

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of Report (Date of earliest event reported)**  
OCTOBER 26, 2005

**NELNET, INC.**

(Exact name of registrant as specified in its charter)

NEBRASKA	001-31924	84-0748903
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
121 SOUTH 13TH STREET SUITE 201 LINCOLN, NEBRASKA		68508
-----		-----
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code (402) 458-2370

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act

(17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act

(17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.**

On October 26, 2005, Nelnet, Inc. issued a press release with respect to its earnings for the quarter ended September 30, 2005.

**Item 9.01. FINANCIAL STATEMENTS AND EXHIBITS.**

A copy of the press release is attached as Exhibit 99.1 to this Current Report. Additional information for the quarter ended September 30, 2005, which is available on the Registrant's website at [www.nelnet.net](http://www.nelnet.net), is furnished as Exhibit 99.2.

**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 hereunto duly authorized.

Dated: October 26, 2005

**NELNET, INC.**

By: /s/ TERRY J. HEIMES

-----  
Name: Terry J. Heimes  
Title: Chief Financial Officer

## EXHIBIT INDEX

Exhibit No. -----	Description -----
99.1	Press Release dated October 26, 2005 - "Nelnet reports net student loan assets up 28 percent year-over-year"
99.2	Additional Information Available on the Registrant's Website

---

NELNET 121 South 13th Street, Suite 400 P 402 458 2370 www.nelnet.net  
**Lincoln, NE 68506 F 402 458 2344 NELNET CORPORATE  
SERVICES, INC.**

---

Media Contact: Sheila Odom, 402.458.2329 Investor Contact: Cheryl Watson, 317.469.2064

For immediate release

Nelnet reports net student loan assets up 28 percent year-over-year

- o Student loan assets up more than \$2.9 billion, or 22 percent, from year-end
- o Net consolidation originations for the third quarter \$537.7 million
- o Base net income \$95.3 million for the first nine months of 2005

LINCOLN, Neb., October 26, 2005 - Nelnet, Inc. (NYSE: NNI) today reported GAAP net income for the first nine months of 2005 of \$138.4 million, or \$2.58 per share, compared with \$102.0 million, or \$1.90 per share, for the first nine months of 2004. GAAP net income for the third quarter of 2005 was \$72.1 million, or \$1.34 per share, compared with \$7.6 million, or \$0.14 per share, for the third quarter of 2004.

Base net income for the first nine months of 2005 was \$95.3 million, or \$1.77 per share, compared with \$130.1 million, or \$2.43 per share, in the first nine months of 2004. Base net income for the third quarter of 2005 was \$32.8 million, or \$0.61 per share, compared with \$33.7 million, or \$0.63 per share, in the third quarter of 2004.

Base net income as defined by Nelnet is GAAP net income excluding derivative market value adjustments, amortization of intangible assets, and variable-rate floor income. A description of base net income and reconciliation of GAAP net income to base net income is included in this release.

Base net income excluding certain special allowance yield adjustments and related derivative settlements for the first nine months of 2005 was \$1.07 per share, up from \$0.69 per share for the first nine months of 2004. Base net income excluding certain special allowance yield adjustments and related derivative settlements was \$0.39 per share for the third quarter of 2005, up 22 percent from \$0.32 per share for the third quarter of 2004.

For the third-quarter 2005, GAAP net income includes an unrealized gain in the fair-market value of derivative instruments of \$65.4 million. Nelnet's derivatives do not qualify for hedge accounting under FASB 133. As such, the mark-to-market gains or losses of derivatives each reporting period are included in the statement of operations, but removed from GAAP net income during the calculation of base net income.

Net student loan assets at September 30, 2005 were \$16.4 billion, up 28 percent, or \$3.6 billion, from \$12.8 billion at September 30, 2004. Since December 31, 2004, net student loan assets have increased 22 percent, or \$2.9 billion, from \$13.5 billion.

The company reported net consolidation loan originations of \$537.7 million for the third quarter of 2005 after receiving a record level of consolidation applications in the second quarter of 2005 before the interest rate increase on July 1. The majority of these applications funded in the third quarter. For the third quarter, Nelnet reported a loss of \$240.4 million of student loans through the consolidation of the company's portfolio by third parties.

