017, respectively, and \$41.1 million and \$20.6 million during the nine months ended September 30, 2018 and 2017, respectively.

As part of integrating technology and becoming more efficient and effective in meeting borrower needs, the Company continues to evaluate the best use of its servicing systems on a post-Great Lakes acquisition basis. As a result of this evaluation, during the three months ended September 30, 2018, the Company recorded an impairment charge of \$3.9 million within its Loan Servicing and Systems operating segment related to certain external software development costs that were previously capitalized. The impairment charge is included in "other expenses" on the Company's consolidated statements of income for the three and nine months ended September 30, 2018. There were no impairment charges recognized for the three and nine months ended September 30, 2017.

## 11. Earnings per Common Share

Presented below is a summary of the components used to calculate basic and diluted earnings per share. The Company applies the two-class method in computing both basic and diluted earnings per share, which requires the calculation of separate earnings per share amounts for common stock and unvested share-based awards. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock.

	Three months ended September 30,					
	2018			2017		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	\$ 42,354	573	42,927	45,850	453	46,303
Denominator:						
Weighted-average common shares outstanding - basic and diluted	40,441,783	547,182	40,988,965	41,146,424	406,892	41,553,316
Earnings per share - basic and diluted	\$ 1.05	1.05	1.05	1.11	1.11	1.11

	Nine months ended September 30,					
	2018			2017		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:						
Net income attributable to Nelnet, Inc.	\$ 203,881	2,406	206,287	123,816	1,249	125,065
Denominator:						
Weighted-average common shares outstanding - basic and diluted	40,464,638	477,539	40,942,177	41,634,578	419,954	42,054,532
Earnings per share - basic and diluted	\$ 5.04	5.04	5.04	2.97	2.97	2.97

## 12. Segment Reporting

See note 15 of the notes to consolidated financial statements included in the 2017 Annual Report for a description of the Company's operating segments. As discussed in note 1 above, the names of certain operating segments were changed during the first quarter of 2018. The following tables include the results of each of the Company's operating segments reconciled to the consolidated financial statements.

	<b>Three months ended September 30, 2018</b>						
	<b>Loan Servicing and Systems</b>	<b>Education Technology, Services, and Payment Processing</b>	<b>Communications</b>	<b>Asset Generation and Management</b>	<b>Corporate and Other Activities</b>	<b>Eliminations</b>	<b>Total</b>
Total interest income	\$ 381	1,513	1	236,039	6,860	(4,846)	239,948
Interest expense	—	3	4,174	176,874	3,968	(4,846)	180,175
Net interest income	381	1,510	(4,173)	59,165	2,892	—	59,773
Less provision for loan losses	—	—	—	10,500	—	—	10,500
Net interest income (loss) after provision for loan losses	381	1,510	(4,173)	48,665	2,892	—	49,273
Other income:							
Loan servicing and systems revenue	112,579	—	—	—	—	—	112,579
Intersegment servicing revenue	12,290	—	—	—	—	(12,290)	—
Education technology, services, and payment processing revenue	—	58,409	—	—	—	—	58,409
Communications revenue	—	—	11,818	—	—	—	11,818
Other income	1,948	—	950	3,267	10,508	—	16,673
Derivative settlements, net	—	—	—	22,448	(124)	—	22,324
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(6,056)	830	—	(5,226)
Total other income	126,817	58,409	12,768	19,659	11,214	(12,290)	216,577
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	19,087	—	—	—	—	19,087
Cost to provide communications services	—	—	4,310	—	—	—	4,310
Total cost of services	—	19,087	4,310	—	—	—	23,397
Operating expenses:							
Salaries and benefits	70,440	19,972	4,554	424	18,782	—	114,172
Depreciation and amortization	8,957	3,435	6,167	—	4,433	—	22,992
Loan servicing fees	—	—	—	3,087	—	—	3,087
Other expenses	19,638	4,943	3,151	845	16,616	—	45,194
Intersegment expenses, net	15,029	2,494	598	12,378	(18,208)	(12,290)	—
Total operating expenses	114,064	30,844	14,470	16,734	21,623	(12,290)	185,445
Income (loss) before income taxes	13,134	9,988	(10,185)	51,590	(7,517)	—	57,008
Income tax (expense) benefit (a)	(3,152)	(2,397)	2,444	(12,381)	1,604	—	(13,882)
Net income (loss)	9,982	7,591	(7,741)	39,209	(5,913)	—	43,126
Net income attributable to noncontrolling interests	—	—	—	—	(199)	—	(199)
Net income (loss) attributable to Nelnet, Inc.	\$ 9,982	7,591	(7,741)	39,209	(6,112)	—	42,927
Total assets as of September 30, 2018	\$ 276,153	243,497	271,370	23,927,156	723,985	(337,236)	25,104,925

(a) As a result of the Tax Cuts and Jobs Act, beginning January 1, 2018, income taxes are allocated based on 24% of income before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of the taxes calculated for each operating segment, if any, is included in income taxes in Corporate and Other Activities.



**Three months ended September 30, 2017**

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 147	5	1	194,971	3,903	(2,139)	196,887
Interest expense	—	—	1,551	121,074	1,165	(2,139)	121,650
Net interest income	147	5	(1,550)	73,897	2,738	—	75,237
Less provision for loan losses	—	—	—	6,700	—	—	6,700
Net interest income (loss) after provision for loan losses	147	5	(1,550)	67,197	2,738	—	68,537
<b>Other income:</b>							
Loan servicing and systems revenue	55,950	—	—	—	—	—	55,950
Intersegment servicing revenue	10,563	—	—	—	—	(10,563)	—
Education technology, services, and payment processing revenue	—	50,358	—	—	—	—	50,358
Communications revenue	—	—	6,751	—	—	—	6,751
Other income	—	—	—	2,753	17,003	—	19,756
Gain from debt repurchases	—	—	—	116	—	—	116
Derivative settlements, net	—	—	—	(382)	(191)	—	(573)
Derivative market value and foreign currency transaction adjustments, net	—	—	—	7,702	44	—	7,746
Total other income	66,513	50,358	6,751	10,189	16,856	(10,563)	140,104
<b>Cost of services:</b>							
Cost to provide education technology, services, and payment processing services	—	15,151	—	—	—	—	15,151
Cost to provide communications services	—	—	2,632	—	—	—	2,632
Total cost of services	—	15,151	2,632	—	—	—	17,783
<b>Operating expenses:</b>							
Salaries and benefits	38,435	17,432	4,099	392	13,834	—	74,193
Depreciation and amortization	549	2,316	3,145	—	4,040	—	10,051
Loan servicing fees	—	—	—	8,017	—	—	8,017
Other expenses	10,317	3,981	2,278	676	12,248	—	29,500
Intersegment expenses, net	7,774	2,219	470	10,659	(10,559)	(10,563)	—
Total operating expenses	57,075	25,948	9,992	19,744	19,563	(10,563)	121,761
Income (loss) before income taxes	9,585	9,264	(7,423)	57,642	31	—	69,097
Income tax (expense) benefit	(4,937)	(3,520)	2,821	(21,904)	1,978	—	(25,562)
Net income (loss)	4,648	5,744	(4,602)	35,738	2,009	—	43,535
Net loss (income) attributable to noncontrolling interests	3,408	—	—	—	(640)	—	2,768
Net income (loss) attributable to Nelnet, Inc.	\$ 8,056	5,744	(4,602)	35,738	1,369	—	46,303
Total assets as of September 30, 2017	\$ 98,555	208,290	179,206	23,724,413	863,700	(305,454)	24,768,710

**Nine months ended September 30, 2018**

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 931	2,927	3	662,881	17,673	(12,420)	671,995
Interest expense	—	3	9,987	480,729	8,875	(12,420)	487,174
Net interest income	931	2,924	(9,984)	182,152	8,798	—	184,821
Less provision for loan losses	—	—	—	18,000	—	—	18,000
Net interest income (loss) after provision for loan losses	931	2,924	(9,984)	164,152	8,798	—	166,821
<b>Other income:</b>							
Loan servicing and systems revenue	327,265	—	—	—	—	—	327,265
Intersegment servicing revenue	34,670	—	—	—	—	(34,670)	—
Education technology, services, and payment processing revenue	—	167,372	—	—	—	—	167,372
Communications revenue	—	—	31,327	—	—	—	31,327
Other income	5,196	—	950	9,032	29,272	—	44,449
Gain from debt repurchases	—	—	—	359	—	—	359
Derivative settlements, net	—	—	—	51,428	(410)	—	51,018
Derivative market value and foreign currency transaction adjustments, net	—	—	—	47,070	2,839	—	49,909
Total other income	367,131	167,372	32,277	107,889	31,701	(34,670)	671,699
<b>Cost of services:</b>							
Cost to provide education technology, services, and payment processing services	—	44,087	—	—	—	—	44,087
Cost to provide communications services	—	—	11,892	—	—	—	11,892
Total cost of services	—	44,087	11,892	—	—	—	55,979
<b>Operating expenses:</b>							
Salaries and benefits	198,411	58,552	13,284	1,183	50,502	—	321,932
Depreciation and amortization	23,237	10,062	16,585	—	13,058	—	62,943
Loan servicing fees	—	—	—	9,428	—	—	9,428
Other expenses	51,591	14,950	8,811	2,982	40,686	—	119,020
Intersegment expenses, net	43,968	7,630	1,802	34,943	(53,672)	(34,670)	—
Total operating expenses	317,207	91,194	40,482	48,536	50,574	(34,670)	513,323
Income (loss) before income taxes	50,855	35,015	(30,081)	223,505	(10,075)	—	269,218
Income tax (expense) benefit (a)	(12,399)	(8,404)	7,220	(53,641)	3,855	—	(63,369)
Net income (loss)	38,456	26,611	(22,861)	169,864	(6,220)	—	205,849
Net loss (income) attributable to noncontrolling interests	808	—	—	—	(371)	—	438
Net income (loss) attributable to Nelnet, Inc.	\$ 39,264	26,611	(22,861)	169,864	(6,591)	—	206,287
Total assets as of September 30, 2018	\$ 276,153	243,497	271,370	23,927,156	723,985	(337,236)	25,104,925

(a) As a result of the Tax Cuts and Jobs Act, beginning January 1, 2018, income taxes are allocated based on 24% of income before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of the taxes calculated for each operating segment, if any, is included in income taxes in Corporate and Other Activities.

**Nine months ended September 30, 2017**

	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	\$ 361	10	2	568,665	10,026	(5,274)	573,789
Interest expense	—	—	3,367	340,898	2,794	(5,274)	341,787
Net interest income	361	10	(3,365)	227,767	7,232	—	232,002
Less provision for loan losses	—	—	—	10,700	—	—	10,700
Net interest income (loss) after provision for loan losses	361	10	(3,365)	217,067	7,232	—	221,302
<b>Other income:</b>							
Loan servicing and systems revenue	167,079	—	—	—	—	—	167,079
Intersegment servicing revenue	30,839	—	—	—	—	(30,839)	—
Education technology, services, and payment processing revenue	—	149,862	—	—	—	—	149,862
Communications revenue	—	—	17,577	—	—	—	17,577
Other income	—	—	—	9,152	35,722	—	44,874
Gain from debt repurchases	—	—	—	1,097	4,440	—	5,537
Derivative settlements, net	—	—	—	(1,721)	(593)	—	(2,314)
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(23,121)	(133)	—	(23,254)
Total other income	197,918	149,862	17,577	(14,593)	39,436	(30,839)	359,361
<b>Cost of services:</b>							
Cost to provide education technology, services, and payment processing services	—	37,456	—	—	—	—	37,456
Cost to provide communications services	—	—	6,789	—	—	—	6,789
Total cost of services	—	37,456	6,789	—	—	—	44,245
<b>Operating expenses:</b>							
Salaries and benefits	116,932	50,986	10,489	1,156	41,121	—	220,684
Depreciation and amortization	1,644	7,053	7,880	—	11,109	—	27,687
Loan servicing fees	—	—	—	19,670	—	—	19,670
Other expenses	28,333	13,185	5,422	2,487	32,497	—	81,923
Intersegment expenses, net	23,496	6,430	1,472	31,114	(31,673)	(30,839)	—
Total operating expenses	170,405	77,654	25,263	54,427	53,054	(30,839)	349,964
Income (loss) before income taxes	27,874	34,762	(17,840)	148,047	(6,386)	—	186,454
Income tax (expense) benefit	(14,410)	(13,210)	6,779	(56,258)	6,749	—	(70,349)
Net income (loss)	13,464	21,552	(11,061)	91,789	363	—	116,105
Net loss (income) attributable to noncontrolling interests	10,050	—	—	—	(1,090)	—	8,960
Net income (loss) attributable to Nelnet, Inc.	\$ 23,514	21,552	(11,061)	91,789	(727)	—	125,065
Total assets as of September 30, 2017	\$ 98,555	208,290	179,206	23,724,413	863,700	(305,454)	24,768,710

### 13. Major Customer

Nelnet Servicing earns loan servicing revenue from a servicing contract with the Department that is currently scheduled to expire on June 16, 2019. Revenue earned by Nelnet Servicing related to this contract was \$38.9 million and \$38.6 million for the three months ended September 30, 2018 and 2017, and \$118.0 million and \$117.4 million for the nine months ended September 30, 2018 and 2017, respectively.

In addition, Great Lakes, which was acquired by the Company on February 7, 2018, also earns loan servicing revenue from a similar servicing contract with the Department that is currently scheduled to expire on June 16, 2019. Revenue earned by Great Lakes related to this contract was \$45.7 million for the three months ended September 30, 2018, and \$122.1 million for the period from February 7, 2018 to September 30, 2018.

On February 20, 2018, the Department's Office of Federal Student Aid ("FSA") released information regarding a contract procurement process entitled Next Generation Financial Services Environment ("NextGen") for the servicing of all student loans owned by the Department. The Company is part of a team that responded to the initial phase of the NextGen procurement on April 17, 2018.

On August 27, August 29, and September 24, 2018, FSA made announcements that included canceling certain components of the NextGen process, issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled, and outlining the next steps, components, and entities that are eligible to respond to the next phase for certain of the remaining NextGen components (which for each applicable component included the Company or an entity the Company is teaming with).

Currently, FSA has four ongoing components between the two procurement processes:

- Enterprise-Wide Digital and Customer Care Platforms and Services (new procurement process)
- NextGen Future State Core Platform
- NextGen Transitional Core Processing and Related Support Activities
- NextGen Business Process Operations

The Company is part of a team that has responded or will be responding to the next applicable phase for each of these four components. The Company cannot predict the timing, nature, or outcome of the next steps for these processes.

### 14. Related Parties

On August 22, 2018, the Company entered into agreements with Union Bank and Trust Company ("Union Bank") in which the Company will provide marketing, origination, and loan servicing services to Union Bank related to private education loans. The Company has committed to purchase, or arrange for a designee to purchase, a 95% participation interest in private education loans originated by Union Bank under these agreements upon a request for purchase by Union Bank. In addition, Union Bank has agreed to sell a 95% participation interest in private education loans originated by Union Bank under these agreements to the Company or its designee upon a request for sale by the Company. As of September 30, 2018, no loans had been originated under these agreements.

## 15. Fair Value

The following tables present the Company's financial assets and liabilities that are measured at fair value on a recurring basis. There were no transfers into or out of level 1, level 2, or level 3 for the nine months ended September 30, 2018.

	As of September 30, 2018		
	Level 1	Level 2	Total
<b>Assets:</b>			
Investments:			
Student loan and other asset-backed securities - available-for-sale	\$ —	57,304	57,304
Equity securities	3,123	—	3,123
Equity securities measured at net asset value (a)	—	—	13,650
Debt securities - available-for-sale	106	—	106
Total investments	3,229	57,304	74,183
Derivative instruments	—	2,043	2,043
Total assets	\$ 3,229	59,347	76,226
<b>Liabilities:</b>			
Derivative instruments	\$ —	4,224	4,224
Total liabilities	\$ —	4,224	4,224
<b>As of December 31, 2017</b>			
	Level 1	Level 2	Total
<b>Assets:</b>			
Investments (available-for-sale):			
Student loan and other asset-backed securities	\$ —	76,866	76,866
Equity securities	3,928	—	3,928
Debt securities	108	—	108
Total investments (available-for-sale)	4,036	76,866	80,902
Derivative instruments	—	818	818
Total assets	\$ 4,036	77,684	81,720
<b>Liabilities:</b>			
Derivative instruments	\$ —	7,063	7,063
Total liabilities	\$ —	7,063	7,063

(a) In accordance with the Fair Value Measurements Topic of the FASB Accounting Standards Codification, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

The following table summarizes the fair values of all of the Company's financial instruments on the consolidated balance sheets:

	<b>As of September 30, 2018</b>				
	<b>Fair value</b>	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>					
Loans receivable	\$ 23,868,803	22,528,362	—	—	23,868,803
Cash and cash equivalents	83,537	83,537	83,537	—	—
Investments (at fair value)	74,183	74,183	3,229	57,304	—
Notes receivable	16,373	16,373	—	16,373	—
Restricted cash	723,338	723,338	723,338	—	—
Restricted cash – due to customers	188,591	188,591	188,591	—	—
Loan accrued interest receivable	624,259	624,259	—	624,259	—
Derivative instruments	2,043	2,043	—	2,043	—
<b>Financial liabilities:</b>					
Bonds and notes payable	22,525,479	22,251,433	—	22,525,479	—
Accrued interest payable	60,658	60,658	—	60,658	—
Due to customers	188,591	188,591	188,591	—	—
Derivative instruments	4,224	4,224	—	4,224	—
	<b>As of December 31, 2017</b>				
	<b>Fair value</b>	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>					
Loans receivable	\$ 23,106,440	21,814,507	—	—	23,106,440
Cash and cash equivalents	66,752	66,752	66,752	—	—
Investments (available-for-sale)	80,902	80,902	4,036	76,866	—
Notes receivable	16,393	16,393	—	16,393	—
Restricted cash	688,193	688,193	688,193	—	—
Restricted cash – due to customers	187,121	187,121	187,121	—	—
Loan accrued interest receivable	430,385	430,385	—	430,385	—
Derivative instruments	818	818	—	818	—
<b>Financial liabilities:</b>					
Bonds and notes payable	21,521,463	21,356,573	—	21,521,463	—
Accrued interest payable	50,039	50,039	—	50,039	—
Due to customers	187,121	187,121	187,121	—	—
Derivative instruments	7,063	7,063	—	7,063	—

The methodologies for estimating the fair value of financial assets and liabilities are described in note 21 of the notes to consolidated financial statements included in the 2017 Annual Report.

## 16. Subsequent Event

On October 16, 2018, the Company terminated its investment in a proprietary payment processing platform. This decision was made as a result of decreases in price and advancements of technology by established processors in the industry. As a result of this decision, the Company will record an impairment charge of approximately \$8 million during the three-month period ending December 31, 2018. The charge represents computer equipment and external software development costs related to the payment processing platform. The decision will not impact the Company's existing payment processing revenue or customers. The Company is continuing to evaluate other costs that may be incurred as a result of this decision, including the termination of certain contracts and severance for affected employees. The Company currently believes contract termination and employee severance costs will not be material.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Management's Discussion and Analysis of Financial Condition and Results of Operations is for the three and nine months ended September 30, 2018 and 2017. All dollars are in thousands, except per share amounts, unless otherwise noted.)

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion should be read in conjunction with the Company's consolidated financial statements included in the 2017 Annual Report.

### Forward-looking and cautionary statements

This report contains forward-looking statements and information that are based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company's plans and expectations for future financial condition, results of operations or economic performance, or that address management's plans and objectives for future operations, and statements that assume or are dependent upon future events, are forward-looking statements. The words "may," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "scheduled," "plan," "believe," "estimate," "assume," "forecast," "will," and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements.

The forward-looking statements are based on assumptions and analyses made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in the "Risk Factors" section of the 2017 Annual Report and elsewhere in this report, and include such risks and uncertainties as:

- loan portfolio risks such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP"), risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFELP, private education, and consumer loans and initiatives to purchase additional FFELP, private education, and consumer loans, and risks from changes in levels of loan prepayment or default rates;
- financing and liquidity risks, including risks of changes in the general interest rate environment, including the availability of any relevant money market index rate such as LIBOR, and in the securitization and other financing markets for loans, including adverse changes resulting from unanticipated repayment trends on student loans in FFELP securitization trusts that could accelerate or delay repayment of the associated bonds, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to hold student loans;
- risks from changes in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFELP loan interest income and fee-based revenues due to the discontinuation of new FFELP loan originations in 2010 and potential government initiatives or legislative proposals to consolidate existing FFELP loans to the Federal Direct Loan Program or otherwise allow FFELP loans to be refinanced with Federal Direct Loan Program loans;
- the uncertain nature of the expected benefits from the acquisition of Great Lakes Educational Loan Services, Inc. ("Great Lakes") on February 7, 2018 and the ability to successfully integrate technology, shared services, and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the U.S. Department of Education (the "Department"), which current contract between the Company and the Department accounted for 21 percent of the Company's revenue in 2017, risks to the Company related to the Department's initiative to procure new contracts for federal student loan servicing, including the risk that the Company on a post-Great Lakes acquisition basis may not be awarded a contract, risks related to the development by the Company and Great Lakes of a new student loan servicing platform, including risks as to whether the expected benefits from the new platform will be realized, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, FFELP, and private education and consumer loans;

- risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors, including cybersecurity risks related to the potential disclosure of confidential student loan borrower and other customer information, the potential disruption of the Company's systems or those of third-party vendors or customers, and/or the potential damage to the Company's reputation resulting from cyber-breaches;
- uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;
- the uncertain nature of the expected benefits from the acquisition of ALLO Communications LLC on December 31, 2015 and the ability to successfully expand its fiber network in existing service areas and additional communities and manage related construction risks;
- risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the Company both within and outside of its historical core education-related businesses; and
- risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, reputational and other risks, including the risk of increased regulatory costs, resulting from the politicization of student loan servicing, and uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws.



## OVERVIEW

The Company is a diverse company with a focus on delivering education-related products and services and loan asset management. The largest operating businesses engage in student loan servicing; education technology, services, and payment processing; and communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify the Company both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate and start-up ventures.

### GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments

The Company prepares its financial statements and presents its financial results in accordance with U.S. GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the Company's GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why the Company believes providing this additional information is useful to investors, is provided below.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
GAAP net income attributable to Nelnet, Inc.	\$ 42,927	46,303	206,287	125,065
Realized and unrealized derivative market value adjustments	5,226	(21,429)	(49,909)	(22,381)
Unrealized foreign currency transaction adjustments	—	13,683	—	45,635
Net tax effect (a)	(1,254)	2,943	11,978	(8,837)
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	\$ 46,899	41,500	168,356	139,482
Earnings per share:				
GAAP net income attributable to Nelnet, Inc.	\$ 1.05	1.11	5.04	2.97
Realized and unrealized derivative market value adjustments	0.12	(0.51)	(1.22)	(0.53)
Unrealized foreign currency transaction adjustments	—	0.33	—	1.09
Net tax effect (a)	(0.03)	0.07	0.29	(0.21)
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	\$ 1.14	1.00	4.11	3.32

(a) The tax effects are calculated by multiplying the realized and unrealized derivative market value adjustments and unrealized foreign currency transaction adjustments by the applicable statutory income tax rate.

(b) "Derivative market value and foreign currency transaction adjustments" include (i) both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars. "Derivative market value and foreign currency transaction adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria is met. Management has structured all of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of derivative instruments is reported in current period earnings with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, the cumulative net realized and unrealized gain or loss caused by changes in fair values of derivatives in which the Company plans to hold to maturity will equal zero over the life of the contract. However, the net realized and unrealized gain or loss during any given reporting period fluctuates significantly from period to period. In addition, the Company incurred unrealized foreign currency transaction adjustments for periodic fluctuations in currency exchange rates between the U.S. dollar and Euro in connection with its student loan asset-backed previously Euro-denominated bonds with an interest rate based on a spread to the EURIBOR index. The principal and accrued interest on these bonds were remeasured at each reporting period and recorded in the Company's consolidated balance sheet in U.S. dollars based on the foreign currency exchange rate on that date.