"We are excited by the results of the third quarter that provided strong student loan asset growth driven by record consolidation volume," said Steve Butterfield, Nelnet Vice Chairman and Co-Chief Executive Officer. "In addition, Nelnet announced two acquisitions that will enhance our presence in key markets in the Sun Belt and on the West Coast."

Nelnet completed the acquisitions of LoanSTAR Funding Group, Inc. and the assets of Chela Education Finance, Inc. on October 24, 2005 and October 25, 2005, respectively. These acquisitions were originally announced in the third quarter.

## **MARGIN ANALYSIS**

Net interest income for the first nine months of 2005 was \$247.8 million compared to \$308.0 million for the first nine months of 2004. For the third quarter of 2005, Nelnet reported net interest income of \$79.0 million compared to \$89.4 million for the third quarter of 2004. Net interest income for the first nine months of 2005 includes a special allowance yield adjustment of \$77.4 million, down from \$167.9 million in the same period a year ago. The third-quarter 2005 net interest income includes a special allowance yield adjustment of \$21.8 million, down from \$43.6 million in the same period a year ago. Excluding the impact of the special allowance yield adjustments, net interest income for the third-quarter 2005 increased \$11.4 million, or 25 percent, compared to the same period a year ago.

The company reported core student loan spread of 1.54 percent for the first nine months of 2005 compared with 1.71 percent in the same period in 2004 and 1.46 percent for the third quarter of 2005 compared with 1.65 percent in the same period of 2004. The tightening was primarily attributable to an increase in lower-yield consolidation loans in the company's student loan portfolio. At September 30, 2005, consolidation loans comprised more than 62 percent of Nelnet's student loan portfolio.

## **OTHER REVENUE**

Income from loan and guarantee servicing fees reached \$109.3 million for the first nine months of 2005, up from \$73.4 million in the first nine months of 2004. In the third quarter of 2005 income from loan and guarantee servicing grew to \$37.5 million from \$24.5 million in the third quarter of 2004. The increase is attributable to the acquisition of EDULINX in December 2004 and is partially offset by reductions in other third-party servicing-related revenue.

Other fee-based income increased to \$22.9 million for the first nine months of 2005 compared to \$5.4 million for the first nine months of 2004. For the third quarter of 2005 other fee-based income increased to \$10.5 million, up from \$1.8 million in the same period a year ago. The integration of recent acquisitions contributed to the increase.

## OPERATING EXPENSES

For the first nine months of 2005 the company reported operating expenses of \$224.2 million compared to \$180.9 million for the first nine months of 2004. Operating expenses increased to \$78.9 million in the third quarter of 2005 from \$51.5 million for the same period a year ago. The increase in operating expenses is primarily attributable to the integration of recent acquisitions.

## RECONCILIATION OF GAAP NET INCOME TO BASE NET INCOME

Nelnet prepares financial statements in accordance with generally accepted accounting principles (GAAP). In addition to evaluating the company's GAAP-based financial information, management also evaluates the company on certain non-GAAP performance measures that we refer to as base net income. While base net income is not a substitute for reported results under GAAP, Nelnet provides base net income as additional information regarding financial results.

Base net income, excluding certain special allowance yield adjustments and related hedging activity related to the company's portfolio of student loans earning a minimum special allowance payment of 9.5%, is used by management to develop the company's financial plans, track results, and establish corporate performance targets.

The following table provides a reconciliation of GAAP net income to base net income and also reflects the earnings per share impact of the special allowance yield adjustments and related hedging activity related to the 9.5% portfolio.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
	(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)			
GAAP net income	\$ 72,132	\$ 7,637	\$ 138,446	\$ 102,011
Base adjustments:				
Derivative market value adjustments	(65,382)	39,757	(74,300)	39,209
Amortization of intangible assets	1,919	2,275	4,651	6,432
Variable-rate floor income	-	-	-	(348)
Total base adjustments before income taxes	(63,463)	42,032	(69,649)	45,293
Net tax effect (a)	24,116	(15,972)	26,467	(17,211)
Total base adjustments	(39,347)	26,060	(43,182)	28,082
Base net income	\$ 32,785	\$ 33,697	\$ 95,264	\$ 130,093
Earnings per share, basic and diluted:				
GAAP net income	\$ 1.34	\$ 0.14	\$ 2.58	\$ 1.90
Base net income	\$ 0.61	\$ 0.63	\$ 1.77	\$ 2.43
Special allowance yield adjustments (b)	(0.22)	(0.31)	(0.70)	(1.74)
Base net income, excluding the special allowance yield adjustments (b)	\$ 0.39	\$ 0.32	\$ 1.07	\$ 0.69

(a) Tax effect computed at 38%.

(b) The special allowance yield adjustments are net of derivative settlements and taxes.

Nelnet will host a conference call to discuss this earnings release at 11:00 a.m. (Eastern) today. To access the call live, participants in the United States and Canada should dial 800.309.1331 and international callers should dial 719.785.9442 at least 15 minutes prior to the call. A live audio Web cast of the call will also be available at [www.nelnetinvestors.net](http://www.nelnetinvestors.net) under the conference calls and Web casts menu. A replay of the conference call will be available between 2:00 p.m. (Eastern) today and 11:59 p.m. (Eastern) November 2. To access the replay via telephone within the United States and Canada, callers should dial 888.203.1112. International callers should dial 719.457.0820. All callers accessing the replay will need to use the confirmation code 3047267. A replay of the audio Web cast will also be available at [www.nelnetinvestors.net](http://www.nelnetinvestors.net).

Supplemental financial information to this earnings release is available online at <http://www.nelnetinvestors.net/releases.cfm?reltype=Financial>.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
(UNAUDITED)				
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)				
Interest income:				
Loan interest, excluding variable-rate floor income	\$ 247,791	\$ 171,427	\$ 671,589	\$ 519,059
Variable-rate floor income	-	-	-	348
Amortization of loan premiums and deferred origination costs	(20,041)	(18,395)	(52,370)	(53,249)
Investment interest	11,491	4,918	26,643	11,750
Total interest income	239,241	157,950	645,862	477,908
Interest expense:				
Interest on bonds and notes payable	160,243	68,545	398,045	169,940
Net interest income	78,998	89,405	247,817	307,968
Less provision (recovery) for loan losses	1,402	2,300	5,557	(1,006)
Net interest income after provision (recovery) for loan losses	77,596	87,105	242,260	308,974
Other income (loss):				
Loan and guarantee servicing income	37,459	24,513	109,313	73,422
Other fee-based income	10,503	1,840	22,886	5,359
Software services income	1,951	1,849	6,759	5,521
Other income	2,458	4,356	5,382	7,084
Derivative market value adjustments	65,382	(39,757)	74,300	(39,209)
Derivative settlements, net	(2,962)	(16,457)	(19,049)	(19,389)
Total other income (loss)	114,791	(23,656)	199,591	32,788
Operating expenses:				
Salaries and benefits	44,311	25,060	123,615	101,865
Other expenses	32,705	24,167	95,936	72,613
Amortization of intangible assets	1,919	2,275	4,651	6,432
Total operating expenses	78,935	51,502	224,202	180,910
Income before income taxes	113,452	11,947	217,649	160,852
Income tax expense	41,091	4,310	78,974	58,841
Net income before minority interest	72,361	7,637	138,675	102,011
Minority interest in net earnings of subsidiaries	(229)	-	(229)	-
Net income	\$ 72,132	\$ 7,637	\$ 138,446	\$ 102,011
Earnings per share, basic and diluted	\$ 1.34	\$ 0.14	\$ 2.58	\$ 1.90
Weighted average shares outstanding	53,734,218	53,648,788	53,709,801	53,644,056

CONDENSED CONSOLIDATED BALANCE SHEETS AND FINANCIAL DATA

	AS OF SEPTEMBER 30, 2005	AS OF DECEMBER 31, 2004	AS OF SEPTEMBER 30, 2004
	(UNAUDITED)		(UNAUDITED)
	(DOLLARS IN THOUSANDS)		
<b>Assets:</b>			
Student loans receivable, net	\$16,379,293	\$13,461,814	\$12,793,704
Cash, cash equivalents, and investments	1,304,261	1,302,954	933,271
Goodwill	67,942	8,522	8,522
Intangible assets, net	34,644	11,987	10,546
Other assets	525,185	374,728	368,753
<b>Total assets</b>	<b>\$18,311,325</b>	<b>\$15,160,005</b>	<b>\$14,114,796</b>
<b>Liabilities:</b>			
Bonds and notes payable	\$17,418,652	\$14,300,606	\$13,526,343
Other liabilities	295,582	403,224	179,838
<b>Total liabilities</b>	<b>17,714,234</b>	<b>14,703,830</b>	<b>13,706,181</b>
Minority interest in subsidiaries	274	-	-
Shareholders' equity	596,817	456,175	408,615
<b>Total liabilities and shareholders' equity</b>	<b>\$18,311,325</b>	<b>\$15,160,005</b>	<b>\$14,114,796</b>
Return on average total assets	1.10%	1.11%	1.04%
Return on average equity	34.9%	39.7%	38.3%