The Company believes these point-in-time estimates of asset and liability values related to its derivative instruments and previously Euro-denominated bonds that are or were subject to interest and currency rate fluctuations are or were subject to volatility mostly due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the Company's management utilizes operating results excluding these items for comparability purposes when making decisions regarding the Company's performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

On October 25, 2017, the Company completed a remarketing of the Company's bonds that were prior to that date denominated in Euros, to denominate those bonds in U.S. dollars and reset the interest rate to be based on the 3-month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, there are no foreign currency transaction adjustments with respect to those bonds after October 25, 2017.

GAAP net income increased for the nine months ended September 30, 2018 compared to the same period in 2017 primarily due to the following factors:

- The contribution to net income from the acquisition of Great Lakes;
- The increase in core spread on the Company's loan portfolio;
- The decrease in the Company's effective tax rate due to the Tax Cuts and Jobs Act, effective January 1, 2018;
- The recognition of unrealized losses in 2017 related to foreign currency transaction adjustments caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars, which bonds were remarketed in October 2017, to denominate them in U.S. dollars; and
- The recognition of a larger net gain during 2018 as compared to 2017 due to changes in the fair values of derivative instruments that do not qualify for hedge accounting.

These factors were partially offset by the following items:

- The increase in expenses for the continued build-out of the Company's ALLO fiber communications network in Lincoln, Nebraska;
- The decrease in the average balance of loans due to the run-off of the portfolio;
- The increase in the provision for loan losses related to the Company's portfolio of federally insured student loans and consumer loans;
- The impairment of software development costs in the Company's Loan Servicing and Systems operating segment; and
- A decrease in revenue from the Company's SEC-registered investment advisor subsidiary.

### ***Operating Results***

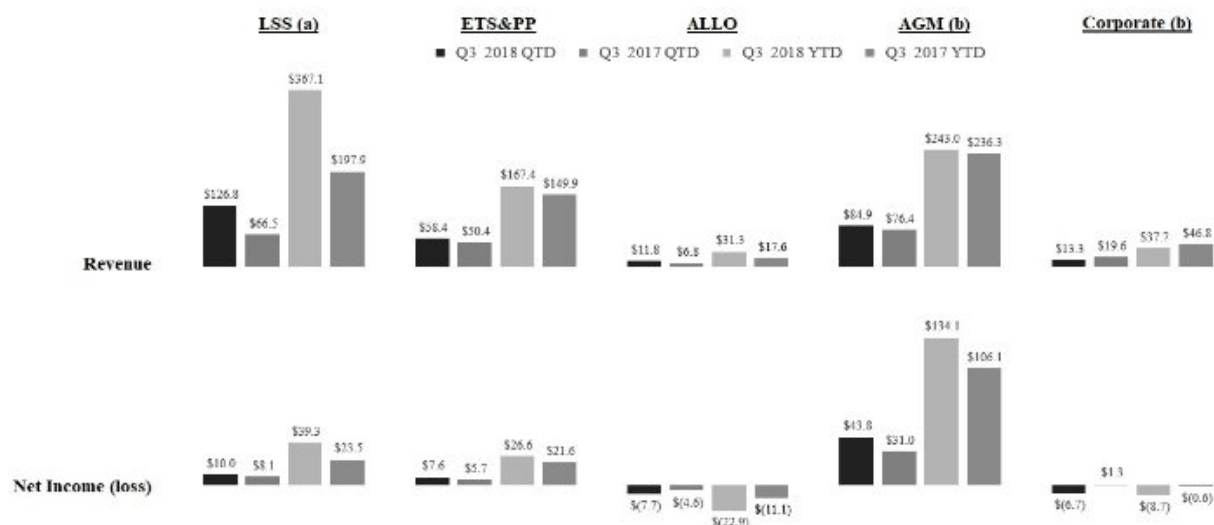
The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of September 30, 2018, the Company had a \$22.5 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 7.5 years. The Company actively works to maximize the amount and timing of cash flows generated by its FFELP portfolio and seeks to acquire additional loan assets to leverage its servicing scale and expertise to generate incremental earnings and cash flow. However, over time, due to the continued amortization of the Company's FFELP loan portfolio and anticipated increases in interest rates, the Company's net income generated by the AGM segment will continue to decrease. The Company currently believes that in the short-term it will most likely not be able to invest the excess cash generated from the FFELP loan portfolio into assets that immediately generate the rates of return historically realized from that portfolio.

In addition, the Company earns fee-based revenue through the following reportable operating segments:

- Loan Servicing and Systems ("LSS") - referred to as Nelnet Diversified Solutions ("NDS")
- Education Technology, Services, and Payment Processing ("ETS&PP") - referred to as Nelnet Business Solutions ("NBS")
- Communications - referred to as ALLO Communications ("ALLO")

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities ("Corporate"). Corporate and Other Activities also includes income earned on certain investments and interest expense incurred on unsecured debt transactions.

The information below provides the operating results for each reportable operating segment and Corporate and Other Activities for the three and nine months ended September 30, 2018 and 2017 (dollars in millions). See "Results of Operations" for each reportable operating segment under this Item 2 for additional detail.



(a) Revenue includes intersegment revenue earned by LSS as a result of servicing loans for AGM.

(b) Total revenue includes "net interest income" and "total other income" from the Company's segment statements of income, excluding the impact from changes in fair values of derivatives and foreign currency transaction adjustments. Net income excludes changes in fair values of derivatives and foreign currency transaction adjustments, net of tax. For information regarding the exclusion of the impact from changes in fair values of derivatives and foreign currency transaction adjustments, see "GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above.

Certain events and transactions from 2018, which have impacted or will impact the operating results of the Company and its operating segments, are discussed below.

#### Impact from the Tax Cuts and Jobs Act

- The Tax Cuts and Jobs Act, signed into law on December 22, 2017, and effective January 1, 2018, lowered the Company's effective tax rate to 24.44 percent and 23.50 percent for the three and nine months ended September 30, 2018, respectively, compared to 35.57 percent and 36.00 percent for the same periods in 2017. The Company currently expects its effective tax rate will be approximately 23 to 24 percent for the remainder of 2018.

#### Loan Servicing and Systems

- On February 7, 2018, the Company paid \$150.0 million in cash for 100 percent of the stock of Great Lakes. The Great Lakes assets acquired and liabilities assumed were recorded by the Company at their respective fair values at the date of acquisition, and Great Lakes' operating results from the date of acquisition forward are included in the Company's consolidated operating results. For additional information on the acquisition of Great Lakes, see note 7 of the notes to consolidated financial statements included under Part I, Item 1 of this report.
- Nelnet Servicing, LLC ("Nelnet Servicing") and Great Lakes are two companies that have student loan servicing contracts awarded by the Department in June 2009 to provide servicing for loans owned by the Department. As of September 30, 2018, Nelnet Servicing was servicing \$179.3 billion of student loans for 5.8 million borrowers under its contract, and Great Lakes was servicing \$232.7 billion of student loans for 7.5 million borrowers under its contract. These contracts are currently scheduled to expire on June 16, 2019.

Under the performance metrics measurements used by the Department for the period July 1, 2017 through December 31, 2017, Nelnet Servicing's and Great Lakes' overall rankings among the nine current servicers for the Department were fourth and second, respectively. These results increased Nelnet Servicing's and Great Lakes' allocations of new student loan servicing volumes under their current respective contracts with the Department from 11 percent to 12 percent and from 14 percent to 16 percent, respectively, for the period March 1, 2018 through August 31, 2018.

Under the performance metrics measurements used by the Department for the period January 1, 2018 through June 30, 2018, Nelnet Servicing's and Great Lakes' overall rankings among the nine current servicers for the Department remained at fourth and second, respectively; however, these results changed Nelnet Servicing's and Great Lakes' allocations of new student loan servicing volumes under their current respective contracts with the Department from 12 percent to 11 percent and from 16 percent to 17 percent, respectively, for the period September 1, 2018 through February 28, 2019.

Going forward, Great Lakes and Nelnet Servicing will continue to service their respective government-owned portfolios on behalf of the Department, while maintaining their distinct brands, independent servicing operations, and teams. Likewise, each entity will continue to compete for new student loan volume under its respective existing contract with the Department. The Company will integrate technology, as well as shared services and other activities, to become more efficient and effective in meeting borrower needs. During the second quarter of 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.

The Company and Great Lakes have also been working together for almost two years to develop a new, state-of-the-art servicing system for government-owned student loans through their GreatNet joint venture. The efficiencies gained by leveraging a single platform for government-owned loans supporting millions more borrowers will give the Company and Great Lakes opportunities to invest in strategies to further enhance borrower experiences.

- As part of integrating technology and becoming more efficient and effective in meeting borrower needs, the Company continues to evaluate the best use of its servicing systems on a post-Great Lakes acquisition basis. As a result of this evaluation, during the three months ended September 30, 2018, the Company recorded an impairment charge of \$3.9 million related to certain external software development costs that were previously capitalized.
- On February 20, 2018, the Department's Office of Federal Student Aid ("FSA") released information regarding a contract procurement process entitled Next Generation Financial Services Environment ("NextGen") for the servicing of all student loans owned by the Department. The Company is part of a team that responded to the initial phase of the NextGen procurement on April 17, 2018.

On August 27, August 29, and September 24, 2018, FSA made announcements that included canceling certain components of the NextGen process, issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled, and outlining the next steps, components, and entities that are eligible to respond to the next phase for certain of the remaining NextGen components (which for each applicable component included the Company or an entity the Company is teaming with).

Currently, FSA has four ongoing components between the two procurement processes:

- Enterprise-Wide Digital and Customer Care Platforms and Services (new procurement process)
- NextGen Future State Core Platform
- NextGen Transitional Core Processing and Related Support Activities
- NextGen Business Process Operations

The Company is part of a team that has responded or will be responding to the next applicable phase for each of these four components. The Company cannot predict the timing, nature, or outcome of the next steps for these processes.

- As of September 30, 2018, the Company (including Great Lakes) was servicing \$464.9 billion in government owned, FFELP, and private education and consumer loans, as compared with \$211.4 billion of loans serviced by the Company as of December 31, 2017.

#### ***Education Technology, Services, and Payment Processing***

- During the first quarter of 2018, the Company changed the name of its Tuition Payment Processing and Campus Commerce operating segment to Education Technology, Services, and Payment Processing to better describe the evolution of services this operating segment provides.
- In May 2014, the FASB issued a new revenue recognition standard. The Company adopted the standard effective January 1, 2018, using the full retrospective method, which required it to restate each prior reporting period presented. The most significant impact of the standard relates to identifying the Company's Education Technology, Services, and Payment Processing operating segment as the principal in its payment services transactions. As a result of this change, the Company

presents the payment services revenue gross, with the direct costs to provide these services presented separately. For additional information on the new revenue recognition standard and its impact to the Company, see notes 1 and 2 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

- This segment is subject to seasonal fluctuations. Based on the timing of when revenue is recognized and when expenses are incurred, revenue and operating margin are higher in the first quarter as compared to the remainder of the year.
- On October 16, 2018, the Company terminated its investment in a proprietary payment processing platform. This decision was made as a result of decreases in price and advancements of technology by established processors in the industry. As a result of this decision, the Company will record an impairment charge of approximately \$8 million during the three-month period ending December 31, 2018. The charge represents computer equipment and external software development costs related to the payment processing platform. The decision will not impact the Company's existing payment processing revenue or customers. The Company is continuing to evaluate other costs that may be incurred as a result of this decision, including the termination of certain contracts and severance for affected employees. The Company currently believes contract termination and employee severance costs will not be material.

### ***Communications***

- In the fourth quarter of 2017, ALLO announced plans to expand its network to make services available in Hastings, Nebraska and Fort Morgan, Colorado. This will expand total households in ALLO's current markets from 137,500 to over 152,000. In December 2017, the Fort Morgan city council approved a 40-year agreement with ALLO for ALLO to provide broadband service over a fiber network that the city will build and own, and ALLO will lease and operate to provide services to subscribers. In August 2018, ALLO began to provide its services in Fort Morgan, increasing households in current markets to 142,602 from 137,500. ALLO plans to continue expansion to additional communities in Nebraska and Colorado over the next several years. As of September 30, 2018, ALLO provided services to 32,529 households, compared to 20,428 households as of December 31, 2017 and 16,394 households as of September 30, 2017.
- For the three and nine months ended September 30, 2018, ALLO incurred capital expenditures of \$21.7 million and \$66.8 million, respectively. The Company currently anticipates total network expenditures for the remainder of 2018 (October 1, 2018 to December 31, 2018) will be approximately \$25 million; however, the amount of capital expenditures could change based on the customer demand for ALLO's services.
- The Company currently anticipates ALLO's operating results will be dilutive to the Company's consolidated earnings as it continues to build its network in Lincoln, Nebraska, and other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.

### ***Asset Generation and Management***

- During the nine months ended September 30, 2018, the Company purchased \$3.2 billion in loans, including \$0.6 billion during the third quarter of 2018. The vast majority of these loans are federally insured student loans.
- The Company's average balance of loans decreased to \$23.0 billion for the third quarter of 2018, compared with \$23.2 billion for the same period in 2017. Core loan spread increased to 1.30 percent for the quarter ended September 30, 2018, compared with 1.19 percent for the same period in 2017.

The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.25 percent and 1.17 percent for the three months ended September 30, 2018 and 2017, respectively.

The Company recognized \$32.7 million and \$28.5 million in fixed rate floor income during the three months ended September 30, 2018 and 2017, respectively (which includes \$19.1 million and \$3.9 million of settlement payments received on derivatives used to hedge student loans earning fixed rate floor income). Fixed rate floor income contributed 57 basis points and 49 basis points of core loan spread for the three months ended September 30, 2018 and 2017, respectively.

- Provision for loan losses was \$10.5 million and \$6.7 million for the three months ended September 30, 2018 and 2017, respectively, and \$18.0 million and \$10.7 million for the nine months ended September 30, 2018 and 2017, respectively.

Provision for loan losses for federally insured loans was \$8.0 million and \$7.0 million for the three months ended September 30, 2018 and 2017, respectively, and \$12.0 million and \$11.0 million for the nine months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2018, the Company determined an additional allowance was necessary related to a \$2.2 billion (principal balance as of September 30, 2018) portfolio of federally insured loans that were purchased in 2013 and 2014, and recognized \$5.0 million (pre-tax) in provision expense related to these loans. During the three months ended September 30, 2017, the Company determined an additional allowance was necessary related to a \$1.6 billion (principal balance as of September 30, 2017) portfolio of federally insured loans that were purchased in 2014 and 2015, and recognized \$5.0 million (pre-tax) in provision expense related to these loans.

The Company did not record a provision for private education loan losses for the three and nine months ended September 30, 2018. For the three and nine months ended September 30, 2017, the Company recorded a negative provision for private education loan losses of \$1.0 million and \$2.0 million, respectively.

Provision for loan losses for consumer loans was \$2.5 million and \$0.7 million for the three months ended September 30, 2018 and 2017, respectively, and \$6.0 million and \$1.7 million for the nine months ended September 30, 2018 and 2017, respectively. The increase in provision is a result of the Company continuing to purchase consumer loans.

### ***Corporate and Other Activities***

- On September 25, 2018, the Company announced it had withdrawn its application with the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions to establish Nelnet Bank, a Utah-chartered industrial bank. The Company originally filed its application on June 28, 2018.

### ***Liquidity and Capital Resources***

- As of September 30, 2018, the Company had cash and cash equivalents of \$83.5 million. In addition, the Company had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of \$57.4 million as of September 30, 2018.
- For the nine months ended September 30, 2018, the Company generated \$193.6 million in net cash from operating activities.
- On June 22, 2018, the Company amended its unsecured \$350.0 million line of credit to, among other things, extend the maturity date of the facility from December 12, 2021 to June 22, 2023. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information regarding other provisions of the line of credit that were amended. As of September 30, 2018, the unsecured line of credit had \$160.0 million outstanding and \$190.0 million was available for future use.
- The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that will generate significant earnings and cash flow over the life of these transactions. As of September 30, 2018, the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately \$2.09 billion, of which approximately \$1.18 billion is expected to be generated over the next approximately four years (October 1, 2018 through December 31, 2022).
- During the nine months ended September 30, 2018, the Company repurchased a total of 319,091 shares of Class A common stock for \$16.5 million (\$51.77 per share), including 3,297 shares of Class A common stock for \$0.2 million (\$58.13 per share) repurchased by the Company during the three months ended September 30, 2018.
- During the nine months ended September 30, 2018, the Company paid cash dividends of \$19.5 million (\$0.48 per share), including \$6.5 million (\$0.16 per share) paid during the three months ended September 30, 2018. In addition, the Company's Board of Directors has declared a fourth quarter 2018 cash dividend on the Company's outstanding shares of Class A and Class B common stock of \$0.18 per share. The fourth quarter cash dividend will be paid on December 14, 2018 to shareholders of record at the close of business on November 30, 2018.
- The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP and private education and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

## **CONSOLIDATED RESULTS OF OPERATIONS**

An analysis of the Company's operating results for the three and nine months ended September 30, 2018 compared to the same periods in 2017 is provided below.

The Company's operating results are primarily driven by the performance of its existing portfolio and the revenues generated by its fee-based businesses and the costs to provide such services. The performance of the Company's portfolio is driven by net interest income (which includes financing costs) and losses related to credit quality of the assets, along with the cost to administer and service the assets and related debt.

The Company operates as distinct reportable operating segments as described above. For a reconciliation of the reportable segment operating results to the consolidated results of operations, see note 12 of the notes to consolidated financial statements included under Part I, Item 1 of this report. Since the Company monitors and assesses its operations and results based on these segments, the discussion following the consolidated results of operations is presented on a reportable segment basis.

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Loan interest	\$ 232,320	193,087	653,414	564,173	Increase was due to an increase in the gross yield earned on loans, partially offset by a decrease in the average balance of loans outstanding and a decrease in fixed rate floor income as a result of an increase in interest rates.
Investment interest	7,628	3,800	18,581	9,616	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations. Increase was due to an increase in interest-earning investments and an increase in interest rates.
Total interest income	239,948	196,887	671,995	573,789	
Interest expense	180,175	121,650	487,174	341,787	Increase was due primarily to an increase in the Company's cost of funds, partially offset by a decrease in the average balance of debt outstanding.
Net interest income	59,773	75,237	184,821	232,002	See table below for additional analysis.
Less provision for loan losses	10,500	6,700	18,000	10,700	Represents the periodic expense of maintaining an allowance appropriate to absorb losses inherent in the portfolio of loans. See AGM operating segment - results of operations.
Net interest income after provision for loan losses	49,273	68,537	166,821	221,302	
Other income:					
LSS revenue	112,579	55,950	327,265	167,079	See LSS operating segment - results of operations.
ETS&PP revenue	58,409	50,358	167,372	149,862	See ETS&PP operating segment - results of operations.
Communications revenue	11,818	6,751	31,327	17,577	See Communications operating segment - results of operations.
Other income	16,673	19,756	44,449	44,874	See table below for the components of "other income."
Gain from debt repurchases	—	116	359	5,537	Gains are from the Company repurchasing its own debt. During the first quarter of 2017, the Company initiated a cash tender offer to purchase any and all of its outstanding Hybrid Securities. The Company paid \$25.3 million to redeem \$29.7 million of these notes and recognized a gain of \$4.4 million. Other gains are from the repurchase of the Company's asset-backed debt securities.
Derivative settlements, net	22,324	(573)	51,018	(2,314)	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income. See table below for additional analysis.
Derivative market value and foreign currency transaction adjustments, net	(5,226)	7,746	49,909	(23,254)	Includes (i) the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses in 2017 caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars.
Total other income	216,577	140,104	671,699	359,361	
Cost of services:					
Cost to provide education technology, services, and payment processing services	19,087	15,151	44,087	37,456	Represents primarily direct costs to provide payment processing services in the ETS&PP operating segment.
Cost to provide communications services	4,310	2,632	11,892	6,789	Represents costs of services and products primarily associated with television programming costs in the Communications operating segment.
Total cost of services	23,397	17,783	55,979	44,245	
Operating expenses:					
Salaries and benefits	114,172	74,193	321,932	220,684	Increase was due to (i) an increase in personnel as a result of the acquisition of Great Lakes on February 7, 2018, the increase in volume of loans serviced for the government entering repayment status, and the increase in private education and consumer loan servicing volume in the LSS operating segment; (ii) an increase in personnel to support the growth in revenue in the ETS&PP operating segment; and (iii) an increase in personnel at ALLO to support the Lincoln, Nebraska network expansion. See each individual operating segment results of operations discussion for additional information.
Depreciation and amortization	22,992	10,051	62,943	27,687	Increase was due to the amortization of intangible assets related to the acquisition of Great Lakes on February 7, 2018 and increased depreciation expense at ALLO. Since the acquisition of ALLO on December 31, 2015, there has been a significant amount of property and equipment purchases to support the Lincoln, Nebraska network expansion.
Loan servicing fees	3,087	8,017	9,428	19,670	Decrease was due to runoff of the Company's student loan portfolio on third-party platforms, the conversion of loans to the Company's LSS operating segment from third-party platforms, and the acquisition of Great Lakes on February 7, 2018, which prior to the acquisition was a third-party servicer to the Company.
Other expenses	45,194	29,500	119,020	81,923	Increase was due primarily to the acquisition of Great Lakes on February 7, 2018, additional costs to support the increase in payment plans and campus commerce activity, and an increase in operating expenses at ALLO to support the Lincoln, Nebraska network expansion and the number of households served. As part of integrating technology and becoming more efficient and effective in meeting its servicing borrower needs, the Company continues to evaluate the best use of its servicing systems on a post-Great Lakes acquisition basis. As a result of this evaluation, during the three months ended September 30, 2018, the Company recorded an impairment charge of \$3.9 million related to certain external software development costs that were previously capitalized. See each individual operating segment results of operations discussion for additional information.



Total operating expenses	185,445	121,761	513,323	349,964	
Income before income taxes	57,008	69,097	269,218	186,454	
Income tax expense	13,882	25,562	63,369	70,349	The effective tax rate was 24.44% and 35.57% for the three months ended September 30, 2018 and 2017, respectively, and 23.50% and 36.00% for the nine months ended September 30, 2018 and 2017, respectively. The lower effective tax rates in 2018 were due to the Tax Cuts and Jobs Act, signed into law on December 22, 2017 and effective January 1, 2018.
Net income	43,126	43,535	205,849	116,105	
Net (income) loss attributable to noncontrolling interests	(199)	2,768	438	8,960	Represents primarily the net loss of GreatNet attributable to Great Lakes, prior to the Company's acquisition of Great Lakes on February 7, 2018.
Net income attributable to Nelnet, Inc.	\$ 42,927	46,303	206,287	125,065	
<b>Additional information:</b>					
Net income attributable to Nelnet, Inc.	\$ 42,927	46,303	206,287	125,065	
Derivative market value and foreign currency transaction adjustments, net	5,226	(7,746)	(49,909)	23,254	
Net tax effect	(1,254)	2,943	11,978	(8,837)	
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments	\$ 46,899	41,500	168,356	139,482	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value and foreign currency transaction adjustments.

The following table summarizes the components of "net interest income" and "derivative settlements, net."

Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income as presented in the table below. Net interest income (net of settlements on derivatives) is a non-GAAP financial measure, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative for the periods presented in the table under the caption "Income Statement Impact" in note 5 and in the table below.