###

Nelnet is one of the leading education finance companies in the United States and is focused on providing quality products and services to students and schools nationwide. Nelnet ranks among the nation's leaders in terms of total net student loan assets with \$16.4 billion as of September 30, 2005. Headquartered in Lincoln, Nebraska, Nelnet originates, consolidates, securitizes, holds, and services student loans, principally loans originated under the Federal Family Education Loan Program of the U.S. Department of Education.

Additional information is available at [www.nelnet.net](http://www.nelnet.net).

Information contained in this press release, other than historical information, may be considered forward-looking in nature and is subject to various risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or expected. Among the key factors that may have a direct bearing on Nelnet's operating results, performance, or financial condition are changes in terms of student loans and the educational credit marketplace, changes in the demand for educational financing or in financing preferences of educational institutions, students and their families, or changes in the general interest rate environment and in the securitization markets for education loans.

---

NELNET 121 South 13th Street, Suite 400 P 402 458 2370 www.nelnet.net  
Lincoln, NE 68506 F 402 458 2344 NELNET CORPORATE  
SERVICES, INC.

---

**FOR RELEASE: 10/26/05**

MEDIA CONTACT: Sheila Odom, 402.458.2329 INVESTOR CONTACT: Cheryl Watson, 317.469.2064

**NELNET, INC. SUPPLEMENTAL FINANCIAL INFORMATION FOR THE THIRD QUARTER 2005**

The following supplemental information should be read in connection with the third-quarter 2005 earnings press release of Nelnet, Inc. (the "Company"), dated October 26, 2005.

Statements in this supplemental financial information release, which refer to expectations as to future developments, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements contemplate risks, uncertainties, and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include among others, changes in, or arising from, the implementation of applicable laws and regulations or changes in laws and regulations affecting the education finance marketplace. Changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations, changes in the demand for educational financing, or in financing preferences of educational institutions, students and their families, and changes in the general interest rate environments, could also have a substantial impact on future results. Certain prior year amounts have been reclassified to conform to the current period presentation. For more information see our filings with the Securities and Exchange Commission.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
(UNAUDITED)				
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)				
Interest income:				
Loan interest, excluding variable-rate floor income	\$ 247,791	\$ 171,427	\$ 671,589	\$ 519,059
Variable-rate floor income	-	-	-	348
Amortization of loan premiums and deferred origination costs	(20,041)	(18,395)	(52,370)	(53,249)
Investment interest	11,491	4,918	26,643	11,750
Total interest income	239,241	157,950	645,862	477,908
Interest expense:				
Interest on bonds and notes payable	160,243	68,545	398,045	169,940
Net interest income	78,998	89,405	247,817	307,968
Less provision (recovery) for loan losses	1,402	2,300	5,557	(1,006)
Net interest income after provision (recovery) for loan losses	77,596	87,105	242,260	308,974
Other income (loss):				
Loan and guarantee servicing income	37,459	24,513	109,313	73,422
Other fee-based income	10,503	1,840	22,886	5,359
Software services income	1,951	1,849	6,759	5,521
Other income	2,458	4,356	5,382	7,084
Derivative market value adjustments	65,382	(39,757)	74,300	(39,209)
Derivative settlements, net	(2,962)	(16,457)	(19,049)	(19,389)
Total other income (loss)	114,791	(23,656)	199,591	32,788
Operating expenses:				
Salaries and benefits	44,311	25,060	123,615	101,865
Other expenses	32,705	24,167	95,936	72,613
Amortization of intangible assets	1,919	2,275	4,651	6,432
Total operating expenses	78,935	51,502	224,202	180,910
Income before income taxes	113,452	11,947	217,649	160,852
Income tax expense	41,091	4,310	78,974	58,841
Net income before minority interest	72,361	7,637	138,675	102,011
Minority interest in net earnings of subsidiaries	(229)	-	(229)	-
Net income	\$ 72,132	\$ 7,637	\$ 138,446	\$ 102,011
Earnings per share, basic and diluted	\$ 1.34	\$ 0.14	\$ 2.58	\$ 1.90
Weighted average shares outstanding	53,734,218	53,648,788	53,709,801	53,644,056

CONDENSED CONSOLIDATED BALANCE SHEETS AND FINANCIAL DATA

	AS OF SEPTEMBER 30, 2005	AS OF DECEMBER 31, 2004	AS OF SEPTEMBER 30, 2004
	(UNAUDITED)		(UNAUDITED)
	(DOLLARS IN THOUSANDS)		
<b>Assets:</b>			
Student loans receivable, net	\$16,379,293	\$13,461,814	\$12,793,704
Cash, cash equivalents, and investments	1,304,261	1,302,954	933,271
Goodwill	67,942	8,522	8,522
Intangible assets, net	34,644	11,987	10,546
Other assets	525,185	374,728	368,753
	-----	-----	-----
Total assets	\$18,311,325	\$15,160,005	\$14,114,796
	=====	=====	=====
<b>Liabilities:</b>			
Bonds and notes payable	\$17,418,652	\$14,300,606	\$13,526,343
Other liabilities	295,582	403,224	179,838
	-----	-----	-----
Total liabilities	17,714,234	14,703,830	13,706,181
	-----	-----	-----
Minority interest in subsidiaries	274	-	-
Shareholders' equity	596,817	456,175	408,615
	-----	-----	-----
Total liabilities and shareholders' equity	\$18,311,325	\$15,160,005	\$14,114,796
	=====	=====	=====
Return on average total assets	1.10%	1.11%	1.04%
Return on average equity	34.9%	39.7%	38.3%

**NON-GAAP BASE NET INCOME**

We prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management also evaluates the Company on certain non-GAAP performance measures that we refer to as base net income. While base net income is not a substitute for reported results under GAAP, we provide base net income as additional information regarding our financial results.

Base and GAAP net income includes approximately \$21.8 million and \$43.6 million of special allowance yield adjustments earned by the Company on a portion of its 9.5% floor loan portfolio for the three months ended September 30, 2005 and September 30, 2004, respectively, and \$77.4 million and \$167.9 million for the nine months ended September 30, 2005 and September 30, 2004, respectively. This amount is offset by net settlements of approximately \$2.6 million and \$17.2 million on derivative products used to hedge the loan portfolio earning the excess yield for the three months ended September 30, 2005 and September 30, 2004, respectively, and \$17.0 million and \$17.2 million for the nine months ended September 30, 2005 and September 30, 2004, respectively.

Base net income, excluding certain special allowance yield adjustments and related hedging activity related to this 9.5% portfolio, is used by management to develop the Company's financial plans, track results, and establish corporate performance targets.

The following table provides a reconciliation of GAAP net income to base net income and also reflects the earnings per share impact of certain special allowance yield adjustments and related hedging activity related to this 9.5% portfolio.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
	(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)			
GAAP net income	\$ 72,132	\$ 7,637	\$ 138,446	\$ 102,011
Base adjustments:				
Derivative market value adjustments	(65,382)	39,757	(74,300)	39,209
Amortization of intangible assets	1,919	2,275	4,651	6,432
Variable-rate floor income	-	-	-	(348)
Total base adjustments before income taxes	(63,463)	42,032	(69,649)	45,293
Net tax effect (a)	24,116	(15,972)	26,467	(17,211)
Total base adjustments	(39,347)	26,060	(43,182)	28,082
Base net income	\$ 32,785	\$ 33,697	\$ 95,264	\$ 130,093
Earnings per share, basic and diluted:				
GAAP net income	\$ 1.34	\$ 0.14	\$ 2.58	\$ 1.90
Base net income	\$ 0.61	\$ 0.63	\$ 1.77	\$ 2.43
Special allowance yield adjustments (b)	(0.22)	(0.31)	(0.70)	(1.74)
Base net income, excluding the special allowance yield adjustments (b)	\$ 0.39	\$ 0.32	\$ 1.07	\$ 0.69

(a) Tax effect computed at 38%.

(b) The special allowance yield adjustments are net of derivative settlements and taxes.