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Variable loan interest margin	\$ 42,455	48,017	129,756	140,805	Represents the yield the Company receives on its loan portfolio less the cost of funding these loans. Variable loan spread is also impacted by the amortization/accretion of loan premiums and discounts and the 1.05% per year consolidation loan rebate fee paid to the Department. See AGM operating segment - results of operations.
Settlements on associated derivatives	3,361	(4,265)	4,676	(7,598)	Includes the net settlements received (paid) related to the Company's 1:3 basis swaps, and the cross-currency interest rate swap in place prior to the October 2017 remarketing of previously Euro-denominated bonds.
Variable loan interest margin, net of settlements on derivatives	45,816	43,752	134,432	133,207	
Fixed rate floor income	13,659	24,586	45,359	84,382	The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rates, generating fixed rate floor income. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk" for additional information.
Settlements on associated derivatives	19,087	3,883	46,752	5,877	Includes the net settlements received related to the Company's floor income interest rate swaps.
Fixed rate floor income, net of settlements on derivatives	32,746	28,469	92,111	90,259	
Investment interest	7,628	3,800	18,581	9,616	
Corporate debt interest expense	(3,969)	(1,166)	(8,875)	(2,801)	Includes interest expense on the Junior Subordinated Hybrid Securities and unsecured line of credit.
Non-portfolio related derivative settlements	(124)	(191)	(410)	(593)	Includes the net settlements paid related to the Company's hybrid debt hedges.
Net interest income (net of settlements on derivatives)	\$ 82,097	74,664	235,839	229,688	

The following table summarizes the components of "other income."

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Realized and unrealized gains on investments, net (a)	\$ 1,288	2,201	11,505	3,818
Borrower late fee income	3,253	2,731	8,994	9,098
Investment advisory fees (b)	1,183	5,852	4,169	11,661
Management fee revenue (c)	1,756	—	4,673	—
Peterson's revenue (d)	—	3,402	—	9,282
Other	9,193	5,570	15,108	11,015
Other income	\$ 16,673	19,756	44,449	44,874

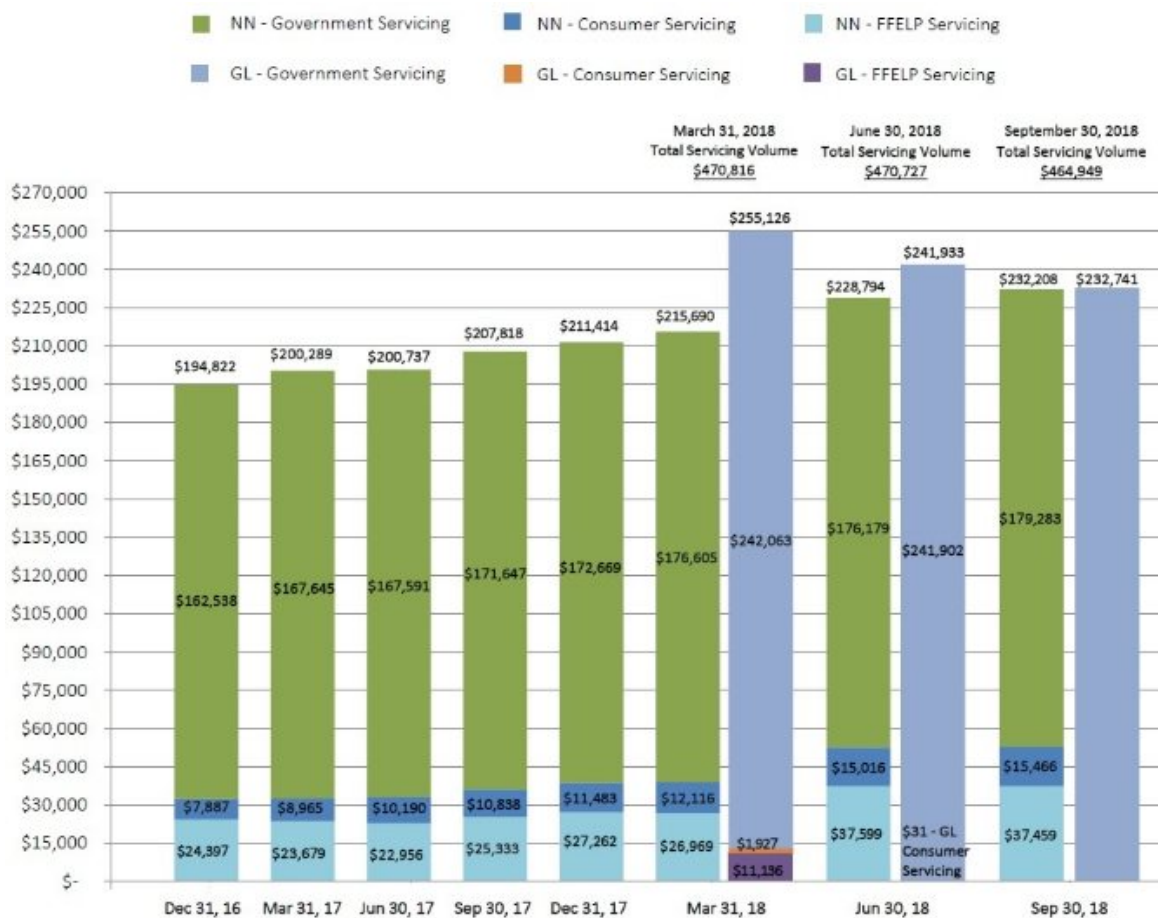
- (a) During the first and second quarters of 2018, the Company recognized unrealized gains totaling \$7.2 million related to the change in fair value of certain equity securities, and during the first quarter of 2018 recognized a realized gain of \$1.7 million related to the sale of a real estate investment.
- (b) The Company provides investment advisory services through Whitetail Rock Capital Management, LLC, the Company's SEC-registered investment advisor subsidiary, under various arrangements and earns annual fees of 25 basis points on the outstanding balance of investments and up to 50 percent of the gains from the sale of securities or securities being called prior to the full contractual maturity for which it provides advisory services. As of September 30, 2018, the outstanding balance of investments subject to these arrangements was \$935.3 million. The decrease in advisory fees in 2018 as compared to 2017 was the result of a decrease in performance fees earned.
- (c) Represents revenue earned from providing administrative support services primarily to Great Lakes' former parent company in accordance with a one-year contract that is subject to an optional annual renewal by the former parent company. The current contract expires in October 2019.
- (d) On December 31, 2017, the Company sold Peterson's.

## LOAN SERVICING AND SYSTEMS OPERATING SEGMENT – RESULTS OF OPERATIONS

The Company purchased Great Lakes on February 7, 2018. The results of Great Lakes' operations are reported in the Company's consolidated financial statements from the date of acquisition.

### Loan Servicing Volumes (dollars in millions)

During the second quarter of 2018, the Company converted Great Lakes' FFELP and private education servicing volume to Nelnet's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.



Company owned	\$16,962	\$16,352	\$15,789	\$18,403	\$17,827	\$17,866	\$19,113	\$19,206			
% of total	8.7%	8.2%	7.9%	8.9%	8.4%	3.8%	4.1%	4.1%			
Number of servicing borrowers:											
Government servicing:	5,972,619	5,924,099	5,849,283	5,906,404	5,877,414	5,819,286	7,456,830	5,745,181	7,378,875	5,805,307	7,486,311
FFELP servicing:	1,312,192	1,263,785	1,218,706	1,317,552	1,420,311	1,399,280	461,553	1,787,419	—	1,754,247	—
Private education and consumer loan servicing:	355,096	389,010	454,182	478,150	502,114	508,750	118,609	672,520	3,987	692,763	—
<b>Total:</b>	<b>7,639,907</b>	<b>7,576,894</b>	<b>7,522,171</b>	<b>7,702,106</b>	<b>7,799,839</b>	<b>7,727,316</b>	<b>8,036,992</b>	<b>8,205,120</b>	<b>7,382,862</b>	<b>8,252,317</b>	<b>7,486,311</b>
Number of remote hosted borrowers:											
	2,230,019	2,305,991	2,317,151	2,714,588	2,812,713	6,207,747	6,145,981	6,406,923			

**Summary and Comparison of Operating Results**

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Net interest income	\$ 381	147	931	361	
Loan servicing and systems revenue	112,579	55,950	327,265	167,079	See table below for additional analysis.
Intersegment servicing revenue	12,290	10,563	34,670	30,839	Represents revenue earned by the LSS operating segment as a result of servicing loans for the AGM operating segment. The increase in 2018 was a result of significant purchases of loans by AGM during the second quarter of 2018 of which LSS is the servicer, and the acquisition of Great Lakes on February 7, 2018. Prior to the acquisition, Great Lakes was a third-party servicer to the Company's AGM operating segment.
Other income	1,948	—	5,196	—	Represents revenue earned from providing administrative support services primarily to Great Lakes' former parent company in accordance with a one-year contract that is subject to an optional annual renewal by the former parent company. The current contract expires in October 2019.
Total other income	126,817	66,513	367,131	197,918	
Salaries and benefits	70,440	38,435	198,411	116,932	Increase was due to the Great Lakes acquisition, an increase in personnel to support the increase in volume of loans serviced for the government entering repayment status, and the increase in private education and consumer loan servicing volume.
Depreciation and amortization	8,957	549	23,237	1,644	Amortization of intangible assets and depreciation of fixed assets recorded as a result of the Great Lakes acquisition was \$4.9 million and \$13.1 million for the three and nine months ended September 30, 2018, respectively. Increase in 2018 as compared to 2017 was also due to continued investment in servicing and related support systems.
Other expenses	19,638	10,317	51,591	28,333	Increase was due primarily to the Great Lakes acquisition. In addition, as part of integrating technology and becoming more efficient and effective in meeting borrower needs, the Company continues to evaluate the best use of its servicing systems on a post-Great Lakes acquisition basis. As a result of this evaluation, during the three months ended September 30, 2018, the Company recorded an impairment charge of \$3.9 million related to certain external software development costs that were previously capitalized.
Intersegment expenses	15,029	7,774	43,968	23,496	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services. Increase was due to Great Lakes acquisition.
Total operating expenses	114,064	57,075	317,207	170,405	
Income before income taxes	13,134	9,585	50,855	27,874	
Income tax expense	(3,152)	(4,937)	(12,399)	(14,410)	Reflects income tax expense at an effective tax rate of 24% and 38% in 2018 and 2017, respectively, on income before taxes and the net loss attributable to noncontrolling interest. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act, signed into law on December 22, 2017 and effective January 1, 2018.
Net income	9,982	4,648	38,456	13,464	
Net loss attributable to noncontrolling interest	—	3,408	808	10,050	Represents 50 percent of the net loss of GreatNet that was attributable to Great Lakes prior to the Company's acquisition of Great Lakes on February 7, 2018.
Net income attributable to Nelnet, Inc.	\$ 9,982	8,056	39,264	23,514	
Before tax and noncontrolling interest operating margin	10.4%	19.5%	14.1%	19.2%	Excluding the amortization of intangibles recorded as a result of the Great Lakes acquisition and the impairment of external software development costs recognized during the three months ended September 30, 2018 as discussed above, before tax and noncontrolling interest operating margin was 17.3% and 18.7% for the three and nine months ended September 30, 2018, respectively.

Loan servicing and systems revenue

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Government servicing - Nelnet	\$ 38,907	38,594	118,015	117,409	Represents revenue from Nelnet Servicing's Department servicing contract. Revenue increased in the three and nine months ended September 30, 2018 due to a shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses compared to the same periods in 2017. This factor was partially offset by a decrease in the number of servicing borrowers in 2018 compared to 2017.
Government servicing - Great Lakes	45,671	—	122,107	—	Represents revenue from the Great Lakes' Department servicing contract from the date of acquisition, February 7, 2018.
FFELP servicing	7,422	3,979	24,259	11,693	Increase was due to the Great Lakes acquisition. Over time, FFELP servicing revenue will decrease as third-party customers' FFELP portfolios run off.
Private education and consumer loan servicing	10,007	7,596	31,990	20,535	Increase was due to growth in loan servicing volume from existing and new clients, along with the Great Lakes acquisition. During the first quarter of 2018, Great Lakes recognized \$4.6 million in revenue related to a private loan customer deconverting from the Great Lakes servicing platform subsequent to the Company's acquisition of Great Lakes on February 7, 2018.
Software services	8,201	4,430	24,461	13,093	Historically, the majority of software services revenue related to providing hosted student loan servicing. As a result of the Great Lakes acquisition, LSS now also provides hosted guaranty servicing and support to Great Lakes Higher Education Guaranty Corporation, an unrelated third-party FFELP guaranty agency. Increase in 2018 as compared to 2017 was due to an increase in hosted student loan servicing volume and providing the new hosted guaranty servicing.
Outsourced services and other	2,371	1,351	6,433	4,349	The majority of this revenue relates to providing contact center outsourcing activities.
Loan servicing and systems revenue	\$ 112,579	55,950	327,265	167,079	

## EDUCATION TECHNOLOGY, SERVICES, AND PAYMENT PROCESSING OPERATING SEGMENT – RESULTS OF OPERATIONS

This segment of the Company's business is subject to seasonal fluctuations which correspond, or are related to, the traditional school year. Higher amounts of revenue are typically recognized during the first quarter due to fees related to assistance with financial needs assessment as well as online applications and enrollment services. The Company's operating expenses do not follow the seasonality of the revenues. This is primarily due to generally fixed year-round personnel costs and seasonal marketing costs. Revenues from tuition payment plan services are recognized over the course of the academic term, but the peak operational activities take place in summer and early fall. Based on the timing of revenue recognition and when expenses are incurred, revenue and pre-tax operating margin are higher in the first quarter as compared to the remainder of the year.

### Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Net interest income	\$ 1,510	5	2,924	10	Increase was due to additional interest earnings on cash deposits.
Education technology, services, and payment processing revenue	58,409	50,358	167,372	149,862	See table below for additional information.
Cost to provide education technology, services, and payment processing services	19,087	15,151	44,087	37,456	Costs primarily relate to payment processing revenue. Increase was due to an increase in payments volume.
Salaries and benefits	19,972	17,432	58,552	50,986	Increase was due to additional personnel to support the increase in payment plans and campus commerce activity and continued investments in and enhancements of payment systems and products.
Depreciation and amortization	3,435	2,316	10,062	7,053	Amortization of intangible assets related to business acquisitions was \$2.8 million and \$2.1 million for the three months ended September 30, 2018 and 2017, respectively, and was \$8.2 million and \$6.4 million for the nine months ended September 30, 2018 and 2017, respectively. Increase in 2018 as compared to 2017 was also due to continued investment in payment and related support systems.
Other expenses	4,943	3,981	14,950	13,185	Increase was due to an increase in the number of managed tuition payment plans, campus commerce customer transactions and payments volume, and new school customers.
Intersegment expenses	2,494	2,219	7,630	6,430	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	30,844	25,948	91,194	77,654	
Income before income taxes	9,988	9,264	35,015	34,762	
Income tax expense	(2,397)	(3,520)	(8,404)	(13,210)	Reflects income tax expense based on effective tax rates of 24% and 38% in 2018 and 2017, respectively. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act, signed into law on December 22, 2017 and effective January 1, 2018.
Net income	\$ 7,591	5,744	26,611	21,552	

On October 16, 2018, the Company terminated its investment in a proprietary payment processing platform. This decision was made as a result of decreases in price and advancements of technology by established processors in the industry. As a result of this decision, the Company will record an impairment charge of approximately \$8 million during the three-month period ending December 31, 2018. The charge represents computer equipment and external software development costs related to the payment processing platform. The decision will not impact the Company's existing payment processing revenue or customers. The Company is continuing to evaluate other costs that may be incurred as a result of this decision, including the termination of certain contracts and severance for affected employees. The Company currently believes contract termination and employee severance costs will not be material.

Education technology, services, and payment processing revenue

The following table provides disaggregated revenue by service offering and before tax operating margin for each reporting period.

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Tuition payment plan services	\$ 19,771	17,885	63,209	58,543	Increase was due to an increase in the number of managed tuition payment plans resulting from the addition of new school customers.
Payment processing	26,956	22,541	62,908	55,371	Increase was due to an increase in payments volume from new school and non-education customers.
Education technology and services	11,419	9,831	40,411	35,804	Increase was due to an increase in the number of customers using the Company's financial needs assessment services and school administration software and services. Additionally, FACTS Education Solutions has experienced growth in the number of students and teachers receiving its professional development and educational instruction services.
Other	263	101	844	144	
Education technology, services, and payment processing revenue	58,409	50,358	167,372	149,862	
Cost to provide education technology, services, and payment processing services	19,087	15,151	44,087	37,456	Costs primarily relate to payment processing revenue. Increase was due to an increase in payments volume.
Net revenue	\$ 39,322	35,207	123,285	112,406	
Before tax operating margin	25.4%	26.3%	28.4%	30.9%	Decrease was primarily the result of higher investment in products and software during 2018 as compared to 2017.

## COMMUNICATIONS OPERATING SEGMENT – RESULTS OF OPERATIONS

### Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Net interest expense	\$ (4,173)	(1,550)	(9,984)	(3,365)	Nelnet, Inc. (parent company) has a non-participating capital interest in ALLO that has a preferred return. The interest expense incurred by ALLO and related interest income earned by Nelnet, Inc. associated with the capital interest was eliminated for the Company's consolidated financial statements. The average amount outstanding on the non-participating capital interest balance for the three months ended September 30, 2018 and 2017 was \$248.5 million and \$131.4 million, respectively, and \$222.6 million and \$98.3 million for the nine months ended September 30, 2018 and 2017, respectively. ALLO used the proceeds from Nelnet's capital contribution for network capital expenditures and related expenses.
Communications revenue	11,818	6,751	31,327	17,577	Communications revenue is derived primarily from the sale of pure fiber optic services to residential and business customers in Nebraska, including internet, television, and telephone services. Increase was primarily due to additional residential households served. See additional financial and operating data for ALLO in the tables below.
Other income	950	—	950	—	During the three months ended September 30, 2018, ALLO became eligible for certain tax incentives related to prior reporting periods. Income was not recognized until all qualifications were met.
Total other income	12,768	6,751	32,277	17,577	
Cost to provide communications services	4,310	2,632	11,892	6,789	Cost of services and products are primarily associated with television programming costs. Other costs include connectivity, franchise, and other regulatory costs directly related to providing internet and voice services.
Salaries and benefits	4,554	4,099	13,284	10,489	Since the acquisition of ALLO on December 31, 2015, there has been a significant increase in personnel to support the Lincoln, Nebraska network expansion. As of December 31, 2016, September 30, 2017, December 31, 2017, and September 30, 2018, ALLO had 318, 464, 508, and 527 employees, respectively, including part-time employees. ALLO also uses temporary employees in the normal course of business. Certain costs qualify for capitalization as ALLO builds its network.
Depreciation and amortization	6,167	3,145	16,585	7,880	Depreciation reflects the allocation of the costs of ALLO's property and equipment over the period in which such assets are used. Since the acquisition of ALLO on December 31, 2015, there has been a significant amount of property and equipment purchases to support the Lincoln, Nebraska network expansion. Amortization reflects the allocation of costs related to intangible assets recorded at fair value as of the date the Company acquired ALLO over their estimated useful lives.
Other expenses	3,151	2,278	8,811	5,422	Other expenses includes selling, general, and administrative expenses necessary for operations, such as advertising, occupancy, professional services, construction materials, and personal property taxes. Increase was due to expansion of the Lincoln, Nebraska network and number of households served.
Intersegment expenses	598	470	1,802	1,472	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	14,470	9,992	40,482	25,263	
Loss before income taxes	(10,185)	(7,423)	(30,081)	(17,840)	
Income tax benefit	2,444	2,821	7,220	6,779	Reflects income tax benefit based on effective tax rates of 24% and 38% in 2018 and 2017, respectively. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act, signed into law on December 22, 2017 and effective January 1, 2018.
Net loss	\$ (7,741)	(4,602)	(22,861)	(11,061)	The Company anticipates this operating segment will be dilutive to consolidated earnings as it continues to build its network in Lincoln, Nebraska and other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.
Additional information:					
Net loss	\$ (7,741)	(4,602)	(22,861)	(11,061)	
Net interest expense	4,173	1,550	9,984	3,365	
Income tax benefit	(2,444)	(2,821)	(7,220)	(6,779)	
Depreciation and amortization	6,167	3,145	16,585	7,880	
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	\$ 155	(2,728)	(3,512)	(6,595)	For additional information regarding this non-GAAP measure, see the table below.



Certain financial and operating data for ALLO is summarized in the tables below.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Residential revenue	\$ 8,896	4,680	23,367	11,851
Business revenue	2,861	2,013	7,779	5,525
Other	61	58	181	201
Communications revenue	\$ 11,818	6,751	31,327	17,577
Net (loss) income	\$ (7,741)	(4,602)	(22,861)	(11,061)
EBITDA (a)	155	(2,728)	(3,512)	(6,595)
Capital expenditures	21,728	29,417	66,816	78,430
Revenue contribution:				
Internet	54.6%	47.5%	52.8%	45.3%
Television	28.6	31.3	29.5	31.3
Telephone	16.6	20.9	17.5	22.9
Other	0.2	0.3	0.2	0.5
	100.0%	100.0%	100.0%	100.0%

	As of September 30, 2018	As of June 30, 2018	As of March 31, 2018	As of December 31, 2017	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017	As of December 31, 2016
Residential customer information:								
Households served	32,529	27,643	23,541	20,428	16,394	12,460	10,524	9,814
Households passed (b)	110,687	98,538	84,475	71,426	54,815	45,880	34,925	30,962
Total households in current markets (c)	142,602	137,500	137,500	137,500	137,500	137,500	137,500	137,500
Total households in current markets and new markets announced (d)	152,840	152,840	152,840	152,626	137,500	137,500	137,500	137,500

- (a) Earnings (loss) before interest, income taxes, depreciation, and amortization ("EBITDA") is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The Company reports EBITDA for ALLO because the Company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP. A reconciliation of EBITDA from net income (loss) under GAAP is presented under "Summary and Comparison of Operating Results" in the table above.
- (b) Represents the number of single residence homes, apartments, and condominiums that ALLO already serves and those in which ALLO has the capacity to connect to its network distribution system without further material extensions to the transmission lines, but have not been connected.
- (c) During the third quarter of 2018, ALLO began providing service in Fort Morgan, Colorado.
- (d) During the fourth quarter of 2017, ALLO announced plans to expand its network to make services available in Hastings, Nebraska and Fort Morgan, Colorado. ALLO plans to expand to additional communities in Nebraska and Colorado over the next several years.

## ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

### Loan Portfolio

As of September 30, 2018, the Company had a \$22.5 billion loan portfolio, consisting primarily of federally insured loans, that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 7.5 years. For a summary of the Company's loan portfolio as of September 30, 2018 and December 31, 2017, see note 3 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

### Loan Activity

The following table sets forth the activity of loans:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Beginning balance	\$ 22,856,285	23,415,159	21,995,877	25,103,643
Loan acquisitions:				
Federally insured student loans	591,196	37,409	3,124,154	141,688
Private education loans	—	123	194	698
Consumer loans	42,819	19,279	80,385	45,270
Total loan acquisitions	634,015	56,811	3,204,733	187,656
Repayments, claims, capitalized interest, and other	(502,474)	(449,837)	(1,714,820)	(1,647,430)
Consolidation loans lost to external parties	(292,749)	(267,331)	(789,321)	(889,067)
Loans sold	(22,320)	—	(23,712)	—
Ending balance	\$ 22,672,757	22,754,802	22,672,757	22,754,802

### Allowance for Loan Losses and Loan Delinquencies

The Company maintains an allowance that management believes is appropriate to absorb losses, net of recoveries, inherent in the portfolio of loans, which results in periodic provisions for loan losses. Delinquencies have the potential to adversely impact the Company's earnings through increased servicing and collection costs and account charge-offs.

For a summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2018 and 2017, and a summary of the Company's loan delinquency amounts as of September 30, 2018, December 31, 2017, and September 30, 2017, see note 3 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Provision for loan losses for federally insured loans was \$8.0 million and \$7.0 million for the three months ended September 30, 2018 and 2017, respectively, and \$12.0 million and \$11.0 million for the nine months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2018, the Company determined an additional allowance was necessary related to a \$2.2 billion (principal balance as of September 30, 2018) portfolio of federally insured loans that were purchased in 2013 and 2014, and recognized \$5.0 million (pre-tax) in provision expense related to these loans. During the three months ended September 30, 2017, the Company determined an additional allowance was necessary related to a \$1.6 billion (principal balance as of September 30, 2017) portfolio of federally insured loans that were purchased in 2014 and 2015, and recognized \$5.0 million (pre-tax) in provision expense related to these loans.