Our base net income is a non-GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company's base net income presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and base net income follows.

**DERIVATIVE MARKET VALUE ADJUSTMENTS:** Base net income excludes the periodic unrealized gains and losses caused by the change in market value on those derivatives in which the Company does not qualify for hedge accounting. The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative instruments that are primarily used as part of the Company's interest rate risk management strategy include interest rate swaps and basis swaps. 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 under Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, and thus may adversely impact earnings.

**AMORTIZATION OF INTANGIBLE ASSETS:** We exclude amortization of acquired intangibles in our base net income.

VARIABLE-RATE FLOOR INCOME: Loans that reset annually on July 1 can generate excess spread income as compared to the rate based on the special allowance payment formula in declining interest rate environments. We refer to this additional income as variable-rate floor income. Base net income excludes variable-rate floor income.

## STUDENT LOANS RECEIVABLE

Student loans receivable includes all student loans owned by or on behalf of the Company and includes the unamortized cost of acquisition or origination less an allowance for loan losses. The following table describes the components of our loan portfolio:

	AS OF SEPTEMBER 30, 2005		AS OF DECEMBER 31, 2004		AS OF SEPTEMBER 30, 2004	
	DOLLARS	PERCENT OF TOTAL	DOLLARS	PERCENT OF TOTAL	DOLLARS	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)					
Federally insured:						
Stafford	\$ 5,623,229	34.3 %	\$ 5,047,487	37.5 %	\$ 5,218,535	40.8 %
PLUS/SLS	294,888	1.8	252,910	1.9	263,118	2.1
Consolidation	10,170,684	62.1	7,908,292	58.7	7,056,556	55.2
Non-federally insured	96,920	0.6	90,405	0.7	92,247	0.7
 Total	 16,185,721	 98.8	 13,299,094	 98.8	 12,630,456	 98.8
Unamortized premiums and deferred origination costs	205,656	1.3	169,992	1.3	171,694	1.3
Allowance for loan losses:						
Allowance - federally insured	(98)	0.0	(117)	0.0	(706)	0.0
Allowance - non-federally insured	(11,986)	(0.1)	(7,155)	(0.1)	(7,740)	(0.1)
 Net	 \$16,379,293	 100.0 %	 \$13,461,814	 100.0 %	 \$12,793,704	 100.0 %

The following table sets forth the loans originated or acquired through each of our channels:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
	(DOLLARS IN THOUSANDS)			
Beginning balance	\$ 15,469,689	\$ 12,033,329	\$ 13,299,094	\$ 10,314,874
Direct channel:				
Consolidation loan originations	1,097,436	857,456	2,624,106	2,169,374
Less consolidation of existing portfolio	(559,700)	(404,500)	(1,274,100)	(997,800)
Net consolidation loan originations	537,736	452,956	1,350,006	1,171,574
Stafford/PLUS loan originations	239,927	102,203	567,549	222,515
Branding partner channel	43,934	91,446	1,126,788	806,653
Forward flow channel	260,072	174,922	901,185	623,014
Other channels	5,015	73,279	39,200	204,062
 Total channel acquisitions	 1,086,684	 894,806	 3,984,728	 3,027,818
Loans acquired in business acquisition	-	-	-	136,138
Repayments, claims, capitalized interest, and other	(370,652)	(297,679)	(1,098,101)	(848,374)
 Ending balance	 \$ 16,185,721	 \$ 12,630,456	 \$ 16,185,721	 \$ 12,630,456

## INTEREST RATE SENSITIVITY

The following table shows the Company's student loan assets currently earning at a fixed rate as of September 30, 2005:

FIXED INTEREST RATE RANGE	BORROWER/ LENDER WEIGHTED AVERAGE YIELD	ESTIMATED VARIABLE CONVERSION RATE (A)	BALANCE OF FIXED RATE ASSETS
(IN THOUSANDS)			
6.5 - 7.0%	6.71 %	4.07 %	\$ 355,993
7.0 - 8.0	7.51	4.87	321,057
> 8.0	8.55	5.91	935,846
9.5 floor yield	9.50	6.86	3,101,140
			\$ 4,714,036
			=====

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to variable rate.

As a portion of the Company's student loan assets earn a fixed rate, management uses fixed-rate debt and interest rate swaps to reduce the economic effect of interest rate volatility. As of September 30, 2005, the Company had fixed-rate debt of \$561 million (excluding the Company's unsecured debt of \$275 million). The following table summarizes the notional values and weighted average interest rates of the Company's outstanding derivative instruments used to hedge the fixed-rate student loan portfolio as of September 30, 2005 (dollars in millions):

MATURITY	FIXED/ FLOATING SWAPS (a)	WEIGHTED AVERAGE FIXED RATE (a) (b)	FLOATING/ FIXED SWAPS	WEIGHTED AVERAGE FIXED RATE (c)	NET NOTIONAL AMOUNT
2005	\$ 600	2.23 %	\$ 800	3.58 %	\$ (200)
2006	613	2.99	-	-	613
2007	512	3.42	-	-	512
2008	463	3.76	-	-	463
2009	312	4.01	-	-	312
2010 and thereafter	1,938	4.29	-	-	1,938
Total	\$ 4,438	3.66 %	\$ 800	3.58 %	\$ 3,638
=====					

(a) Includes an interest rate swap with a notional amount of \$250 million that expired on October 3, 2005 with a fixed rate of 1.75%.

(b) This amount represents the weighted average fixed interest rate paid by the Company on these interest rate swaps.

(c) This amount represents the weighted average fixed interest rate received by the Company on these interest rate swaps.

The following table shows the Company's pro forma student loan assets, including the estimated effects of the acquisitions of LoanSTAR Funding Group and assets from Chela Education Finance, currently earning at a fixed rate as of September 30, 2005:

FIXED INTEREST RATE RANGE	BORROWER/ LENDER WEIGHTED AVERAGE YIELD	ESTIMATED VARIABLE CONVERSION RATE (A)	PRO FORMA BALANCE OF FIXED RATE ASSETS
6.5 - 7.0%	6.71 %	4.07 %	(IN THOUSANDS) \$ 423,115
7.0 - 8.0	7.52	4.88	384,529
> 8.0	8.54	5.90	1,083,255
9.5 floor yield	9.50	6.86	3,512,936
			\$ 5,403,835

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to variable rate.

## STUDENT LOAN SERVICING

The Company performs servicing activities for itself and third parties. The following table summarizes the Company's loan servicing volumes:

AS OF SEPTEMBER 30,

	2005					2004				
	COMPANY	%	THIRD PARTY	%	TOTAL	COMPANY	%	THIRD PARTY	%	TOTAL
	(DOLLARS IN MILLIONS)									
FFELP and private loans	\$ 14,700	63%	\$ 8,458	37%	\$ 23,158	\$ 11,260	55%	\$ 9,115	45%	\$ 20,375
Canadian loans (in U.S. \$)	-	-	8,118	100%	8,118	-	-	-	-	-
Total	\$ 14,700	47%	\$ 16,576	53%	\$ 31,276	\$ 11,260	55%	\$ 9,115	45%	\$ 20,375

## STUDENT LOAN SPREAD

The following table analyzes the student loan spread on our portfolio of student loans. This table represents the spread on assets earned in conjunction with the liabilities used to fund the assets, including the effects of net derivative settlements.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Student loan yield	6.94 %	6.25 %	6.72 %	6.71 %
Consolidation rebate fees	(0.65)	(0.59)	(0.64)	(0.57)
Premium and deferred origination costs amortization	(0.51)	(0.61)	(0.47)	(0.63)
Student loan net yield	5.78	5.05	5.61	5.51
Student loan cost of funds (a)	(3.83)	(2.53)	(3.52)	(2.02)
Student loan spread	1.95	2.52	2.09	3.49
Special allowance yield adjustments, net of settlements on derivatives (b)	(0.49)	(0.87)	(0.55)	(1.78)
Core student loan spread	1.46 %	1.65 %	1.54 %	1.71 %
Average balance of student loans (in thousands)	\$15,628,420	\$12,108,981	\$14,766,024	\$11,282,561
Average balance of debt outstanding (in thousands)	16,564,494	13,363,469	15,669,656	12,475,490

(a) The student loan cost of funds includes the effects of the net settlement costs on the Company's derivative instruments.

(b) The special allowance yield adjustments represent the impact on net spread had loans earned at statutorily defined rates under a taxable financing. The special allowance yield adjustments have been reduced by net settlements on derivative instruments that were used to hedge this loan portfolio earning the excess yield.