For loans purchased where there is evidence of credit deterioration since the origination of the loan, the Company records a credit discount, separate from the allowance for loan losses, which is non-accretable to interest income. Remaining discounts and premiums for purchased loans are recognized in interest income over the remaining estimated lives of the loans. The Company continues to evaluate credit losses associated with purchased loans based on current information and changes in expectations to determine the need for any additional allowance for loan losses.

The Company did not record a provision for private education loan losses for the three and nine months ended September 30, 2018. For the three and nine months ended September 30, 2017, the Company recorded a negative provision for private education loan losses of \$1.0 million and \$2.0 million, respectively.

Provision for loan losses for consumer loans was \$2.5 million and \$0.7 million for the three months ended September 30, 2018 and 2017, respectively, and \$6.0 million and \$1.7 million for the nine months ended September 30, 2018 and 2017, respectively. The increase in provision is a result of the Company continuing to purchase consumer loans.

### Loan Spread Analysis

The following table analyzes the loan spread on the Company's portfolio of loans, which represents the spread between the yield earned on loan assets and the costs of the liabilities and derivative instruments used to fund the assets. The spread amounts included in the following table are calculated by using the notional dollar values found in the table under the caption "Net interest income, net of settlements on derivatives" below, divided by the average balance of student loans or debt outstanding.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Variable loan yield, gross	4.57 %	3.64 %	4.40 %	3.45 %
Consolidation rebate fees	(0.83)	(0.85)	(0.84)	(0.84)
Discount accretion, net of premium and deferred origination costs amortization	0.03	0.07	0.04	0.07
Variable loan yield, net	3.77	2.86	3.60	2.68
Loan cost of funds - interest expense	(3.10)	(2.09)	(2.89)	(1.91)
Loan cost of funds - derivative settlements (a) (b)	0.06	(0.07)	0.03	(0.04)
Variable loan spread	0.73	0.70	0.74	0.73
Fixed rate floor income, gross	0.23	0.42	0.27	0.47
Fixed rate floor income - derivative settlements (a) (c)	0.34	0.07	0.28	0.03
Fixed rate floor income, net of settlements on derivatives	0.57	0.49	0.55	0.50
Core loan spread (d)	1.30 %	1.19 %	1.29 %	1.23 %
Average balance of loans	\$ 22,971,361	23,188,577	22,600,841	23,948,108
Average balance of debt outstanding	22,557,437	22,892,789	22,165,059	23,687,067

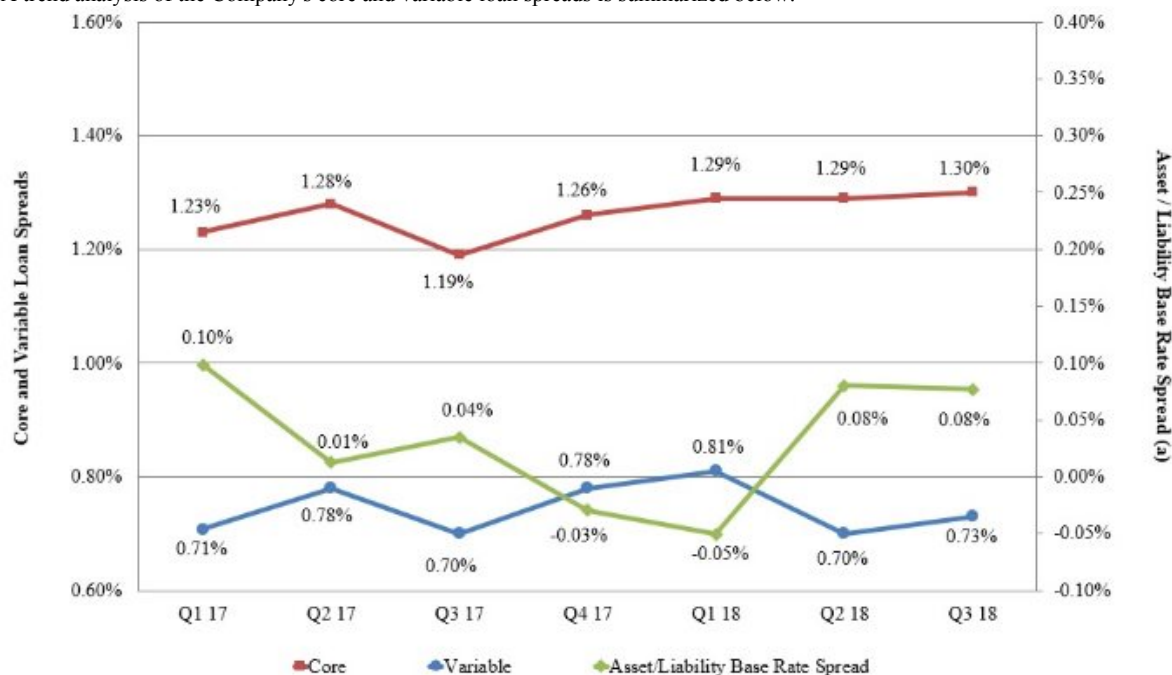
(a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income (loan spread) as presented in this table. The Company reports this non-GAAP information because it believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative for the periods presented in the table under the caption "Income Statement Impact" in note 5 and in this table.

(b) Derivative settlements include the net settlements received (paid) related to the Company's 1:3 basis swaps and previous cross-currency interest rate swap.

(c) Derivative settlements include the net settlements received (paid) related to the Company's floor income interest rate swaps.

(d) The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.25% and 1.17% for the three months ended September 30, 2018 and 2017, respectively, and 1.25% and 1.22% for the nine months ended September 30, 2018 and 2017, respectively.

A trend analysis of the Company's core and variable loan spreads is summarized below.



(a) The interest earned on the majority of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds a large portion of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and funds such loans has a significant impact on loan spread. This table (the right axis) shows the difference between the Company's liability base rate and the one-month LIBOR rate by quarter. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk," which provides additional detail on the Company's FFELP student loan assets and related funding for those assets.

Variable loan spread increased during the three and nine months ended September 30, 2018 as compared to the same periods in 2017 due to the impact of the Company beginning to purchase consumer loans in the second quarter of 2017. Variable loan spread without consumer loans was 0.68% for both the three months ended September 30, 2018 and 2017, and 0.70% and 0.72% for the nine months ended September 30, 2018 and 2017, respectively.

The difference between variable loan spread and core loan spread is fixed rate floor income. A summary of fixed rate floor income and its contribution to core loan spread follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Fixed rate floor income, gross	\$ 13,659	24,586	45,359	84,382
Derivative settlements (a)	19,087	3,883	46,752	5,877
Fixed rate floor income, net	\$ 32,746	28,469	92,111	90,259
Fixed rate floor income contribution to spread, net	0.57%	0.49%	0.55%	0.50%

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

The decrease in gross fixed rate floor income for the three and nine months ended September 30, 2018 compared to the same periods in 2017 was due to an increase in interest rates. The Company has a portfolio of derivative instruments in which the Company pays a fixed rate and receives a floating rate to economically hedge loans earning fixed rate floor income. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk," which provides additional detail on the Company's portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

## Summary and Comparison of Operating Results

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Net interest income after provision for loan losses	\$ 48,665	67,197	164,152	217,067	See table below for additional analysis.
Other income	3,267	2,753	9,032	9,152	The primary component of other income is borrower late fees. The increase in the three months ended September 30, 2018 as compared to the same period in 2017 was due to an increase in federally insured loan delinquencies. The decrease in the nine months ended September 30, 2018 as compared to the same period in 2017 was due to a decrease in the average balance of loans.
Gain from debt repurchases	—	116	359	1,097	Gains were from the Company repurchasing its own asset-backed debt securities.
Derivative settlements, net	22,448	(382)	51,428	(1,721)	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income as reflected in the table below.
Derivative market value and foreign currency transaction adjustments, net	(6,056)	7,702	47,070	(23,121)	Includes (i) the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses in 2017 caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars.
Total other income (expense)	19,659	10,189	107,889	(14,593)	
Salaries and benefits	424	392	1,183	1,156	
Loan servicing fees	3,087	8,017	9,428	19,670	Third party loan servicing fees decreased due to runoff of the Company's loan portfolio on third-party platforms, significant conversions of loans to the LSS operating segment in August 2017 (in which the Company incurred \$2.8 million in conversion fees), July 2018, and September 2018, and the acquisition of Great Lakes in February 2018, which prior to the acquisition was a third-party servicer to the Company. Servicing fees on loans serviced by Great Lakes are included in intersegment expenses effective as of the acquisition date.
Other expenses	845	676	2,982	2,487	
Intersegment expenses	12,378	10,659	34,943	31,114	Amounts include fees paid to the LSS operating segment for the servicing of the Company's loan portfolio. These amounts exceed the actual cost of servicing the loans. Increase was due to significant purchases of loans during the second quarter of 2018 of which LSS is the servicer, significant conversions of loans in August 2017, July 2018, and September 2018, and the acquisition of Great Lakes in February 2018, as described above. Intersegment expenses also represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	16,734	19,744	48,536	54,427	Total operating expenses were 29 basis points and 35 basis points of the average balance of student loans for the three months ended September 30, 2018 and 2017, respectively, and 29 basis points and 31 basis points for the nine months ended September 30, 2018 and 2017, respectively. When excluding the \$2.8 million of conversion fees paid in August 2017 to a third-party to transfer loans to the LSS operating segment's servicing platform, total operating expenses were 29, 30, 29, and 30 basis points for the three months ended September 30, 2018 and 2017 and nine months ended September 30, 2018 and 2017, respectively.
Income before income taxes	51,590	57,642	223,505	148,047	
Income tax expense	(12,381)	(21,904)	(53,641)	(56,258)	Reflects income tax expense based on effective tax rates of 24% and 38% in 2018 and 2017, respectively. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act, signed into law on December 22, 2017 and effective January 1, 2018.
Net income	\$ 39,209	35,738	169,864	91,789	
Additional information:					
Net income	\$ 39,209	35,738	169,864	91,789	
Derivative market value and foreign currency transaction adjustments, net	6,056	(7,702)	(47,070)	23,121	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value and foreign currency transaction adjustments. Net income, excluding derivative market value and foreign currency transaction adjustments, increased in 2018 compared to the same periods in 2017, due to a decrease in the segment's effective tax rate from 38% in 2017 to 24% in 2018 as the result of the Tax Cuts and Jobs Act and an increase in core student loan spread. These items were partially offset by a decrease in the average balance of loans.
Net tax effect	(1,453)	2,927	11,297	(8,786)	
Net income, excluding derivative market value and foreign currency transaction adjustments	\$ 43,812	30,963	134,091	106,124	
Additional information - before income taxes:					
Income before income taxes	\$ 51,590	57,642	223,505	148,047	
Derivative market value and foreign currency transaction adjustments, net	6,056	(7,702)	(47,070)	23,121	
Income before income taxes, excluding derivative market value and foreign currency transaction adjustments	\$ 57,646	49,940	176,435	171,168	

Net interest income, net of settlements on derivatives

The following table summarizes the components of "net interest income after provision for loan losses" and "derivative settlements, net."

	Three months ended September 30,		Nine months ended September 30,		Additional information
	2018	2017	2018	2017	
Variable interest income, gross	\$ 264,675	213,118	742,938	618,197	Increase was due to an increase in the gross yield earned on loans, partially offset by a decrease in the average balance of loans.
Consolidation rebate fees	(47,868)	(48,986)	(143,091)	(151,469)	Decrease was due to a decrease in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	1,855	4,371	8,207	13,064	Net discount accretion was due to the Company's purchases of loans at a net discount over the last several years. The decrease in 2018 as compared to the same periods in 2017 was due to significant loan purchases made by the Company during 2018 at a net premium.
Variable interest income, net	218,662	168,503	608,054	479,792	
Interest on bonds and notes payable	(176,207)	(120,486)	(478,298)	(338,987)	Increase was due to an increase in cost of funds, partially offset by a decrease in the average balance of debt outstanding.
Derivative settlements, net (a)	3,361	(4,265)	4,676	(7,598)	Derivative settlements include the net settlements received (paid) related to the Company's 1:3 basis swaps and the previous cross-currency interest rate swap.
Variable loan interest margin, net of settlements on derivatives (a)	45,816	43,752	134,432	133,207	
Fixed rate floor income, gross	13,659	24,586	45,359	84,382	Fixed rate floor income decreased due to the rising interest rate environment.
Derivative settlements, net (a)	19,087	3,883	46,752	5,877	Derivative settlements include the settlements received related to the Company's floor income interest rate swaps. Increase in settlements due to the rising interest rate environment.
Fixed rate floor income, net of settlements on derivatives	32,746	28,469	92,111	90,259	
Core loan interest income (a)	78,562	72,221	226,543	223,466	
Investment interest	3,719	1,882	9,467	4,491	Increase was due to a higher balance of interest-earning investments and an increase in interest rates.
Intercompany interest	(668)	(588)	(2,430)	(1,911)	
Provision for loan losses - federally insured loans	(8,000)	(7,000)	(12,000)	(11,000)	
Negative provision for loan losses - private education loans	—	1,000	—	2,000	See "Allowance for Loan Losses and Loan Delinquencies" included above under "Asset Generation and Management Operating Segment - Results of Operations."
Provision for loan losses - consumer loans	(2,500)	(700)	(6,000)	(1,700)	
Net interest income after provision for loan losses (net of settlements on derivatives) (a)	\$ 71,113	66,815	215,580	215,346	

- (a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements on derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income as presented in this table. Core loan interest income and net interest income after provision for loan losses (net of settlements on derivatives) are non-GAAP financial measures, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative referred to in the "Additional information" column of this table, for the periods presented in the table under the caption "Income Statement Impact" in note 5 and in this table.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's Loan Servicing and Systems and Education Technology, Services, and Payment Processing operating segments are non-capital intensive and both produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to these segments and any liquidity or capital needs are satisfied using cash flow from operations. Therefore, the following Liquidity and Capital Resources discussion is concentrated on the Company's liquidity and capital needs to meet existing debt obligations in the Asset Generation and Management operating segment and capital needs to expand ALLO's communications network in the Communications operating segment.

### Sources of Liquidity and Available Capacity

The Company has historically generated positive cash flow from operations. For the nine months ended September 30, 2018, the Company's net cash provided from operating activities was \$193.6 million.

As of September 30, 2018, the Company had cash and cash equivalents of \$ 83.5 million. The Company also had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of \$57.4 million as of September 30, 2018.

The Company also has a \$350.0 million unsecured line of credit that matures on June 22, 2023. As of September 30, 2018, there was \$160.0 million outstanding on the unsecured line of credit and \$190.0 million was available for future use.

In addition, the Company has repurchased certain of its own asset-backed securities (bonds and notes payable) in the secondary market. For accounting purposes, these notes are eliminated in consolidation and are not included in the Company's consolidated financial statements. However, these securities remain legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. As of September 30, 2018, the Company holds \$15.0 million (par value) of its own asset-backed securities.

The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP, private education, and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

### Cash Flows

During the nine months ended September 30, 2018, the Company generated \$193.6 million from operating activities, compared to \$237.1 million for the same period in 2017. The decrease in cash provided by operating activities reflects the adjustments to net income from derivative market value and foreign currency transaction adjustments and the impact of changes in loan accrued interest receivable and other liabilities during the nine months ended September 30, 2018 as compared to the same period in 2017. These factors were partially offset by the increase in net income, an increase in the adjustments to net income for depreciation and amortization and deferred taxes, and the impact of changes in other assets.

The primary items included in the statement of cash flows for investing activities are the purchase and repayment of loans. The primary items included in financing activities are the proceeds from the issuance of and payments on bonds and notes payable used to fund loans. Cash used in investing activities and provided by financing activities for the nine months ended September 30, 2018 was \$0.9 billion and \$0.8 billion, respectively. Cash provided by investing activities and used in financing activities for the nine months ended September 30, 2017 was \$2.2 billion and \$2.6 billion, respectively. Investing and financing activities are further addressed in the discussion that follows.

## Liquidity Needs and Sources of Liquidity Available to Satisfy Debt Obligations Secured by Loan Assets and Related Collateral

The following table shows the Company's debt obligations outstanding that are secured by loan assets and related collateral.

	As of September 30, 2018	
	Carrying amount	Final maturity
Bonds and notes issued in asset-backed securitizations	\$ 21,617,844	4/25/24 - 10/25/66
FFELP warehouse facilities	705,144	11/19/19 / 5/31/21
	<u>\$ 22,322,988</u>	

### *Bonds and Notes Issued in Asset-backed Securitizations*

The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that are structured to substantially match the maturity of the funded assets, thereby minimizing liquidity risk. Cash generated from student loans funded in asset-backed securitizations provide the sources of liquidity to satisfy all obligations related to the outstanding bonds and notes issued in such securitizations. In addition, due to (i) the difference between the yield the Company receives on the loans and cost of financing within these transactions, and (ii) the servicing and administration fees the Company earns from these transactions, the Company has created a portfolio that will generate earnings and significant cash flow over the life of these transactions.

As of September 30, 2018, based on cash flow models developed to reflect management's current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately \$2.09 billion as detailed below.

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of September 30, 2018. As of September 30, 2018, the Company had \$21.8 billion of loans included in asset-backed securitizations, which represented 96.4 percent of its total loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded in its warehouse facilities as of September 30, 2018, private education and consumer loans funded with operating cash, and loans acquired subsequent to September 30, 2018.



### Asset-backed Securitization Cash Flow Forecast

**\$2.09 billion**  
(dollars in millions)



The forecasted future undiscounted cash flows of approximately \$2.09 billion include approximately \$0.90 billion (as of September 30, 2018 ) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances in the consolidated balance sheet: "loans receivable," "restricted cash," and "loan accrued interest receivable." The difference between the total estimated future undiscounted cash flows and the overcollateralization of approximately \$1.19 billion, or approximately \$0.90 billion after estimated income taxes based on the current effective tax rate, is expected to be accretive to the Company's September 30, 2018 balance of consolidated shareholders' equity.

Certain of the Company's asset-backed securitizations are structured as "Turbo Transactions" which require all cash generated from the student loans (including excess spread) to be directed toward payment of interest and any remaining principal until such time as all principal on the notes has been paid in full. Once the notes in such transactions are paid in full, the remaining unencumbered student loans (and other remaining assets, if any) in the securitization will be released to the Company, at which time the Company will have the option to refinance or sell these assets, or retain them on the balance sheet as unencumbered assets.

The Company uses various assumptions, including prepayments and future interest rates, when preparing its cash flow forecast. These assumptions are further discussed below.

**Prepayments:** The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity, borrower default rates, and utilization of debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company's recent asset-backed securitization transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately \$175 million to \$210 million .

**Interest rates:** The Company funds a large portion of its student loans with three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed primarily to a one-month LIBOR rate. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes three-month LIBOR will exceed one-month LIBOR by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between three-month and one-month LIBOR for the life of the portfolio, the cash flow forecast would

be reduced by approximately \$110 million to \$130 million . As the percentage of the Company's outstanding debt financed by three-month LIBOR declines, the Company's basis risk will be reduced.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. The forecasted cash flow does not include cash flows the Company expects to pay/receive related to derivative instruments used by the Company to manage interest rate risk. As of September 30, 2018 , the net fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a net asset of \$118.5 million. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk."

#### ***FFELP Warehouse Facilities***

The Company funds a portion of its FFELP loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. As of September 30, 2018 , the Company had two FFELP warehouse facilities with an aggregate maximum financing amount available of \$1.05 billion , of which \$0.71 billion was outstanding, and \$0.34 billion was available for additional funding. Prior to November 6, 2018, one warehouse facility provided for formula-based advance rates, depending on FFELP loan type, up to a maximum of the principal and interest of loans financed. The advance rates for collateral could have increased or decreased based on market conditions. On November 6, 2018, the Company amended the agreement for this warehouse facility, which changed the formula-based advance rates to be static until the expiration of the current liquidity provisions. In the event the liquidity provisions are not extended, the valuation agent has the right to perform a one-time mark to market on the underlying loans funded in this facility, subject to a floor. The loans would then be funded at this new advance rate until the final maturity date of the facility. The other warehouse facility has static advance rates that requires initial equity for loan funding, but does not require increased equity based on market movements. As of September 30, 2018 , the Company had \$36.1 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at September 30, 2018 , see note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

Upon termination or expiration of the warehouse facilities, the Company would expect to access the securitization market, obtain replacement warehouse facilities, use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

#### **Other Uses of Liquidity**

Effective July 1, 2010, no new loan originations can be made under the FFEL Program and all new federal loan originations must be made through the Federal Direct Loan Program. As a result, the Company no longer originates new FFELP loans, but continues to acquire FFELP loan portfolios from third parties and believes additional loan purchase opportunities exist, including opportunities to purchase private education and consumer loans.

The Company plans to fund additional loan acquisitions using current cash and investments; using its Union Bank participation agreement (as described below); using its FFELP warehouse facilities (as described above); establishing new warehouse facilities; and continuing to access the asset-backed securities market.

#### ***Union Bank Participation Agreement***

The Company maintains an agreement with Union Bank, a related party, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans. As of September 30, 2018 , \$620.9 million of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days' notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to \$750.0 million or an amount in excess of \$750.0 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets.

### ***Asset-Backed Securities Transactions***

During the first three quarters of 2018, the Company completed four asset-backed securitizations totaling \$2.5 billion (par value). See note 4 of the notes to consolidated financial statements included under Part I, Item I of this report for additional information on these securitizations. The proceeds from these transactions were used primarily to refinance student loans included in the Company's FFELP warehouse facilities.

Depending on future market conditions, the Company currently anticipates continuing to access the asset-backed securitization market. Such asset-backed securitization transactions would be used to refinance student loans included in its warehouse facilities, loans purchased from third parties, and/or student loans in its existing asset-backed securitizations.

### **Liquidity Impact Related to Hedging Activities**

The Company utilizes derivative instruments to manage interest rate sensitivity. By using derivative instruments, the Company is exposed to market risk which could impact its liquidity. Based on the derivative portfolio outstanding as of September 30, 2018, the Company does not currently anticipate any movement in interest rates having a material impact on its capital or liquidity profile, nor does the Company expect that any movement in interest rates would have a material impact on its ability to meet potential collateral deposits with its counterparties and/or variation margin payments with its third-party clearinghouse. However, if interest rates move materially and negatively impact the fair value of the Company's derivative portfolio or if the Company enters into additional derivatives for which the fair value becomes negative, the Company could be required to deposit additional collateral with its derivative instrument counterparties and/or pay variation margin to a third-party clearinghouse. The collateral deposits or variation margin, if significant, could negatively impact the Company's liquidity and capital resources. In addition, clearing requirements require the Company to post amounts of liquid collateral when executing new derivative instruments, which could prevent or limit the Company from utilizing additional derivative instruments to manage interest rate sensitivity and risks. See note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report for additional information on the Company's derivative portfolio.

### **Liquidity Impact Related to the Communications Operating Segment**

ALLO has made significant investments in its communications network and currently provides fiber directly to homes and businesses in seven communities in Nebraska and one in Colorado. In 2016, ALLO began to expand its network to make its services available to substantially all commercial and residential premises in Lincoln, Nebraska, and currently plans to expand to additional communities in Nebraska and Colorado over the next several years. For the nine months ended September 30, 2018, ALLO's capital expenditures were \$66.8 million. The Company anticipates total ALLO network capital expenditures for the remainder of 2018 (October 1, 2018 - December 31, 2018) will be approximately \$25 million. However, this amount could change based on customer demand for ALLO's services. As of December 31, 2017, ALLO had a \$270.0 million line of credit with Nelnet, Inc. (parent company) that ALLO used for its operating activities and capital expenditures. The outstanding amount owed by ALLO to Nelnet, Inc. and the related interest expense incurred by ALLO and the interest income recognized by Nelnet, Inc. under this line of credit was eliminated in the Company's consolidated financial statements. On January 1, 2018, ALLO received funds contributed by Nelnet, Inc. for a non-participating capital interest in ALLO that has a preferred return. ALLO used the proceeds from this capital contribution to pay off all of the outstanding balance on its line of credit with Nelnet, Inc., including all accrued and unpaid interest on such line of credit. For financial reporting purposes, the capital interest recorded by ALLO is classified as debt and such debt and the preferred return paid to Nelnet, Inc. on the capital interest (reflected as interest expense for ALLO) is eliminated in the consolidated financial statements.

The Company currently plans to use cash from operating activities and its third-party \$350.0 million unsecured line of credit to fund ALLO's capital expenditures and operating expenses.

### **Other Debt Facilities**

As discussed above, the Company has a \$350.0 million unsecured line of credit with a maturity date of June 22, 2023. On June 22, 2018, the Company amended this line of credit. See note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for information regarding the provisions of the line of credit that were amended. As of September 30, 2018, the unsecured line of credit had \$160.0 million outstanding and \$190.0 million was available for future use. Upon the maturity date in 2023, there can be no assurance that the Company will be able to maintain this line of credit, increase the amount outstanding under the line, or find alternative funding if necessary.

The Company has issued Junior Subordinated Hybrid Securities (the "Hybrid Securities") that have a final maturity of September 15, 2061 . The Hybrid Securities are unsecured obligations of the Company. As of September 30, 2018 , the outstanding balance of Hybrid Securities was \$20.4 million .

The Company has other notes payable included in its consolidated financial statements which were issued by partnerships in connection with the development of certain real estate projects in Lincoln, Nebraska, including a project involving Hudl, a related party. Although the Company's ownership of these partnerships are 50 percent or less, because the Company was the developer of and is a current tenant in these buildings, the operating results of these partnerships are included in the Company's consolidated financial statements. The total amount of real estate debt outstanding issued by these partnerships and included in the Company's consolidated financial statements as of September 30, 2018 was \$33.9 million, of which \$7.8 million was recourse to the Company.

### Debt Repurchases

Due to the Company's positive liquidity position and opportunities in the capital markets, the Company has repurchased its own debt over the last several years, and may continue to do so in the future. See note 5 of the notes to consolidated financial statements included in the 2017 Annual Report for information on debt repurchased by the Company during the years 2015 through 2017 and note 4 of the notes to consolidated financial statements included under Part I, Item 1 of this report for information on debt repurchased by the Company during the three and nine months ended September 30, 2018 .

### Stock Repurchases

The Board of Directors has authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 25, 2019. Shares may be repurchased from time to time depending on various factors, including share prices and other potential uses of liquidity. Shares repurchased by the Company during the three months ended March 31, 2018, June 30, 2018 and September 30, 2018 are shown below. Certain of these repurchases were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. For additional information on stock repurchases during the third quarter of 2018 , see "Stock Repurchases" under Part II, Item 2 of this report.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Quarter ended March 31, 2018	222,174	\$ 11,418	51.39
Quarter ended June 30, 2018	93,620	4,910	52.44
Quarter ended September 30, 2018	3,297	192	58.13
Total	319,091	\$ 16,520	51.77

### Dividends

On September 14, 2018, the Company paid a third quarter 2018 cash dividend on the Company's Class A and Class B common stock of \$0.16 per share. In addition, the Company's Board of Directors has declared a fourth quarter 2018 cash dividend on the Company's outstanding shares of Class A and Class B common stock of \$0.18 per share. The fourth quarter cash dividend will be paid on December 14, 2018 to shareholders of record at the close of business on November 30, 2018 .

The Company currently plans to continue making regular quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors. In addition, the payment of dividends is subject to the terms of the Company's outstanding Hybrid Securities, which generally provide that if the Company defers interest payments on those securities it cannot pay dividends on its capital stock.

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses the Company's consolidated financial statements, which have been prepared in accordance with GAAP. A discussion of the Company's critical accounting

policies and estimates, which include those for the allowance for loan losses, income taxes, and accounting for derivatives, can be found in the 2017 Annual Report. There were no significant changes to these critical accounting policies and estimates during the first nine months of 2018 .

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### ***Leases***

In February 2016, the FASB issued a new standard regarding the accounting for leases. The standard will require the identification of arrangements that should be accounted for as leases by lessees and the disclosure of key information about leasing arrangements. The new standard establishes a right-of-use model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability for all leases with a term longer than twelve months and classify the lease as operating or financing. The income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases.

The standard requires the use of the modified retrospective transition method, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company expects to adopt the new standard on its effective date of January 1, 2019 and use the effective date as its date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company expects to elect the ‘package of practical expedients’, which permits it to not reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs.

While the Company is continuing to evaluate the impact this pronouncement will have on its ongoing financial reporting, it currently believes the most significant changes will relate to (1) the recognition of new ROU assets and lease liabilities on its balance sheet primarily for office and dark fiber operating leases; (2) the derecognition of existing assets and liabilities for certain sale-leaseback transactions arising from build-to-suit lease arrangements for which construction is complete and the Company is leasing the constructed assets that currently do not qualify for sale accounting; and (3) providing significant new disclosures about the Company’s leasing activities. The Company does not expect a significant change in its leasing activities between now and adoption.

The new standard also provides practical expedients for an entity’s ongoing accounting. The Company currently expects to elect the short-term lease recognition exemption for all leases that qualify and to elect the practical expedient to not separate lease and non-lease components for all of its leases.

In addition, the Company has identified itself as the lessor in its Communications operating segment for services provided to customers that include customer-premise equipment. The Company expects to apply the practical expedient to account for those services and associated leases as a single, combined component. The Company has determined the non-lease services are ‘predominant’ in those contracts, which will require the Company to continue to account for the combined component as a single performance obligation under ASC Topic 606.

### ***Allowance for Loan Losses***

In June 2016, the FASB issued accounting guidance regarding the measurement of credit losses on financial instruments, which will change the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. The Company currently uses an incurred loss model when calculating its allowance for loan losses. As a result, the Company expects the new guidance will increase the allowance for loan losses. This guidance will be effective for the Company beginning January 1, 2020. This standard represents a significant departure from existing GAAP, and may result in significant changes to the Company's accounting for the allowance for loan losses. The Company is evaluating the impact this pronouncement will have on its ongoing financial reporting.

### ***Hedging Activities***

In August 2017, the FASB issued accounting guidance to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and in some situations better align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This guidance will be effective for the Company beginning January 1, 2019 with early adoption permitted. The Company is evaluating the impact this pronouncement will have on its ongoing financial reporting.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**  
**(All dollars are in thousands, except share amounts, unless otherwise noted)**

**Interest Rate Risk**

The Company's primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates.

The following table sets forth the Company's loan assets and debt instruments by rate characteristics:

	As of September 30, 2018		As of December 31, 2017	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	\$ 3,171,134	14.0%	\$ 4,966,125	22.6%
Variable-rate loan assets	19,501,623	86.0	17,029,752	77.4
<b>Total</b>	<b>\$ 22,672,757</b>	<b>100.0%</b>	<b>\$ 21,995,877</b>	<b>100.0%</b>
Fixed-rate debt instruments	\$ 90,105	0.4%	\$ 101,002	0.5%
Variable-rate debt instruments	22,492,933	99.6	21,626,125	99.5
<b>Total</b>	<b>\$ 22,583,038</b>	<b>100.0%</b>	<b>\$ 21,727,127</b>	<b>100.0%</b>

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the special allowance payment ("SAP") formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.

Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company may earn floor income to the next reset date, which the Company refers to as variable rate floor income. All FFELP loans first originated on or after April 1, 2006 effectively earn at the SAP rate, since lenders are required to rebate fixed rate floor income and variable rate floor income for those loans to the Department.

No variable-rate floor income was earned by the Company during the nine months ended September 30, 2018 and 2017. A summary of fixed rate floor income earned by the Company follows.

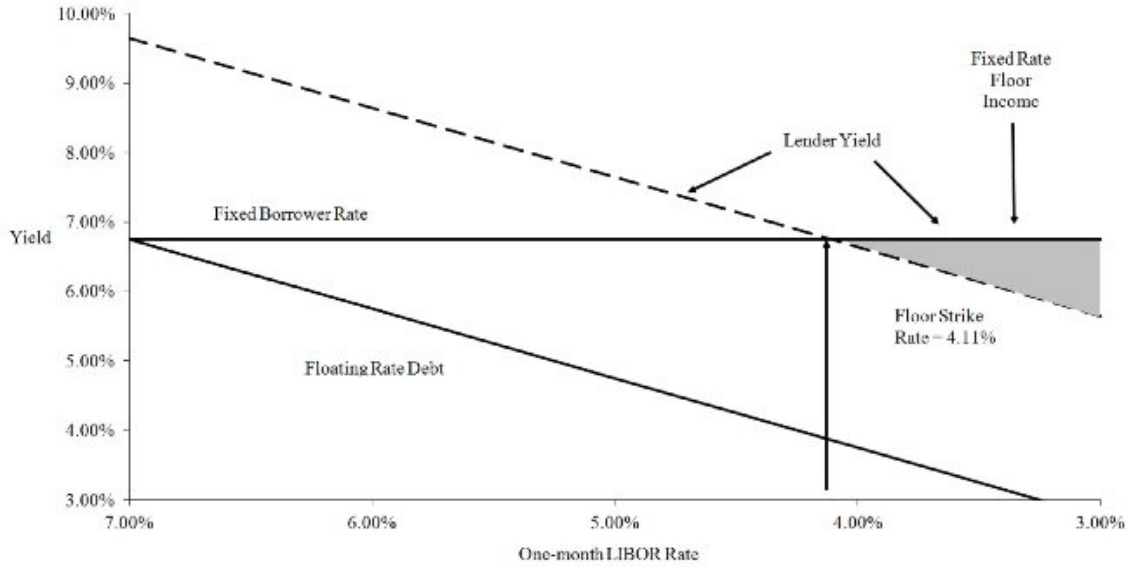
	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Fixed rate floor income, gross	\$ 13,659	24,586	45,359	84,382
Derivative settlements (a)	19,087	3,883	46,752	5,877
<b>Fixed rate floor income, net</b>	<b>\$ 32,746</b>	<b>28,469</b>	<b>92,111</b>	<b>90,259</b>

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

Gross fixed rate floor income decreased for the three and nine months ended September 30, 2018 as compared to the same periods in 2017 due to an increase in interest rates.

Absent the use of derivative instruments, a rise in interest rates will reduce the amount of floor income received and this has an impact on earnings due to interest margin compression caused by increasing financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with their SAP formulas. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

The following graph depicts fixed rate floor income for a borrower with a fixed rate of 6.75% and a SAP rate of 2.64%.



The following table shows the Company's federally insured student loan assets that were earning fixed rate floor income as of September 30, 2018 .

<b>Fixed interest rate range</b>	<b>Borrower/lender weighted average yield</b>	<b>Estimated variable conversion rate (a)</b>	<b>Loan balance</b>
4.5 - 4.99%	4.87%	2.23%	\$ 224,158
5.0 - 5.49%	5.22%	2.58%	525,656
5.5 - 5.99%	5.67%	3.03%	349,857
6.0 - 6.49%	6.19%	3.55%	399,150
6.5 - 6.99%	6.70%	4.06%	384,416
7.0 - 7.49%	7.17%	4.53%	137,146
7.5 - 7.99%	7.71%	5.07%	234,915
8.0 - 8.99%	8.18%	5.54%	539,835
> 9.0%	9.05%	6.41%	197,587
			<b>\$ 2,992,720</b>

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of September 30, 2018 , the weighted average estimated variable conversion rate was 4.00% and the short-term interest rate was 214 basis points.

The following table summarizes the outstanding derivative instruments as of September 30, 2018 used by the Company to economically hedge loans earning fixed rate floor income.

<b>Maturity</b>	<b>Notional amount</b>	<b>Weighted average fixed rate paid by the Company (a)</b>
2018	\$ 250,000	0.92%
2019	3,250,000	0.97
2020	1,500,000	1.01
2023	750,000	2.28
2024	300,000	2.28
2025	100,000	2.32
2027	50,000	2.32
2028	100,000	3.03
	<u>\$ 6,300,000</u>	<u>1.26%</u>

(a) For all interest rate derivatives, the Company receives discrete three-month LIBOR.

In addition, on August 20, 2014, the Company paid \$9.1 million for an interest rate swap option to economically hedge loans earning fixed rate floor income. The interest rate swap option gives the Company the right, but not the obligation, to enter into a \$250.0 million notional interest rate swap in which the Company would pay a fixed amount of 3.30% and receive discrete one-month LIBOR. If the interest rate swap option is exercised, the swap would become effective on August 21, 2019 and mature on August 21, 2024.



The Company is also exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company's assets do not match the interest rate characteristics of the funding for those assets. The following table presents the Company's FFELP student loan assets and related funding for those assets arranged by underlying indices as of September 30, 2018 .

Index	Frequency of variable resets	Assets	Funding of student loan assets
1 month LIBOR (a)	Daily	\$ 20,770,474	—
3 month H15 financial commercial paper	Daily	1,002,707	—
3 month Treasury bill	Daily	617,562	—
3 month LIBOR (a)	Quarterly	—	10,522,798
1 month LIBOR	Monthly	—	10,173,089
Auction-rate (b)	Varies	—	799,576
Asset-backed commercial paper (c)	Varies	—	705,144
Other (d)		1,301,946	1,492,082
		<u>\$ 23,692,689</u>	<u>23,692,689</u>

- (a) The Company has certain basis swaps outstanding in which the Company receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps"). The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes the 1:3 Basis Swaps outstanding as of September 30, 2018 .

Maturity	Notional amount
2018	\$ 250,000
2019	3,500,000
2020	1,000,000
2021	250,000
2022	2,000,000
2023	750,000
2024	250,000
2026	1,150,000
2027	375,000
2028	325,000
2029	100,000
2031	300,000
	<u>\$ 10,250,000</u>

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of September 30, 2018 was one-month LIBOR plus 9.4 basis points.

- (b) As of September 30, 2018 , the Company was sponsor for \$799.6 million of asset-backed securities that are set and periodically reset via a "dutch auction" ("Auction Rate Securities"). The Auction Rate Securities generally pay interest to the holder at a maximum rate as defined by the indenture. While these rates will vary, they will generally be based on a spread to LIBOR or Treasury Securities, or the Net Loan Rate as defined in the financing documents.
- (c) The interest rates on the Company's warehouse facilities are indexed to asset-backed commercial paper rates.
- (d) Assets include accrued interest receivable and restricted cash. Funding represents overcollateralization (equity) and other liabilities included in FFELP asset-backed securitizations and warehouse facilities.

## Sensitivity Analysis

The following tables summarize the effect on the Company's earnings, based upon a sensitivity analysis performed by the Company assuming hypothetical increases in interest rates of 100 basis points and 300 basis points while funding spreads remain constant. In addition, a sensitivity analysis was performed assuming the funding index increases 10 basis points and 30 basis points while holding the asset index constant, if the funding index is different than the asset index. The sensitivity analysis was performed on the Company's variable rate assets (including loans earning fixed rate floor income) and liabilities. The analysis includes the effects of the Company's interest rate and basis swaps in existence during these periods.

	Interest rates				Asset and funding index mismatches			
	Change from increase of 100 basis points		Change from increase of 300 basis points		Increase of 10 basis points		Increase of 30 basis points	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
<b>Three months ended September 30, 2018</b>								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$ (5,285)	(9.2)%	\$ (10,007)	(17.6)%	\$ (2,948)	(5.2)%	\$ (8,843)	(15.5)%
Impact of derivative settlements	15,134	26.5	45,403	79.6	1,966	3.5	5,897	10.3
Increase (decrease) in net income before taxes	\$ 9,849	17.3 %	\$ 35,396	62.0 %	\$ (982)	(1.7)%	\$ (2,946)	(5.2)%
Increase (decrease) in basic and diluted earnings per share	\$ 0.18		\$ 0.66		\$ (0.02)		\$ (0.05)	
<b>Three months ended September 30, 2017</b>								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$ (9,044)	(13.1)%	\$ (16,828)	(24.4)%	\$ (3,296)	(4.8)%	\$ (9,889)	(14.3)%
Impact of derivative settlements	14,179	20.5	42,534	61.6	1,890	2.7	5,671	8.2
Increase (decrease) in net income before taxes	\$ 5,135	7.4 %	\$ 25,706	37.2 %	\$ (1,406)	(2.1)%	\$ (4,218)	(6.1)%
Increase (decrease) in basic and diluted earnings per share	\$ 0.08		\$ 0.38		\$ (0.02)		\$ (0.06)	
<b>Nine months ended September 30, 2018</b>								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$ (15,559)	(5.8)%	\$ (27,145)	(10.1)%	\$ (8,998)	(3.3)%	\$ (26,993)	(10.0)%
Impact of derivative settlements	47,781	17.7	143,341	53.2	5,822	2.2	17,466	6.6
Increase (decrease) in net income before taxes	\$ 32,222	11.9 %	\$ 116,196	43.1 %	\$ (3,176)	(1.1)%	\$ (9,527)	(3.4)%
Increase (decrease) in basic and diluted earnings per share	\$ 0.60		\$ 2.16		\$ (0.06)		\$ 0.17	
<b>Nine months ended September 30, 2017</b>								
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	\$ (30,205)	(16.2)%	\$ (54,221)	(29.1)%	\$ (10,314)	(5.5)%	\$ (30,943)	(16.6)%
Impact of derivative settlements	45,396	24.3	136,182	73.1	4,368	2.3	13,105	7.0
Increase (decrease) in net income before taxes	\$ 15,191	8.1 %	\$ 81,961	44.0 %	\$ (5,946)	(3.2)%	\$ (17,838)	(9.6)%
Increase (decrease) in basic and diluted earnings per share	\$ 0.23		\$ 1.20		\$ (0.08)		\$ (0.25)	

## **Financial Statement Impact – Derivatives and Foreign Currency Transaction Adjustments**

For a table summarizing the effect of derivative instruments in the consolidated statements of income, including the components of "derivative market value and foreign currency transaction adjustments and derivative settlements, net" included in the consolidated statements of income, see note 5 of the notes to consolidated financial statements included under Part I, Item 1 of this report.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's principal executive and principal financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2018. Based on this evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018 .

### **Changes in Internal Control over Financial Reporting**

There was no change in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective January 1, 2018, the Company implemented ASC Topic 606, *Revenue from Contracts with Customers* . Although the new revenue standard has an immaterial impact on the Company's revenue recognition patterns and ongoing net income, management did implement changes to its processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, new training, ongoing contract review requirements, and gathering of information provided for disclosures.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

There have been no material changes from the information set forth in the Legal Proceedings section of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 under Item 3 of Part I of such Form 10-K.

### **ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 in response to Item 1A of Part I of such Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### *Stock Repurchases*

The following table summarizes the repurchases of Class A common stock during the third quarter of 2018 by the Company or any “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

<b>Period</b>	<b>Total number of shares purchased (a)</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs (b)</b>	<b>Maximum number of shares that may yet be purchased under the plans or programs (b)</b>
July 1 - July 31, 2018	327	\$ 60.90	—	2,852,355
August 1 - August 31, 2018	—	—	—	2,852,355
September 1 - September 30, 2018	2,970	57.83	—	2,852,355
Total	3,297	\$ 58.13	—	

- (a) These shares were owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares, and were purchased at the closing price of the Company’s shares on the date of vesting.
- (b) On August 4, 2016, the Company announced that its Board of Directors authorized a new stock repurchase program in May 2016 to repurchase up to a total of five million shares of the Company’s Class A common stock during the three-year period ending May 25, 2019.

### *Working capital and dividend restrictions/limitations*

The Company’s \$350 million unsecured line of credit, which is available through June 22, 2023, imposes restrictions on the payment of dividends through covenants requiring a minimum consolidated net worth and a minimum level of unencumbered cash, cash equivalent investments, and available borrowing capacity under the line of credit. In addition, trust indentures and other financing agreements governing debt issued by the Company’s education lending subsidiaries generally have limitations on the amounts of funds that can be transferred to the Company by its subsidiaries through cash dividends at certain times. Further, the payment of dividends by the Company is subject to the terms of the Company’s outstanding junior subordinated hybrid securities, which generally provide that if the Company defers interest payments on those securities it cannot pay dividends on its capital stock. These provisions do not currently materially limit the Company’s ability to pay dividends, and, based on the Company’s current financial condition and recent results of operations, the Company does not currently anticipate that these provisions will materially limit the future payment of dividends.

**ITEM 6. EXHIBITS**

- 10.1\* [Master Private Loan Program Agreement dated as of August 22, 2018, by and between Union Bank and Trust Company and Nelnet, Inc.](#)
- 10.2\*+ [Education Loan Marketing Agreement dated as of August 22, 2018, by and between Nelnet Consumer Finance, Inc. and Union Bank and Trust Company.](#)
- 10.3\*+ [Private Student Loan Origination and Servicing Agreement dated as of August 22, 2018, by and between Nelnet Servicing, LLC, d/b/a Firstmark Services, and Union Bank and Trust Company.](#)
- 10.4\*+ [Loan Participation Agreement dated as of August 22, 2018, by and between Union Bank and Trust Company and National Education Loan Network, Inc.](#)
- 31.1\* [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer Jeffrey R. Noordhoek.](#)
- 31.2\* [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer James D. Kruger.](#)
- 32\*\* [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
  
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

+ Certain portions of this exhibit have been redacted pursuant to a request for confidential treatment and have been filed separately with the U.S. Securities and Exchange Commission.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NELNET, INC.

Date: November 8, 2018

By: /s/ JEFFREY R. NOORDHOEK

Name: Jeffrey R. Noordhoek

Title: Chief Executive Officer  
Principal Executive Officer

Date: November 8, 2018

By: /s/ JAMES D. KRUGER

Name: James D. Kruger

Title: Chief Financial Officer  
Principal Financial Officer and Principal Accounting Officer

**MASTER PRIVATE LOAN PROGRAM AGREEMENT**

This Master Private Loan Program Agreement dated as of August 22<sup>nd</sup>, 2018 (the “Master Agreement”) is by and between Union Bank and Trust Company, a Nebraska state banking corporation (“Union Bank”), and Nelnet, Inc., a Nebraska corporation, and its affiliates (collectively, “Nelnet”).

**RECITALS**

WHEREAS, Union Bank has engaged in operations from time to time to acquire and hold title to or interests in education loans made for the purpose of financing post-secondary education and/or education related to professional certification, which are not made or guaranteed pursuant to the Higher Education Act of 1965, as amended, or the regulations promulgated thereunder (“Private Loans”);

WHEREAS, Union Bank wishes to initiate operations to make Private Loans, hold such Private Loans, and sell off excess capacity of such Private Loans;

WHEREAS, Nelnet engages in operations related to Private Loans and is willing to provide services to Union Bank with respect to Union Bank’s Private Loans including but not limited to assistance with underwriting criteria, assistance with procedural formatting of Private Loan operations, marketing, origination, servicing, compliance with applicable laws and regulations, and purchasing Private Loans, all in conjunction with Union Bank’s program which is being branded initially as U-Fi loans (the “Private Loan Program”); and

WHEREAS, the parties wish to perform duties and services with respect to the Private Loan Program, all in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**Article I**

**DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

As used herein, the following terms shall have the following meanings:

“Business Day” shall mean a day other than a Saturday, a Sunday or any day on which banks located in Lincoln, Nebraska are authorized or obliged to close.

“Laws” shall mean all applicable federal, state or local laws, regulations or rules of any governmental authority.

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“Lien” shall mean any mortgage, lien, pledge, charge, security interest or encumbrance of any kind.

“Marketing Agreement” shall have the meaning ascribed thereto in Section 3.1(a) hereof.

“Master Agreement” shall mean this Master Agreement, all schedules and exhibits attached hereto, and any amendments, addenda or supplements entered into between the parties hereto hereafter.

“Person” shall mean any individual, corporation, company, voluntary association, partnership, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

“Private Loan” shall have the meaning ascribed thereto in the recitals of this Master Agreement.

“Private Loan Program” shall have the meaning ascribed thereto in the recitals of this Master Agreement.

“Private Loan Program Agreements” shall mean, collectively, the Marketing Agreement, the Servicing Agreement, and the Participation Agreement.

“Program Documentation” shall have the meaning ascribed thereto in Section 2.1 hereof.

“Participation Agreement” shall have the meaning ascribed thereto in Section 3.1(c) hereof.

“Servicing Agreement” shall have the meaning ascribed thereto in Section 3.1(b) hereof.

## **1.2 Interpretation**

Unless the context of this Master Agreement requires otherwise, the following rules of interpretation shall apply to this Agreement:

- (a) the singular shall include the plural, and the plural shall include the singular;
- (b) the words “hereof”, “herein”, “hereby”, “hereto” and similar words refer to this entire Agreement and not to any particular Article or Section of this Master Agreement;
- (c) a reference to any Person shall include such Person’s successors and permitted assigns under any agreement, instrument, contract or other document; and
- (d) in the event of any conflict in the Private Loan Programs and the Master Agreement, the terms of the Master Agreement shall control.



## Article II

### PRIVATE LOAN PROGRAM

#### 2.1 Initiation of Private Loan Program

Union Bank and Nelnet shall cooperate, consult together, and provide such assistance as may be necessary or appropriate in order to develop and maintain written components of the Private Loan Program including but not limited to the following (collectively, the "Program Documentation"): underwriting criteria for origination of Private Loans; terms of lending with respect to the Private Loans such as interest rates, term of repayment, loan amounts, borrower benefits, etc.; procedural manuals and protocols for Private Loans; Private Loan documentation such as promissory note forms and disclosures; and other aspects of the Private Loan Program. Union Bank shall create, and have final decision making authority regarding, any Program Documentation to be utilized and implemented as part of the Private Loan Program.

#### 2.2 Changes to Program Documentation

Nelnet shall not change or modify any aspect of the Program Documentation. Union Bank may change or modify any aspect of the Program Documentation, provided, however, that Union Bank shall give thirty (30) days prior written notice of the proposed change or modification to Nelnet. Nelnet shall have the right to terminate this Master Agreement and any of the Private Loan Program Agreements if it gives written notice of such termination to Union Bank within thirty (30) days after receipt of Union Bank's notice of a proposed change or modification.

#### 2.3 Commencement of Private Loan Program

Union Bank and Nelnet shall use best efforts to initiate the Private Loan Program in approximately August of 2018. The parties acknowledge that Union Bank may be required to obtain licenses to engage in the Private Loan Program in certain states prior to engaging in the Private Loan Program in such states.

## ARTICLE III

### PRIVATE LOAN PROGRAM AGREEMENTS

#### 3.1 Services and Duties under Private Loan Program Agreements.

Simultaneously with execution and delivery of this Master Agreement, Union Bank and Nelnet (or Nelnet's affiliate(s)) will execute and deliver the following Private Loan Program Agreements, each of which is incorporated herein and made a part hereof by this reference:

(a) Marketing Agreement: Union Bank and Nelnet's affiliate, Nelnet Consumer Finance, Inc., shall execute and deliver to each other the Education Loan Marketing Agreement, of even date herewith, attached hereto as Schedule A.

(b) Servicing Agreement: Union Bank and Nelnet's affiliate, Nelnet Servicing, LLC, d/b/a Firstmark, shall execute and deliver to each other the Private Loan Origination and Servicing Agreement, of even date herewith, attached hereto as Schedule B.

(c) Participation Agreement: Union Bank and Nelnet shall execute and deliver to each other the Participation Agreement, of even date herewith, attached hereto as Schedule C.

The parties to the Private Loan Program Agreements shall perform their duties in accordance with the terms and conditions thereof, and in material compliance with all Laws.

#### ARTICLE IV

**RESERVED**

#### ARTICLE V

### REPRESENTATIONS AND WARRANTIES

#### 5.1 Representations and Warranties

Union Bank and Nelnet each respectively represents and warrants to the other party hereto that:

(a) This Master Agreement and each of the Private Loan Program Agreements has been duly executed and delivered by it and is the legal, valid and binding obligation of such party, enforceable against it in accordance with its terms, subject to the effect of applicable bankruptcy, insolvency or similar laws affecting creditors' rights and remedies generally.

(b) No consent, approval or authorization of any third party is required for the consummation by it of the transactions contemplated by this Master Agreement which has not been received, other than the state licenses necessary for Union Bank referenced in Section 2.3 hereof.

(c) It is organized, validly existing and in good standing under the laws of the State of Nebraska and has full power and authority to conduct its business as it is presently conducted.

(d) There is no existing or threatened litigation or other proceeding against it that will have a material adverse effect upon the performance of its obligations hereunder, or that seeks to prohibit its entering into this Master Agreement.

#### ARTICLE VI

### INDEMNIFICATION

#### 6.1 Indemnification by Nelnet.

Subject to the limitations set forth herein, Nelnet shall reimburse, defend, indemnify, and hold Union Bank its officers, directors and employees (each, an "Indemnified Party" and collectively, the "Indemnified Parties") harmless, from and against all any and all losses, liabilities, claims, demands, obligations, judgments, damages, fines, payments, penalties, deficiencies, awards, settlements, causes of action, costs and expenses, including court costs and reasonable attorneys'

fees and expenses (collectively, the “Losses”) that they suffer, sustain or incur resulting from the claims of third parties, including without limitation governmental authorities, solely with respect to Union Bank’s Private Loans and/or the Private Loan Program and/or the Private Loan Program Agreements asserted, following the date of this Master Agreement (collectively, the “Indemnified Claims”). The Indemnified Claims shall exclude any act or omission of the Indemnified Parties which constitutes negligence or willful misconduct solely on the part of any of the Indemnified Parties unless such act or omission was committed either (i) by Nelnet or an affiliate thereof on behalf of any of the Indemnified Parties, or (ii) by the Indemnified Party at the direction or instruction of Nelnet or any affiliate thereof (other than the Indemnified Party).

## **6.2 Claims Procedures.**

Each Indemnified Party shall give to Nelnet prompt written notice of any threatened or actual claim that could reasonably be deemed to potentially become an Indemnified Claim, setting forth in detail all facts in connection with such claim. Nelnet shall defend and direct the defense against any Indemnified Claims, in the name of the Indemnified Party, at the expense of Nelnet, and with counsel selected by Nelnet. Nelnet shall, at its expense, keep the Indemnified Parties informed in all reasonable respects in the defense of the Indemnified Claims. The Indemnified Parties shall have the right to participate in the defense of the Indemnified Claims with counsel employed at their own expense. The Indemnified Parties shall not make any filings, communicate with third parties regarding the Indemnified Claims, or attempt to settle the Indemnified Claims without the prior written consent of Nelnet. Nelnet shall have the right to settle the Indemnified Claims without consent of the Indemnified Parties, if such settlement (x) involves only the payment of money which Nelnet pays itself or satisfies with insurance proceeds or any combination thereof, and (y) includes a full unconditional general release of the Indemnified Party from the claimant(s) with respect to the Indemnified Claims.

Notwithstanding anything to the contrary set forth herein, the Indemnified Parties shall furnish any reasonable oral and/or written apology or statement to the claimant(s) with respect to the Indemnified Claims as Nelnet may deem necessary or helpful in settling the Indemnified Claims, if requested by Nelnet. The Indemnified Parties shall forward to Nelnet immediately upon receipt copies of all pleadings and communications received in connection with the Indemnified Claims, the Indemnified Parties shall at their expense, cooperate fully and in all respects with Nelnet in defending the Indemnified Claims and preparing the defense with respect to the Indemnified Claims and the Indemnified Parties shall make available their employees and personnel as Nelnet may deem necessary or helpful in such defense.

## **6.3 Payment of Losses**

Promptly following a final determination of the amount of any Losses claimed by the Indemnified Party by either (i) a final, non-appealable decision, judgment or award rendered with respect to the Indemnified Claims, or (ii) the mutual agreement by the Indemnified Party and Nelnet,

Nelnet shall pay such Losses to the Indemnified Party by wire transfer of readily available funds to an account designated by the Indemnified Party.

#### **6.4 Limitations.**

(a) No Indemnified Party shall have any indemnification right with respect to, and Nelnet shall have no indemnification obligation with respect to, any act or omission of any person or entity other than of Nelnet, of an affiliate thereof, or of the Indemnified Party (unless if committed at the direction or instruction of Nelnet or any affiliate thereof other than the Indemnified Party).

(b) Any claims for Losses under this Article VI must be submitted in writing by the Indemnified Party to Nelnet before 11:59 p.m., Central Standard Time, on the date that is within one year following the date of entry of a final, non-appealable judgment against the Indemnified Party in the Indemnified Claim.

(c) Payments by Nelnet pursuant to this Master Agreement shall be limited to the amount of any Losses that remain after deducting therefrom (i) any insurance proceeds and any indemnity, contribution or other similar payment to which any Indemnified Party has actually recovered from any third party with respect thereto, net of any reasonable expenses (excluding increases in premiums attributable to such claims) incurred by such Indemnified Parties in collecting such insurance proceeds or any indemnity, contribution or other similar payment, and (ii) any tax benefit to the Indemnified Parties (as reasonably determined by such Indemnified Party's accountant in good faith) as a result of incurring the Losses whether or not realized in the period in which such Losses arose.

#### **6.5 Mutual Indemnity.**

Subject to the provisions set forth in Sections 6.1, 6.2, 6.3 and 6.4 hereof, each party hereto, as applicable (referred to in this Section 6.5 as the "Indemnitor ") shall indemnify, defend and hold harmless the other party hereto and such other party's directors, officers and employees (collectively referred to in this Section 5.5 as the "Indemnified Parties") from and against any and all Losses resulting from, the Indemnitor's breach of any representations, warranties or covenants in this Master Agreement. The Indemnified Parties shall promptly notify the Indemnitor of any legal claim, demand, right or cause of action asserted, instituted or threatened against the Indemnified Parties that arise from or in connection with this Master Agreement. The procedural provisions set forth in Sections 6.2, 6.3 and 6.4 hereof shall apply to this Section 6.5 and to the appropriate Indemnitor and Indemnified Parties identified in this Section 6.5, respectively.

#### **6.6 Survival.**

The indemnity obligation in this Section 6.6 shall survive for all Losses claimed or incurred after termination of this Master Agreement and for four years thereafter.

**ARTICLE VII**  
**MISCELLANEOUS**

**7.1 Term**

This Master Agreement shall commence upon the date first set forth above, and shall remain in effect for thirty six months from the date first set forth above. The Master Agreement will extend automatically for successive three-year extension periods upon each annual anniversary of this Master Agreement, without the necessity of further documentation, unless either party send written notice of termination to the other party hereto. Such notice of termination will be effective to terminate this Master Agreement at (i) the end of the term in which it is received. Notwithstanding the foregoing, either party may at any time upon ninety (90) days' notice terminate this Master Agreement by delivery of a notice of termination to the other party. Lender shall give prompt written notice to Nelnet in the event Lender ceases substantially all operations to make Education Loans, and neither party shall have any further obligations under this Mater Agreement following such cessation.

**7.2 Entire Agreement**

This Master Agreement supersedes all prior discussions and agreements between the parties with respect to the subject matter hereof, and contains the sole and entire agreement between the parties hereto with respect to the subject matter hereof.

**7.3 No Waiver**

Any term or condition of this Master Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party of any term or condition of this Master Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Master Agreement on any future occasion. All remedies, either under this Master Agreement or by law or otherwise afforded, will be cumulative and not alternative. No failure on the part of Union Bank or Nelnet to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Master Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Master Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

**7.4 Binding Agreement**

This Master Agreement shall be binding upon, and inure to the benefit of, the respective successors and permitted assigns of Union Bank and of Nelnet. It is not the intention of the parties to confer third party beneficiary rights upon any other Person.

## **7.5 Assignment**

No party to this Master Agreement may assign any of such party's rights under this Agreement without the prior written consent of the other party hereto.

## **7.6 Notice**

All notices and other communications provided for herein (including, without limitation, any modifications of, or waivers or consents under, this Master Agreement) shall be given or made by fax, email transmission, or by hand in writing and transmitted by fax, mailed or delivered to (a) in the case of Union Bank, the "Address for Notices" specified below the name of Union Bank on the signature page hereof, (b) in the case of Nelnet, the "Address for Notices" specified below the name of Nelnet on the signature page hereof or (c) as to any party hereto, at such other address as shall be designated by such party in a notice to the other party hereto. Except as otherwise provided in this Master Agreement, all such communications shall be deemed to have been duly given when transmitted by fax, email, personally delivered or, in the case of a mailed notice, upon receipt, in each case, given or addressed as provided above.

## **7.7 Confidentiality**

Each party hereto will hold, and will use their best efforts to cause their respective agents and representatives to hold, in strict confidence from any Person (other than any such agent or representative), unless (a) compelled to disclose by judicial or administrative process or by other requirements of law or by regulatory authority of either party hereto or (b) disclosed in an action or proceeding brought by a party hereto in pursuit of such party's rights or in the exercise of such party's remedies hereunder, the existence of this Master Agreement and the transactions contemplated hereby and all documents and information concerning the other party hereto furnished to such party by such other party or such other party's agents and representatives in connection with this Master Agreement or the transactions contemplated hereby, except to the extent that such documents or information can be shown to have been (i) previously known by the party receiving such documents or information, (ii) in the public domain (either prior to or after the furnishing of such documents or information hereunder) through no fault of the receiving party or (iii) later acquired by the receiving party from another source if the receiving party is not aware that such source is under an obligation to the other party hereto to keep such documents and information confidential.

## **7.8 Counterparts**

This Master Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Master Agreement by signing any such counterpart. Executed signature pages hereto may be delivered by fax or email transmission.

## **7.9 Amendment**

No provision of this Master Agreement shall be waived, amended or modified except by an instrument in writing duly executed by Union Bank and by Nelnet. This Master Agreement terminates and supersedes that certain Master Private Loan Program Agreement dated as of

December 22, 2014 between the parties, as well as each ancillary “Private Loan Program Agreement” as defined therein.

**7.10 Applicable Law**

This Master Agreement shall be governed by, and construed in accordance with, the laws of the State of Nebraska, without giving effect to any conflicts of laws principles thereof which would result in the application of the laws of another jurisdiction.

**7.11 Survival**

All representations and warranties of the parties contained in Article V hereof shall survive termination of this Master Agreement and remain in effect indefinitely. In addition to the foregoing, the indemnification obligations of the parties under Article VI hereof shall survive for all Losses claimed or incurred after termination of this Master Agreement for four (4) years thereafter.

**7.12 Severability**

If any one or more of the provisions contained in this Master Agreement, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and all other applications thereof shall not in any way be affected or impaired thereby.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Master Private Loan Program Agreement as of the date first above written.

Union Bank and Trust Company

By: /s/ Angie Muhleisen  
Title: President & CEO

Address for Notices:

Union Bank and Trust Company  
Attn: Brad Crain  
4243 Pioneer Woods Drive  
Lincoln, NE 68506  
Phone: (402) 323-1783  
Fax: (402) 323-1190  
Email: [brad.crain@ubt.com](mailto:brad.crain@ubt.com)

Nelnet, Inc.

By: /s/ James D. Kruger  
Title: Treasurer

Address for Notices:

Nelnet, Inc.  
Attn: James D. Kruger  
1248 "O" Street, 9<sup>th</sup> Floor  
Lincoln, NE 68508  
Phone: (402) 458-2304  
Fax: (402) 458-2294  
Email: [jim.kruger@nelnet.net](mailto:jim.kruger@nelnet.net)



**PORTIONS OF THIS EXHIBIT HAVE BEEN REDACTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT BY NELNET, INC. UNDER RULES AND REGULATIONS PROMULGATED BY THE SECURITIES AND EXCHANGE COMMISSION. THE REDACTED PORTIONS ARE MARKED WITH [\*\*\*\*\*] AND HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION ALONG WITH SUCH REQUEST FOR CONFIDENTIAL TREATMENT.**

**EDUCATION LOAN MARKETING AGREEMENT**

This Education Loan Marketing Agreement is made as of this 22<sup>nd</sup> day of August, 2018, by and between Nelnet Consumer Finance, Inc., a Nebraska corporation (“Nelnet”), and Union Bank and Trust Company, a Nebraska state banking corporation (the “Lender”).

WHEREAS, Lender offers or intends to offer applications for loans made for the purpose of financing costs of post-secondary education, and funds or intends to fund such loans to accepted applicants;

WHEREAS, Lender wishes to engage Nelnet to market and refer applicants for educationally related loans offered by Lender; and

WHEREAS, Lender is willing to compensate Nelnet for educationally related loans that are funded based on applications for such loans submitted to Lender by Nelnet;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties agree as follows:

Section 1. **Definitions.** Wherever used in this Agreement, unless the context indicates a contrary intent or unless specifically provided herein, the following terms shall have the meanings indicated:

“Agreement” means this Education Loan Marketing and Referral Agreement between Lender and Nelnet.

“Refinance Loan” means any Education Loan made to consolidate existing Education Loans and/or other Refinance Loans.

“Refinance Loan Application” means an application for Refinance Loan on the form prepared and furnished by Nelnet on behalf of Lender, but approved by Lender.

“Education Loan” means any education loan made for the purpose of financing post-secondary education and/or education related to professional certification.

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“Education Loan Application” means an application for an Education Loan on the form prepared and furnished by Nelnet on behalf of Lender, but approved by Lender.

“Funded Refinance Loan” means a Refinance Loan Application which has been processed, approved and funded by or on behalf of Lender.

“Funded Education Loan” means an Education Loan processed, approved and funded by or on behalf of Lender as a result of an Education Loan Application.

“Initial Period” means thirty-six (36) months from the date of this Agreement.

**Section 2. Term and Termination.** This Agreement shall remain in effect for the Initial Period. The Agreement will extend automatically for successive three-year extension periods upon each annual anniversary of this Agreement, without the necessity of further documentation, unless either party send written notice of termination to the other party hereto. Such notice of termination will be effective to terminate this Agreement at (i) the end of the term in which it is received. Notwithstanding the foregoing, either party may at any time upon ninety (90) days’ notice terminate this Agreement by delivery of a notice of termination to the other party. Lender shall give prompt written notice to Nelnet in the event Lender ceases substantially all operations to make Education Loans, and neither party shall have any further obligations under this Agreement following such cessation.

**Section 3. Duties of the Parties.**

(a) Nelnet’s Obligations. Nelnet shall, between the date of this Agreement and the date this Agreement terminates, market and promote Lender as lender and provider of Education Loans and Refinance Loans to prospective borrowers. Such marketing and promotion efforts may include, without limitation, hosting or placing content approved by Lender or one or more websites of Nelnet or its affiliates, providing website links to an approved website for prospective borrowers to utilize, providing marketing materials approved by Lender to educational institutions, prospective borrowers and other appropriate marketing recipients via such manner of delivery as Nelnet deems appropriate. Nelnet shall ensure that all aspects of these marketing and promotion efforts comply with all state and federal laws, regulations and agency rules. Nelnet shall obtain prior approval from Lender with respect to all marketing and promotional materials and content before use thereof by Nelnet, and all such materials shall clearly delineate and distinguish Nelnet in its role as marketing agent and Lender as the lender in the event of any reference to Nelnet therein. Nelnet shall provide consulting services and analysis with respect to credit scores of potential borrowers. Nelnet shall, during the term of this Agreement, provide to Lender [\*\*\*\*\*]

**PORTIONS OF THIS EXHIBIT HAVE BEEN REDACTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT BY NELNET, INC. UNDER RULES AND REGULATIONS PROMULGATED BY THE SECURITIES AND EXCHANGE COMMISSION. THE REDACTED PORTIONS ARE MARKED WITH [\*\*\*\*\*] AND HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION ALONG WITH SUCH REQUEST FOR CONFIDENTIAL TREATMENT.**

hours of audit support per fiscal year of Nelnet; if Lender requests audit support in excess of that amount, Lender shall pay to Nelnet \$[\*\*\*\*\*] per hour for such excess hours. Nelnet shall pay to Lender the costs of any borrower benefits afforded to borrowers on Education Loans and Refinance Loans owned by Lender and which result from Nelnet's efforts under this Agreement.

(b) Lender's Obligations. Lender shall either create or approve all content to be used by Nelnet on its website with respect to Lender and all marketing materials. Lender shall create and maintain, with assistance of Nelnet, all Education Loan Applications, Refinance Loan Applications, disclosures, promissory notes, and any other documentation utilized in connection with applying for, making or disbursing Lender's Education Loans and Refinance Loans, provided, however, that no such approval shall be unreasonably withheld, delayed or conditioned. Lender shall cooperate and assist Nelnet in its activities pursuant to this Agreement as Nelnet may reasonably request from time to time. Lender shall provide those borrower benefits as set forth in Nelnet's advertising and promotion of Lender's Education Loans, except Lender may end such borrower benefits to the extent that such advertising and promotional materials clearly and conspicuously disclose that such borrower benefits could be terminated, and if Lender sells, securitizes or changes the servicer of such Education Loans, Purchaser shall include as a provision of all relevant contracts to sell, securitize or service such Eligible Loans, that all borrower benefits represented as being available to a borrower will continue to inure to the benefit of the borrower or to the same extent as if Lender had not sold, securitized or changed the servicer of such Education Loans, except to the extent that Nelnet's advertising and promotional materials clearly and conspicuously disclose that such borrower benefits could be terminated.

Section 4. **Exclusivity**. Nelnet may, at its option, provide concurrent marketing and promotional services to or on behalf of other lenders on Education Loans and Refinance Loans. Nelnet may refer the same borrowers to Lender and other lenders for which Nelnet provides marketing or promotional services.

Section 5. **Compensation**. Lender will pay Nelnet a marketing fee in connection with each Education Loan made by or on behalf of Lender following Nelnet's activities described in this Agreement which result in a funded Education Loan. The marketing fees paid to Nelnet by Lender will be the product of (i) [\*\*\*\*\*]%, multiplied by (ii) the gross principal balance of loan proceeds disbursed by Lender with respect to each Funded Education Loan or Funded Refinance Loan. The marketing fees will be paid and calculated on a monthly basis, as of the last day of each month, reconciled for any reimbursement of any disbursed loan proceeds of previously Funded Education Loans or Funded Refinance Loans. The marketing fees will be paid by Lender to Nelnet within thirty days of the Lender's receipt of the previous months marketing fee calculation.

Section 6. **Audit.** At reasonable times, during normal business hours, either party's auditors or agents may examine the books and records of the other party hereto as they relate to the performance of this Agreement, provided the party requesting the examination has given at least five (5) days advance written notice to the other party. Each party shall maintain all such books and records for examination. The obligations in this paragraph for any given Education Loan or Refinance Loan shall extend for a period during this Agreement and ending six (6) years after termination of this Agreement. The costs of such audit shall be paid for by the party requesting the examination, subject to the audit support to be provided by Nelnet under Section 3(a) hereof to assist Lender with audits of Lender's own activities.

Section 7. **Representations, Warranties and Covenants.** Each party hereto represents and warrants to, and covenants with the other party hereto, that, to the best of its knowledge and belief: (a) it is duly authorized to do business in the jurisdiction in which it operates and has full power and authority to execute, deliver and perform this Agreement; (b) during the term of this Agreement it will (i) remain in good standing and qualified to do business under the laws of the jurisdiction in which it was organized and the states in which it operates, (ii) conduct its business in accordance with all applicable state and federal laws and regulations, and (iii) continue to be qualified to carry out this Agreement; (c) there is no action or proceeding pending or threatened against it before any court or administrative agency, nor any presently existing order of any court or administrative agency that might have a materially adverse effect on the ability of such party to perform its obligations under this Agreement; and (d) any consent or approval of federal or state banking or regulatory authorities required for the making or performance of this Agreement has been obtained.

Section 8. **Indemnification.** Each party hereto, as applicable (referred to in this Section 8 as the "Indemnitor") shall indemnify, defend and hold harmless to other party hereto and such other party's directors, officers and employees (collectively, the "Indemnified Parties") from against any and all Losses resulting from Indemnitor's breach of any representation, warranties or covenants in this Agreement. The Indemnified Parties shall promptly notify the Indemnitor of any legal claim, demand, right or cause of action asserted, instituted or threatened against the Indemnified Parties that arise from or in connection with this Agreement. The indemnity obligation in this paragraph shall survive termination of this Agreement.

Section 9. **Disclaimer of Warranties.** Except as set forth in this Agreement, Nelnet does not make any warranties, express, implied or statutory, including but not limited to the implied warranties of merchantability, business continuity or fitness for a particular purpose, with respect to the services to be provided by Nelnet hereunder.

#### Section 10. **Property Rights** .

(a) Nelnet Property. Nelnet shall retain all right, title and interest in and to (a) all Nelnet websites, URLs, software, tools, routines, programs, designs, diagrams, technology, ideas, know-how, processes, techniques and inventions that Nelnet makes, develops, conceives or reduces to practice, whether alone or jointly with others, in the course of its performance under this Agreement, (b) all enhancements, modifications, improvements and derivative works of each and any of the foregoing,

and (c) all copyrights, trademarks, service marks, trade secrets, patents, patent applications and other proprietary rights related to each and any of the foregoing (collectively, the “Nelnet Property”).

(b) Lender Content. Subject to the following limited license granted to Nelnet, Lender shall retain all rights, title and interest in and to the content of its materials disclosed to Nelnet hereunder (“Lender Content”), and such content shall be the Confidential Information of Lender subject to subsection (c) below. Subject to the terms and conditions of this Agreement, Lender hereby grants Nelnet a limited, non-exclusive, non-transferable royalty free license for the term of this Agreement to use the Lender Content only as required in order for Nelnet to perform the services as provided herein. Lender warrants and represents that the content of any Lender Content it provides to Nelnet shall not: (i) infringe any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy; (ii) violate any law, statute, ordinance or regulation (including without limitation the laws and regulations governing export control, unfair competition, anti-discrimination or false advertising); or (iii) be defamatory, trade libelous, unlawfully threatening or unlawfully harassing.

(c) Confidential Information.

(i) Defined. The term “Confidential Information” shall mean this Agreement and all proprietary information, data, trade secrets, business information and other information of any kind whatsoever which (a) a party hereto (“Discloser”) discloses, in writing, orally, visually, or in any other medium to the other party (“Recipient”) or to which Recipient obtains access in connection with the negotiation and performance of this Agreement, and which (b) relates to (i) the Discloser (ii) third-party suppliers or licensors who have made confidential or proprietary information available to Lender. Confidential Information shall include Lender Information, as described below.

(ii) Lender Information. Nelnet acknowledges that Lender has a responsibility to its customers to keep information about its customers who have borrowed on an Education Loan or Refinance Loan and their accounts (“Lender Information”) confidential. In addition to the other requirements set forth in this Section regarding Confidential Information, Lender Information shall also be subject to the additional restrictions set forth in this Subsection. Nelnet shall not disclose or use Lender Information other than to carry out the purposes for which Lender disclosed such Lender Information to Nelnet.

(iii) Use and Disclosure. Each of the Parties, as Recipient, hereby agrees on behalf of itself and its employees, officers, affiliates and subcontractors that Confidential Information will not be disclosed or made available to any person for any reason whatsoever, other than on a “need to know basis” and then only to: (a) its employees and officers; (b) independent contractors, agents, and consultants; and (c) as required by law or as otherwise permitted by this Agreement. Prior to any disclosure of Confidential Information as required by law, the Recipient shall (i) notify the Discloser of any, actual or threatened legal compulsion of disclosure, and any actual legal obligation of disclosure immediately upon becoming so obligated, and (ii) cooperate with the Discloser’s reasonable, lawful efforts to resist, limit or delay disclosure.

**Section 11. Binding Effect/Entire Agreement/Changes.** This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns, including those persons who may acquire the assets of Lender or Nelnet through merger or purchase. This Agreement embodies the entire agreement between the parties concerning the subject matter hereof. Any changes or amendments to this Agreement shall be made in writing and signed by both parties.

**Section 12. Notices.** All notices and other correspondence to be sent to Lender shall be in care of: Brad Crain, Union Bank and Trust Company, 4243 Pioneer Woods Drive., Lincoln, Nebraska 68516, or such other address as may be provided in writing. All notices and other correspondence to be sent Nelnet shall be sent to: Chief Financial Officer-Nelnet, 121 South 13<sup>th</sup> Street, Lincoln, NE 68508, with a copy to: General Counsel, 3015 South Parker Road, Suite 400, Aurora, CO 80014, or such other address as may be provided in writing.

**Section 13. Governing Law/Venue/Assignment.** This Agreement shall be governed by and construed in accordance with the laws of the State of Nebraska. The parties agree to submit to the exclusive jurisdiction of any court competent jurisdiction located in Lancaster County, Nebraska. This Agreement may not be assigned by a party without the prior written consent of the other parties.

**Section 14. Force Majeure.** Nelnet and Lender shall each be excused from any breach of or failure to perform under this Agreement if performance is prohibited or prevented or applicable law, rule or regulation; or if such breach or failure results from any acts of God, war, riots or civil disturbances or any other cause beyond its reasonable control which materially hinders or prevents its performance under this Agreement.

Union Bank and Trust Company Nelnet Consumer Finance, Inc.

By: /s/ Angie Muhleisen By: /s/ James D. Kruger

Title: President & CEO Title: Treasurer

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**PRIVATE STUDENT LOAN  
ORIGINATION AND SERVICING AGREEMENT**

This agreement is entered into and effective as of the August 22<sup>nd</sup>, 2018, by and between Nelnet Servicing, LLC, d/b/a Firstmark Services, a Nebraska limited liability company, (“Firstmark”), and Union Bank and Trust Company, a Nebraska state banking corporation, (“Lender”).

WHEREAS, Firstmark provides processing services related to the origination and servicing of Education Loans for lenders; and,

WHEREAS, Lender in the ordinary course of its business makes or acquires, or intends to make or acquire Education Loans through the Master Private Loan Program Agreement between Nelnet, Inc. and Lender; and,

WHEREAS, Firstmark agrees to process and service Education Loans for Lender pursuant to the Servicing Guidelines, and Lender therefore desires to retain Firstmark for such services.

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties agree as follows:

**ARTICLE I – DEFINITIONS**

1-1. “Affiliate” means any individual, corporation, partnership, association or business that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with a party or its successors. The term “control” including the terms “controlling,” “controlled by,” and “under common control with” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a corporation, partnership, association or business, whether through the ownership of voting shares, by contract or otherwise. Affiliates shall include such entities whether now existing or later established by investment, merger or otherwise, including the successors and assigns of such entities.



- 1-2. “ Agreement ” means this Agreement.
- 1-3. “ Applicable Law ” means federal, state or local statute, rule, regulation or similar legal requirement applicable to processing the origination and servicing of Education Loans.
- 1-4. “ Applicable Requirements ” means each of the following, as applicable: (i) all contractual obligations under this Agreement and under the Loan Documents; (ii) Applicable Law, (iii) the Underwriting Guidelines, (iv) the Servicing Guidelines; and (v) applicable School requirements.
- 1-5. “ Borrower ” means a maker of a promissory note with respect to an Education Loan.
- 1-6. “ Business Day ” means any day other than a Saturday, Sunday, or a day on which the banking institutions in the city in which a payment is received or a disbursement hereunder must be initiated are authorized or required by law or executive order to close.
- 1-7. “ Claims ” means claims, liabilities, losses, damages, costs, expenses and reasonable attorney's fees asserted against or incurred by a party in connection with a dispute by or the assertions of a third party which arise out of the relationship created by the Agreement.
- 1-8. “ Confidential Information ” has the meaning given such term in Section III-11.a. hereof.
- 1-9. “ Customer Identification Program ” means a process whereby Firstmark screens and monitors applicants under certain of the regulations promulgated by the Office of Foreign Assets Control (“OFAC”) and in connection with the USA Patriot Act in an effort to determine if such persons appear on any lists maintained by OFAC and determining whether any potential transaction may constitute suspicious activity.
- 1-10. “ Education Loan ” means a consumer loan made or to be made to a Borrower for the funding of expenses in connection with such Borrower’s post-secondary education and/or education related to professional certifications, and which is not insured or guaranteed by, or made pursuant to a program sponsored by, a state or federal government or governmental agency.
- 1-11. “ Effective Date ” means the date set forth in the preamble to this Agreement.
- 1-12. “ Fees ” means the amounts to be paid by Lender to Firstmark for the Services, as further set forth in Schedule A and Section 2-8 hereof.
- 1-13. “ Force Majeure ” means, without limitation, the following: acts of God, strikes, lockouts, or other industrial disturbances; acts of public enemies; order or restraint of any kind of the government of the United States of America or of any state or locality in which a party is doing business or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, equipment, transmission pipes or canals; or any other cause or event not reasonably within the control of the party.

- 1-14. “ Intellectual Property ” means user manuals, training materials, computer programs, routines, structures, layout, report formats, trademarks, servicemarks, copyrights, patent rights and all oral or written information relating to a party’s business which is not generally known to the public and which gives such party an advantage over its competitors who do not know or use such information.
- 1-15. “ Lender ” has the meaning given to such term in the preamble to this Agreement.
- 1-16. “ Loan Documents ” means loan applications, promissory notes, credit agreements, disclosures and notices with respect to Education Loans. Lender acknowledges that it holds the “Customer Relationship” (as defined in the Gramm-Leach-Bliley Act) with Borrowers and thereby has the responsibility to provide privacy policies and notices to such Borrowers as required therein. Firstmark will deliver or make available Lender’s privacy notices in connection with the Services, as directed by Lender.
- 1-17. “ NPI ” means “Nonpublic Personal Information” as such term is defined in the regulations implementing Subtitle A of Title V of the Graham-Leach-Bliley Act, Pub. L. 106-102, codified at 15 U.S.C. 6801 et seq., received or obtained, directly or indirectly, by Firstmark pursuant to or in connection with of this Agreement.
- 1-18. “ Origination Services ” means all services provided by Firstmark under this Agreement in connection with the origination and processing of applications for Education Loans.
- 1-19. “ Person ” means an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, a government or any department or agency thereof or any other entity.
- 1-20. “ Post-Origination Services ” means the services provided by Servicer with respect to the period following Origination Services pursuant to this Agreement.
- 1-21. “ School ” means the educational institution attended or to be attended by a Borrower, using the funds provided by an Education Loan.
- 1-22. “ Servicing Guidelines ” means the Client Program Manual or similar information attached hereto as Schedule I-22.
- 1-23. “ Services ” means the Origination Services and the Servicing Services.
- 1-24. “ Term ” has the meaning set forth in Section III-1 below.
- 1-25. “ Underwriting Guidelines ” means the guidelines established or approved by Lender for Education Loans, set forth in one or more manuals delivered to Firstmark, as may be updated from time to time, which address the requirements applicable to the origination of Education Loans.

## **ARTICLE II – SERVICES PROVIDED**

### 2-1. Forms and Documentation.

All Loan Documents to be utilized by Lender and Firstmark in connection with the Services, shall be created and approved by Lender and provided to Firstmark. Any material modification of such forms and documentation shall not be made by Firstmark without prior written approval of Lender. Firstmark shall have no liability for inaccuracies in information furnished by a Borrower in the Loan Documents.

### 2-2. Approval of Education Loan Applications.

Nothing in this Agreement shall make Firstmark a loan production office or a holder or originator of any Education Loan, processed or serviced hereunder. Lender acknowledges that it has sole authority and responsibility for the decision to approve or deny applications for all Education Loans, and Firstmark may only accept those applications on behalf of Lender that are in accordance with the Lender's Servicing Guidelines and Underwriting Guidelines.

### 2-3. Origination Services.

The parties will cooperate to deliver or direct to Firstmark applications for Education Loans and Firstmark will perform Origination Services on behalf of Lender with respect to such applications. Applications will be delivered or directed via paper or in such electronic format as Lender and Firstmark agree and as are set forth in the Servicing Guidelines. Upon acceptance of any Education Loan application into Firstmark's computer system for Origination Services, Firstmark shall have responsibility for processing the disbursement(s) of the Education Loan pursuant to Applicable Requirements. Origination Services shall include the following:

- a. Review of Loan Application to ensure all required information has been completed by the Borrower.
- b. Properly identifying the Borrower and processing the Borrower's application through the Customer Identification Program.
- c. Calculation and deduction of fees as required by Servicing Guidelines prior to disbursement, such that the disbursed amount is net of applicable deductions.
- d. Preparation of disbursement of the Borrower's Education Loan and delivery of Education Loan funds to the Borrower or Borrower's School, or to such other location as Lender may designate, in each case in a single disbursement unless otherwise provided in the Servicing Guidelines.
- e. Preparation of and delivery to Borrower of all required Loan Documents, as provided by the Servicing Guidelines. Such actions to be taken by Firstmark shall include creation

and processing of Loan Documents on forms approved by Lender, review of credit bureau information for potential problems, and providing disclosures and notices in accordance with Applicable Requirements.

Upon disbursement of loan proceeds, Education Loans shall be treated hereunder as completed Education Loans, and Firstmark shall thereupon assume responsibility for servicing and collection of such loans as provided in this Agreement.

2-4. Post-Origination Services.

Upon completion of Origination Services, or upon acceptance of any third-party originated Education Loan into Firstmark's computer system, Firstmark shall service such loan in accordance with Applicable Requirements, provided, Firstmark shall at no time have any liability for the actions of third parties or for the origination or servicing (by a third party) of Education Loans prior to such Education Loans being delivered to Firstmark for servicing. Post-Origination Services shall include the following:

- a. Making available to Borrowers all Loan Documents in accordance with Applicable Requirements.
- b. Acceptance of Borrower payments, including via Automated Clearinghouse processes. Payments via U.S. Mail will be directed to a lockbox established by Firstmark. Daily transfer of funds to lender will include all sums applied to the Education Loans, less any cash payment reversals (checks returned for insufficient funds and stop payment orders).
- c. Accounting for all transactions related to Education Loans, including all payments on such Education Loans, in accordance with the Servicing Guidelines. Interest computation shall be completed in accordance with the Servicing Guidelines.
- d. Processing of address changes and other demographic information changes provided, Firstmark may rely on, without independently verifying, all data entries, manipulations and representations related to Education Loans which are provided to Firstmark or the Firstmark systems by Lender, Schools or Borrowers.
- e. Responding to inquiries pertaining to Education Loans, school status or refunds, provided, Lender shall cooperate as necessary to enable Firstmark to respond. Inquiries may be referred to the School if necessary.
- f. Reporting to credit reporting agencies pursuant to Applicable Requirements and assisting in credit reporting dispute process.
- g. Retention of an image of all Loan Documentation, including maintaining a backup copy of all Loan Documentation in a location distinct from the original.

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h. Acting as custodian with respect to all Loan Documentation and systems records for each Education Loan. Firstmark may make electronic images of Loan Documentation in place of the original as permitted for collectability purposes under state and federal law.

2-5. Service Levels; Adjustments.

- a. Service Levels. Servicer agrees to maintain certain levels of service with respect to the key Services activities, as follows:
- i. Average speed of answer: [\*\*\*\*\*] seconds
  - ii. Maximum call abandon rate: [\*\*\*\*\*] percent ([\*\*\*\*\*]%)
  - iii. Loan application processing: [\*\*\*\*\*] Business Days from receipt, provided, delays in receiving necessary information from Borrower or School shall not be considered in calculating processing time.
- b. Fee Adjustments. With respect to any individual Service Level identified above, if Servicer fails to maintain such Service Level in two (2) consecutive months, Lender may, upon written notice to Servicer, require a remediation plan. For each consecutive month following such notice in which Servicer fails to meet the same Service Level without having cured the failure, Servicer will provide Lender a [\*\*\*\*\*] percent ([\*\*\*\*\*]%) credit to the Fees for such month.

2-6. Origination or Servicing Errors.

If Firstmark commits an error in connection with the Services, which error directly results in such Education Loan becoming unenforceable or uncollectible, Lender shall give Firstmark written notice of the same. Thereafter, Firstmark shall have a reasonable time to cure such Education Loan. If cure cannot be accomplished within twelve (12) months of the original error, Firstmark will purchase or arrange for purchase of the Education Loan from Lender at an amount equal to the outstanding principal balance and accrued but unpaid interest thereon. If the Education Loan is thereafter cured within twelve (12) months after the date of purchase, Lender shall repurchase such Education Loan from Firstmark or its designee, at a price equal to the outstanding principal amount thereof plus accrued but unpaid interest thereon, such sum to be payable as an additional servicing fee under this Agreement. The foregoing shall be Lender's sole remedy as against Firstmark for origination or servicing errors by Firstmark.

In connection with the purchase of any Education Loan by Firstmark or its designee hereunder, Lender will deliver to Firstmark all records in Lender's possession and will execute and deliver to Firstmark such other documents and instruments as Firstmark may reasonably request to effect the transfer. Such records shall be transferred to Firstmark free and clear of any liens, encumbrances, claims, or interest of any person or entity claiming by, through, or under Lender, and without representations or warranties, expressed or implied, and without recourse to Firstmark. If Lender is required to repurchase the Education Loan from Firstmark or its designee hereunder, Firstmark will deliver to Lender all records in Firstmark's possession and will execute and deliver to Lender such other documents and instruments as Lender may reasonably request to effect the transfer. Such records shall be transferred to Lender free and clear of any liens, encumbrances, claims, or interest of any person or entity claiming by, through, or under Firstmark, and without representations or warranties, expressed or implied, and without recourse to Lender.

2-7. Reports to Lender.

On or about the 10th day of each month, Firstmark shall make available to Lender reports of activity with respect to the Services during the preceding month, as designated in the Servicing Guidelines.

Additionally, on a monthly basis, Firstmark shall provide to Lender a report with respect to all complaints made by or on behalf of a Borrower under an Education Loan (both written and verbal) or group of Borrowers. With regard to any initial inquiry by Lender with respect to any errors, omissions or exceptions with respect to the servicing of any Education Loan, Firstmark will make commercially reasonable efforts to respond within a reasonably prompt timeframe. Firstmark shall use commercially reasonable efforts to resolve such error, omission or exception within a reasonably prompt timeframe, and to the reasonable satisfaction of Lender.

2-8. Compensation for Services.

In consideration of the Services, Lender shall pay Firstmark the Fees as forth on billing statements delivered by Firstmark. Fees shall be paid within thirty (30) days of the date of each billing statement.

a. Changes to Fees.

- i. At any time after the first twelve (12) months of this Agreement, on not less than thirty (30) days' advance written notice to Lender, Firstmark may increase the Fees, provided, no such increase shall result in a percentage increase for any twelve month period that will exceed the lesser of either (i) the percentage increase in the U. S. Department of Labor's Consumer Price Index for Urban Wage Earners and Clerical Workers, U.S. City Average (1982-84=100) (the "CPI") for the most recent twelve (12)-month period available at the time of

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each annual adjustment, or (ii) [\*\*\*\*\*] percent ([\*\*\*\*\*]%) per annum. If at any adjustment date the CPI is no longer published, then any replacement index specified by the Bureau of Labor Statistics or successor U.S. governmental agency shall be substituted therefore, with appropriate application of any necessary conversion formula as may be specified by such agency, or if no such replacement index has been so specified, then a comparable cost-of-living index as may be mutually agreed between the parties shall be used.

ii. Lender shall pay Firstmark increased Fees in the amount of any increase in rates charged by the United States Postal Service to Firstmark .

iii. If at any time during the Term or Renewal Term(s) Firstmark is required to make material changes to the Services or its servicing system due to changes to Applicable Requirements, or other changes or increased costs beyond Firstmark 's control, including changes in the business environment, Firstmark may renegotiate the Fees with Lender to reasonably reflect those increased costs.

b.Late Payment. If Fees are not paid within sixty (60) days of a billing statement, Firstmark may impose a late charge of [\*\*\*\*\*] percent ([\*\*\*\*\*]%) per month against the entire outstanding balance of Fees owed by Lender, including any prior late fees outstanding. In such situation, Firstmark may also (a) withhold transfer of Borrower payments; (b) withhold reports; and (c) terminate services without further notice.

**ARTICLE III – GENERAL PROVISIONS**

**3-1. Term of Agreement.**

Subject to the termination provisions set forth below, the Agreement shall be effective for a period commencing on the Effective Date, and terminating on the date on which the last payment due is paid on the Education Loans serviced hereunder, during which the Services shall be provided, subject to payment of the Origination and Servicing Fees and other terms of the Agreement. The parties acknowledge and agree that it is their intent that this Agreement shall remain in full force and effect through the “life of” each Education Loan serviced hereunder.

3-2. Termination of Agreement.

The Agreement may be terminated as follows:

- a. At the expiration of the Term.
- b. Upon the refusal or failure of a party to perform any material obligation of the Agreement, and the failure or refusal to correct or cure such performance or lack thereof, within sixty (60) days after the party's receipt of written notice of the failure or refusal.
- c. Upon the failure of the parties to reach agreement with respect to a change in the Fees requested by Firstmark in the event of a change in Applicable Requirements that materially increases costs of performance by Firstmark hereunder.
- d. At Firstmark's option, if Lender fails to pay Firstmark the Fees within sixty (60) days of any billing statement.
- e. If an insolvency, bankruptcy or similar proceeding shall have been commenced, or a decree or order of an appropriate court, agency or supervisory authority for the appointment of a conservator, receiver or liquidator shall have been entered against a party, the other party may terminate this Agreement immediately.

3-3. Termination Process.

Upon termination of this Agreement for any reason above, all Loan Documentation and relevant servicing records will be made available to Lender in Firstmark's standard format. Lender will reimburse Firstmark for all expenses associated with removing such information from Firstmark's systems and making such information available to Lender.

3-4. Representations and Warranties.

Each of the parties represents and warrants to the other party:

- a. it is duly organized, validly existing and in good standing under the laws of the state of its organization;
- b. it has all necessary power and all licenses, permits, authorizations and approvals (governmental, corporate or otherwise) necessary to carry on its business and perform its obligations under this Agreement; and,
- c. the execution or performance of this Agreement will not violate its documents of formation or governance, or any material contract or other instrument to which it is a party or by which it is bound and will not violate any outstanding judgment, order, writ, injunction, law, rule or regulation to which it is subject.



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3-5. Limitation on Liability.

Firstmark shall have no liability with respect to:

- a. the failure of any Borrower to repay an Education Loan;
- b. disputes between Borrowers and Schools regarding tuition, registration, attendance or quality of education or training;
- c. Claims arising from actions or inactions of Firstmark as directed by Lender, either pursuant to Applicable Requirements or otherwise; or
- d. incorrect information regarding Education Loans or Borrowers which may be provided to Firstmark by Lender, Schools or Borrowers, including but not limited to, School/Borrower certification, eligibility, enrollment, and School or Borrower demographic information

Neither party shall have any liability for Claims under any theory of tort, contract, strict liability or other legal or equitable theory for any lost profits, exemplary, punitive, special, incidental, indirect or consequential damages, each of which is hereby excluded by agreement of the parties regardless of whether such party has been advised of the possibility of such damages.

3-6. Limitation on Actions.

The parties agree that any action for the breach of any provision of this Agreement shall be commenced within twelve months following the earlier of (i) the termination of this Agreement or (ii) the date the Education Loan with respect to which the action relates has been removed from the Firstmark servicing system.

3-7. Audit Rights.

Upon prior written notice to Firstmark, and in coordination with Firstmark's management, Lender may perform or arrange to have audits performed of Firstmark's origination and servicing activities with respect to Education Loans owned by Lender. All such audits will be performed at Lender's sole expense and during Firstmark's normal business hours. In connection with such audits, Firstmark agrees to provide, annually, up to [\*\*\*\*\*] hours of

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assistance by Firstmark employees. Any additional assistance requested by Lender will be provided at an hourly rate of [\*\*\*\*\*] dollars (\$[\*\*\*\*\*]) per hour per employee. Such fee is subject to change at Firstmark's reasonable discretion but upon at least sixty (60) days' advance written notice to Lender. Such audit rights shall extend through termination of this Agreement and four (4) years thereafter.

3-8. Annual Compliance Audit.

On an annual basis, Servicer will cause to be completed a SSAE 18 SOC1 Type II review of its activities. Upon request, Lender may receive a copy of the report of such review by paying a pro-rata share of the cost of same. Servicer's Internal Audit Department coordinates such participation on an annual basis and divides the aforementioned costs equally between those lenders participating

3-9. Disaster Recovery Plan.

Servicer agrees to maintain a disaster recovery plan designed to enable Servicer, after a disaster, to resume Services within a reasonable timeframe. A summary of Servicer's plan will be made available to Lender upon request.

3-10. Intellectual Property Protection.

All right, title and interest of whatever nature in each party's Intellectual Property is and shall remain the sole and exclusive property of such party, and no license or other rights thereto are granted by this Agreement.

3-11. Confidentiality and Nondisclosure.

- a. Definition. The term "Confidential Information" means any information that either party discloses, by any method and in any form or format, which is marked "Confidential," "Restricted," "Proprietary" or with other similar marking, or which should reasonably be considered to be Confidential Information. By way of example and not limitation, Confidential Information includes: (i) any information concerning a party's, its agents' or licensors' technology, such as systems, source code, databases, hardware, software, programs, applications, protocols, routines, models, displays and manuals, including, without limitation, the selection, coordination, and arrangement of the contents thereof; and (ii) any information concerning a party's, its agents' or licensors' financial or business plans or operations, such as research activities and plans, marketing or sales plans, pricing

or pricing strategies, operational techniques, internal controls, compliance policies, methods of operation, security procedures, strategic plans, and unpublished financial information, including information concerning revenues, profits and profit margins.

- b. Restrictions on Use. The party providing Confidential Information in each case shall be called the “Disclosing Party” and the party receiving the Confidential Information shall be called the “Receiving Party.” The Receiving Party shall not use, without the prior written consent of the Disclosing Party, any portion of the Disclosing Party’s Confidential Information for any purpose other than in connection with the performance of this Agreement. Each party agrees that: (i) it will hold the Confidential Information of the other party in the strictest confidence; (ii) it will exercise no less care with respect to the other party’s Confidential Information than the level of care exercised with respect to its own Confidential Information; (iii) it will not, without the other party’s prior written consent, copy or disclose to any third party any portion thereof; and (iv) it will promptly notify the other party of any unauthorized disclosure or use, and will cooperate with the other property to protect all rights in and ownership of its Confidential Information.
- c. Exceptions. The foregoing restrictions on use shall not prohibit or limit the Receiving Party’s use, disclosure, reproduction or dissemination of the Disclosing Party’s Confidential Information which: (a) is or becomes public domain information or material through no fault or breach on the part of the Receiving Party; (b) as demonstrated by the written records of the Receiving Party, was already lawfully known (without restriction on disclosure) to the Receiving Party prior to the information being disclosed to the Receiving Party by the Disclosing Party or any representative of the Disclosing Party; (c) has been or is hereafter rightfully furnished to the Receiving Party without restriction on disclosure by a third person lawfully in possession thereof; (d) has been independently developed, by or for the Receiving Party, without reference to the Confidential Information of the Disclosing Party; or (e) is required to be disclosed by court or agency order, provided that, unless prohibited by law or order, the Receiving Party notifies the Disclosing Party so that the Disclosing Party may have a reasonable opportunity to obtain a protective order or other form of protection against disclosure.
- d. Borrower Information. Firstmark agrees that all information related to or contained in documents subject to this Agreement which is NPI constitutes Confidential Information of the Lender, and Firstmark shall keep all such NPI in strictest confidence. NPI shall not be released or divulged in any way without prior written consent of Lender, except (i) to Firstmark’s officers and employees, or such other third parties as is necessary to perform its obligations under this Agreement, (ii) as specifically required by Applicable Law, or (iii) to such other parties as directed in writing by the Lender. Firstmark shall only use NPI to perform its duties under this Agreement and for other purposes specifically directed in writing by Lender from time to time, and shall not directly or indirectly use, or suffer, permit or cause to be used, any such NPI in any other manner or for any other purpose whatsoever including marketing or cross-selling, or suffer, permit or cause the marketing or cross-selling of, any products or services of any kind using NPI without Lender’s prior written approval. Without in any way limiting the

foregoing, Firstmark's use, reuse, disclosure and redisclosure of NPI shall comply with Applicable Law.

- e. Firstmark will maintain an information security program designed to prevent the unauthorized disclosure, misuse, alteration or destruction of NPI. Without limiting the immediately preceding sentence, Firstmark agrees that such program shall be designed to satisfy the objectives set forth in the "Interagency Guidelines Establishing Standards for Safeguarding Borrower Information", 66 Fed. Reg. 8616, February 1, 2001 (codified in Appendix B to 12 C.F.R. part 30).
- f. Firstmark shall promptly notify Lender in the event of a disclosure or of an unauthorized access to Confidential Information in violation of this Agreement, and the parties shall mutually agree upon an action plan to mitigate and resolve issues or problems arising from such disclosure.

3-12. Independent Contractors.

Lender and Firstmark are independent contractors, and nothing in this Agreement shall be construed to create a partnership, joint venture or agency relationship between Lender and Firstmark.

3-13. Notices.

All notices or communications by a party to the other party shall be delivered to the addresses set forth in the signature section of this Agreement below, or to such other address as may be provided from time to time by a party. Any notice shall have been deemed to have been given on the fifth (5th) day following the mailing of such notice when mailed by registered or certified mail, and upon receipt in every other case.

3-14. Governing Law.

This Agreement is executed and delivered within the State of Nebraska. The parties hereto agree that it shall be construed, interpreted and applied in accordance with the laws of the State of Nebraska, and that the courts and authorities within the State of Nebraska shall have sole jurisdiction and venue over all controversies which may arise with respect to the execution of, interpretation of and compliance with this Agreement. EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

3-15. Changes in Writing.

This Agreement, including this provision hereof, shall not be modified or changed in any manner except by a writing signed by all parties hereto.

3-16. Severability.

If a court of competent jurisdiction finds any of the provisions of this Agreement to be so overly broad as to be unenforceable or invalid for any other reason, it is the parties' intent that such invalid provisions be reduced in scope or eliminated by the court, but only to the extent deemed necessary by the court to render the remaining provisions of this Agreement reasonable and enforceable.

3-17. Persons Bound.

This Agreement shall be binding upon and inure to the benefit of the parties hereto, their legal representatives, heirs, successors and permitted assigns.

3-18. Assignment.

This Agreement shall not be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld, provided, Firstmark may assign this agreement or delegate any obligation hereunder, to any Affiliate of Firstmark with reasonable notice to Lender.

3-19. Titles.

The titles used in this Agreement are intended for convenience and reference only. They are not intended and shall not be construed to be a substantive part of this Agreement or in any other way to affect the validity, construction or effect of any of the provisions of this Agreement.

3-20. Waiver.

The waiver or failure of either party to exercise in any respect any right provided for herein shall not be deemed a waiver of any further right hereunder.

3-21. Force Majeure.

If by reason of a Force Majeure Firstmark is unable in whole or in part to carry out any obligation of this Agreement, Firstmark shall not be deemed in default during the continuance of such inability.

3-22. Corporate Obligations.

This Agreement consists of obligations of the parties as corporate or similar entities. Any liability arising hereunder shall be corporate liabilities. No director, officer or employee of either party shall be subject to any liability to any other party for any action taken, or for refraining from taking any action in good faith, or for errors in judgment.

3-23. Hiring.

Lender agrees that during the Term or Renewal Terms of this Agreement and for one year thereafter, it will not hire or solicit for hire, or knowingly allow its employees to hire or solicit for hire, any employee of Firstmark without the written permission of Firstmark.

3-24. Entire Agreement.

This is the entire and exclusive statement of the Agreement between the parties, which supersedes and merges all prior proposals, understandings and all other agreements, oral and written, between the parties relating to the Services or any other provision of this Agreement.

3-25. Counterparts.

This Agreement may be executed in any number of counterparts. Each counterpart so executed shall be deemed an original, but all such counterparts shall together constitute one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

NELNET SERVICING, LLC  
d/b/a Firstmark Services

UNION BANK AND TRUST COMPANY

By: /s/ James D. Kruger

By: /s/ Angie Muhleisen

Title: Treasurer

Title: President & CEO

Address: 121 S. 13<sup>th</sup> St., Suite 100  
Lincoln, NE 68508

Address: 4243 Pioneer Woods Dr  
Lincoln, NE 68506

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Schedule A

Service	Fee for Service
<b>Loan Origination Fees</b>	
[*****]	\$(*****] per loan
<b>Monthly Loan Servicing Fees</b>	
[*****]	\$(*****] Per Borrower Per Month
[*****]	\$(*****] Per Borrower Per Month
[*****]	\$(*****] Per Borrower Per Month
<b>Miscellaneous Fees</b>	
[*****]	\$(*****] per Participant per month
[*****]	\$(*****] + First Class Postage Per Form
[*****]	\$(*****] + First Class Postage Per Form
[*****]	\$(*****] per Hour
[*****]	\$(*****] per loan, not exceed \$(*****] in Aggregate
[*****]	\$(*****] per loan
[*****]	\$(*****] per [*****] Loan



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**LOAN PARTICIPATION AGREEMENT**

This Loan Participation Agreement (the “Agreement”) is made and entered into effective as of this 22<sup>nd</sup> day of August, 2018, by and between Union Bank and Trust Company, a Nebraska banking corporation, in its own right (the “Lender”) and National Education Loan Network, Inc., a Nebraska corporation (the “Participant”).

**WHEREAS** , Lender is engaged in a program of originating both in-school and refinance student loans (“Education Loans”) to borrowers as part of an Education Loan program in which Nelnet Consumer Finance, Inc. provides marketing services on behalf of Lender;

**WHEREAS** , Lender has engaged Nelnet Servicing, LLC, d/b/a/ FirstMark Services (the “Servicer”) to assist Lender in originating and servicing the Education Loans;

**WHEREAS** , Participant, wishes to purchase from Lender a participation interest in the Education Loans and Lender wishes to sell to Participant a participation interest in Education Loans under the terms and conditions as set forth herein.

**NOW, THEREFORE** , in consideration of the premises and the mutual covenants herein contained, Participant and Lender do hereby agree as follows:

1. Sale of Participation Interests in Education Loans.

A. During the term of this Agreement, Participant does hereby irrevocably agree to purchase or arrange for a designee to purchase from Lender, or the designee of Lender, a 95% participation interest in the Education Loans at the Purchase Price (as defined below) upon presentation of a request for purchase by Lender in the manner provided herein. Lender does hereby irrevocably agree to sell, transfer, and convey to Participant or Participant’s designee, a participation interest in the Education Loans at the Purchase Price upon presentation of a request for sale by Participant. This commitment to sell shall apply only to Education Loans. Lender may hold such Education Loans for periods of time prior to sale of participation interests therein from time to time as the parties may mutually agree from time to time, but, in any event, no less than [\*\*\*\*\*] days. Lender shall make available to Participant information from time to time as Participant may reasonably request in order to enable Participant to make credit decisions with respect to Education Loans. Lender shall make such transfer and shall keep its interest in the

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Education Loans free and clear of all security interests, liens or encumbrances of any nature whatsoever, provided, however, the Participant acknowledges that Lender holds legal title to the underlying promissory note evidencing the Education Loan. The Purchase Price for such participation interests shall be the amount equal to [\*\*\*\*]% of outstanding principal balance, plus a premium of [\*\*\*\*]% of the outstanding principal balance, plus [\*\*\*\*]% of accrued and unpaid interest on the Education Loan being participated (the "Purchase Price"). The Purchase Price shall be paid in immediately available funds. The commitment on the part of Participant to purchase participation interests in Education Loans pursuant to this Agreement up to the amount set forth above shall continue for a period of 360 days from the date first set forth above, and shall renew for successive 360 day terms thereafter unless either party gives written notice to the other of an intent to not renew at least ninety (90) days prior to the end of the then current commitment period. Upon termination of this Agreement, the Lender shall transfer the Lender's interest in the participation interests to the Participant or its designee.

B. The participation interest purchased hereunder is a participation in the specific Education Loans identified in the Participation Certificate(s) issued by Lender to Participant, and is not a participation interest in an unidentifiable pool of loans. The sale and purchase of the loan participations under this Agreement shall be without recourse of any nature whatsoever against Lender. Lender and Participant acknowledge and agree that this Agreement results in a pro rata sharing of credit risk proportionate to the respective interests of Lender and Participant in the Education Loans, both before and after any default with respect to the Education Loans. Lender shall retain ownership of the title to each of the Education Loans in which participation interests are purchased by Participant.

2. Procedures for Purchase or Sale. (a) Demand for Purchase or Sale. Lender may, from time to time, make a request or requests that Participant purchase the respective participation interests in such Education Loans, and Participant may, from time to time, make a request or requests that Lender sell such participation interests in Education Loans (each, a "Request"). Each Request shall be made by Lender or Participant, as applicable, giving written notice of the Request to the other party hereto and advising the other party hereto of the sum of the principal balances and interest accrued thereon of participation interests in the Education Loans to be purchased or sold. Participant shall then, after receipt or giving of the Request, provide Lender with immediately available funds to satisfy each Request. Participant shall use best efforts to make payment within twenty (20) business day of receipt of any Request received by or given by Participant. Any sale, transfer or other disposition to Participant of Education Loans shall be made free and clear of any liens, security interests or encumbrances of any nature whatsoever, and shall be made in accordance with this Agreement. During the term of this Agreement, the respective obligation of

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Participant or Lender, as applicable, to honor Requests as set forth in this Agreement shall be revocable upon thirty (30) days prior written notice to the other party, provided, however, that any outstanding Request issued during such thirty (30) day time period shall be honored.

3. Participation Certificates. The Education Loans are evidenced by promissory notes. Lender makes no representations or warranties with respect to the Education Loans or any documentation evidencing such Education Loans except as expressly stated in Section 5(a) hereof. Lender shall give written notice to Participant of any modification in Lender's standard Education Loan documentation, and Lender shall not implement any such modification until thirty (30) days following such notice. The originals of such promissory notes shall be kept in the physical custody and possession of the Servicer for purposes of servicing. On the date of the first sale of a participation interest with respect to a portfolio of Education Loans, or thereafter as mutually agreed to by the parties, Lender shall execute and deliver (or shall cause to be executed and delivered) to Participant a master participation certificate substantially in the form marked as Exhibit "A," attached hereto and incorporated herein by this reference, evidencing a participating equitable ownership interest in the Education Loans in that particular portfolio. Lender shall attach or cause to be attached to the executed original of Exhibit "A" a schedule of the Education Loans identifying such loans comprising the portfolio.

4. Decisions Concerning the Education Loans. After purchase of the participation interest pursuant to this Agreement, all actions and decisions concerning the Education Loans, including without limitation the day-to-day administration and servicing of the Education Loans, shall be made by Participant and Lender according to their respective percentages of ownership of each Education Loan and such decisions shall be binding on Lender and Participant. Servicing of the Education Loans shall be performed by the Servicer on behalf of Lender and Participant, and Lender shall pay to the Servicer all costs of servicing the Education Loans during the term of this Agreement. All servicing reports generated by the Servicer with respect to the Education Loans shall be available to Participant, and 95.0% of all payments received by Lender or the Servicer with respect to the Education Loans participated in accordance with this Agreement shall be forwarded promptly to Participant or its designee, less [\*\*\*\*]% of the servicing fee payable to the Servicer as set forth in Section 4(a) hereof. Lender shall permit reasonable access from time to time upon request of Participant, or any of the beneficiaries of the trusts on behalf of which Participant acts, to access and review information and loan files and appropriate credit and other information to enable decisions on credit to be made. Participant acknowledges that it and the beneficiaries on behalf of which it acts have made their own credit analysis and do not rely on the Lender for any such credit analysis.

**PORTIONS OF THIS EXHIBIT HAVE BEEN REDACTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT BY NELNET, INC. UNDER RULES AND REGULATIONS PROMULGATED BY THE SECURITIES AND EXCHANGE COMMISSION. THE REDACTED PORTIONS ARE MARKED WITH [\*\*\*\*] AND HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION ALONG WITH SUCH REQUEST FOR CONFIDENTIAL TREATMENT.**

5. Payments and Accounting to Participant; Records.

(a) Lender, through the Servicer, shall account and deliver promptly (approximately once every thirty days) to Participant that portion of income from the Education Loans which is equal to 95% of the payments of interest and other income from the Education Loans and principal payments, less [\*\*\*\*]% of the fees charged by the Servicer with respect to servicing the Education Loans. Participant shall have a right to an accounting of all funds received by Lender in connection with the Education Loans.

(b) Lender, through its agent, the Servicer, will maintain customary books and records relating to the Education Loans, which shall be made available to Participant at all reasonable times for the purpose of inspection, and copies of any of Lender's records relating to the Education Loans shall be furnished to Participant at Participant's request.

(c) To the extent not already available to Participant, Lender, through the Servicer, shall provide to Participant, promptly after Lender receives or obtains any information in Lender's possession as to the accrual status of, and principal and interest payments with respect to, the Education Loans, together with any information as to default of borrowers on such Education Loans.

6. Representations and Warranties.

(a) Lender makes no representations or warranties, whether expressed or implied, to Participant, as to the collectability of the Education Loans or the continued solvency of the borrowers on Education Loans. Lender does represent and warrant to Participant as follows:

(1) This Agreement has been duly authorized, executed and delivered by Lender and constitutes a legal, valid and binding obligation.

(2) The Agreement was made in compliance with all applicable local, State and federal laws, rules and regulations.

(3) Lender has and its officers acting on its behalf have, full legal authority to engage in the transactions contemplated by the Agreement, the execution and delivery of the Agreement, the consummation of the transactions herein contemplated and compliance with the terms, conditions and provisions of the

Agreement do not and will not conflict with or result in a breach of any of the terms, conditions or provisions of the charter, articles or bylaws of Lender or any agreement or instrument to which Lender is a party to or bound by any agreement or instrument or a default thereunder. Lender is not a party to or bound by any agreement or instrument or subject to any charter or other corporation restriction or judgment, order, writ, injunction, decree, law, rule or regulation which may materially and adversely affect the ability of Lender enforceable against it in accordance with its terms, and no consent, approval or authorization of any government or governmental body is required in connection with the consummation of the transactions herein contemplated.

(4)Lender is duly organized, validly existing and in good standing under the laws of the State of Nebraska and has the power and authority to own its assets and carry on its business as now being conducted.

(5) At the time of origination, each Education Loan was made by the Lender in accordance with Lender's underwriting policies and guidelines, a true and accurate copy of which has been furnished to Participant.

(6) Each Education Loan has been duly executed and delivered and constitutes the legal, valid and binding obligations of the maker thereof, enforceable in accordance with its terms.

(7) No Education Loan participated hereunder is subject to any security interest, lien or other encumbrance of any nature whatsoever.

(b) Participant represents and warrants to Lender as follows:

(1) This Agreement has been duly authorized, executed and delivered by Participant and constitutes a legal, valid and binding obligation.

(2)The Agreement was made in compliance with all applicable local, State and federal laws, rules and regulations.

(3) Participant has and its officers acting on its behalf have, full legal authority to engage in the transactions contemplated by the Agreement, the execution and delivery of the Agreement, the consummation of the transactions herein contemplated and compliance with the terms, conditions and provisions of the Agreement do not and will not conflict with or result in a breach of any of the terms, conditions or provisions of the charter, articles or bylaws of Participant or any agreement or instrument to which

Participant is a party to or bound by any agreement or instrument or a default thereunder. Participation is not a party to or bound by any agreement or instrument or subject to any charter or other corporation restriction or judgment, order, writ, injunction, decree, law, rule or regulation which may materially and adversely affect the ability of Participant enforceable against it in accordance with its terms, and no consent, approval or authorization of any government or governmental body is required in connection with the consummation of the transactions herein contemplated.

(4) Participant is duly organized, validly existing and in good standing under the laws of the State of Nebraska, and has the power and authority to own its assets and carry on its business as now being conducted.

(5) The authorized officer executing this Agreement on behalf of Participant hereby certifies that Participant has approved purchase of a 95.0% participation interest in the Education Loans as identified in the participation certificate, and is relying upon the maker of the respective Education Loans to repay the same.

7. Term. The term of this Agreement shall continue until the Education Loans participated hereunder are paid in full or as the parties may otherwise mutually agree. The Lender may terminate this Agreement with regards to at any time upon 90 days-notice to the Participant.

8. Miscellaneous Provisions.

A. Neither this Agreement nor any term hereof may be changed, waived, discharged, modified or terminated orally, unless by an instrument in writing signed by both of the parties hereto. This Agreement may be terminated by either party hereto upon thirty (30) days prior written notice sent to the other party. This Agreement may be terminated by either party immediately upon such party's deeming that it is required to do so by any regulatory authority or applicable law.

B. The headings in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

C. All of the terms, covenants and conditions herein contained shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns.

D. Notices under this Agreement shall be in writing unless otherwise permitted hereby, and if in writing, may be personally delivered or sent by United States mail, sufficient postage prepaid, or by telecopy or facsimile, to the respective parties at the following addresses:

Participant:

National Education Loan Network, Inc.  
6801 South 27th Street  
Lincoln, Nebraska 68508  
Attention: General Counsel  
Telephone: 402-486-5334

Lender:

Union Bank and Trust Company  
Attn: Brad Crain  
4243 Pioneer Woods Dr.  
Lincoln, NE 68506  
Telephone: 402-323-1783

E. This Agreement shall not be construed to create a partnership or joint venture between Lender and Participant. The transaction evidenced by this Agreement is a loan participation transaction, and advances made by Participant to Lender from time to time for Participant's purchase of participation interests shall not constitute loans to Lender. Participant's interest in the Education Loans is an ownership interest, not a security interest.

F. If any one or more of the covenants or agreements or portion thereof provided in this Agreement on the part of Participant or Lender to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, or such agreement or agreements, or such portions thereof, shall be deemed severable from the remaining covenants and agreements provided in this Agreement and the invalidity thereof shall in no way affect the validity of the other provisions of this Agreement hereunder and under any applicable provisions of law.

G. This Agreement shall be construed and interpreted in accordance with the laws of the State of Nebraska.

Executed as of the day and year first above written.

National Education Loan Network Inc. Participant

Union Bank and Trust Company, as trustee, Lender

By: /s/ James D. Kruger

By: /s/ Angie Muhleisen

Title: Treasurer

Title: President & CEO

**PARTICIPATION CERTIFICATE**

Pursuant to that certain Loan Participation Agreement (the "Agreement") dated as of \_\_\_\_\_, 2018, by and between National Education Loan Network, Inc. ("Participant") and Union Bank and Trust Company, as trustee ("Lender"), Lender hereby issues and delivers this Participation Certificate to evidence Participant's participation interests in a 95.0% interest in unsecured Education Loans which are identified by the schedule marked as Exhibit "A," attached hereto and incorporated herein by this reference, which loans or participation interests therein are owned by Lender and are serviced and designated a separate account, in accordance with the Agreement. This Participation Certificate shall be governed, in all respects, by the Agreement, the terms of which are incorporated herein by this reference as if fully stated herein.

Dated as of the \_\_\_ day of \_\_\_\_\_, 2018.

Union Bank and Trust Company, as trustee ("Lender")

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Accepted as of the same date set forth above:

Network, Inc. ("Participant")

National Education Loan

By: \_\_\_\_\_  
Title: \_\_\_\_\_



## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey R. Noordhoek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nelnet, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ JEFFREY R. NOORDHOEK

Jeffrey R. Noordhoek Chief Executive Officer  
Principal Executive Officer

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James D. Kruger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nelnet, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ JAMES D. KRUGER

James D. Kruger  
Chief Financial Officer  
Principal Financial Officer and Principal Accounting Officer

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Nelnet, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

By: /s/ JEFFREY R. NOORDHOEK

Name: Jeffrey R. Noordhoek

Title: Chief Executive Officer

Principal Executive Officer

By: /s/ JAMES D. KRUGER

Name: James D. Kruger

Title: Chief Financial Officer

Principal Financial Officer and Principal Accounting Officer