UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
TITLE OF EACH CLASS: Class A Common Stock, Par Value $0.01 per Share
NAME OF EACH EXCHANGE ON WHICH REGISTERED: New York Stock Exchange
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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] Accelerated filer [ ]
Non-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 Act). Yes [ ] No [X]

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant on June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the closing sale price of the registrant's Class A Common Stock on that date of $58.41 per share, was $1,224,618,686. For purposes of this calculation, the registrant's directors, executive officers, and greater than 10 percent shareholders are deemed to be affiliates.

As of January 31, 2019, there were 28,732,998 and 11,459,641 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,305,731 shares of Class A Common Stock held by wholly owned subsidiaries).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed for its 2019 Annual Meeting of Shareholders, scheduled to be held May 23, 2019, are incorporated by reference into Part III of this Form 10-K.

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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 “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “future,” “intend,” “may,” “plan,” “potential,” “predict,” “scheduled,” “should,” “will,” “would,” 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 “Risk Factors” 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 LIBO R or the relationship between the relevant money market index rate and the rate at which the Company's assets and liabilities are priced, 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 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 contracts accounted for 30 percent of the Company's revenue in 2018, risks to the Company related to the Department's initiatives to procure new contracts for federal student loan servicing, including the risk that Company teams may not be successful in obtaining contracts, 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;
- risks and uncertainties related to the ability of ALLO Communications LLC to successfully expand its fiber network and market share 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. In this report, unless the context indicates otherwise, references to "Nelnet," "the Company," "we," "our," and "us" refer to Nelnet, Inc. and its subsidiaries.

PART I.

ITEM 1. BUSINESS

Overview

Nelnet 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 both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate and early-stage and emerging growth companies. Substantially all revenue from external customers is earned, and all long-lived assets are located, in the United States.

The Company was formed as a Nebraska corporation in 1978 to service federal student loans for two local banks. The Company built on this initial foundation as a servicer to become a leading originator, holder, and servicer of federal student loans, principally consisting of loans originated under the Federal Family Education Loan Program. A detailed description of the FFEL Program is included in Appendix A to this report.

The Health Care and Education Reconciliation Act of 2010 (the “Reconciliation Act of 2010”) discontinued new loan originations under the FFEL Program, effective July 1, 2010, and requires that all new federal student loan originations be made directly by the Department through the Federal Direct Loan Program. This law does not alter or affect the terms and conditions of existing FFELP loans.

As a result of the Reconciliation Act of 2010, the Company no longer originates new FFELP loans. However, a significant portion of the Company's income continues to be derived from its existing FFELP student loan portfolio. As of December 31, 2018, the Company had a $22.4 billion loan portfolio, consisting primarily of FFELP loans, that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.7 years. Interest income on the Company's existing FFELP loan portfolio will decline over time as the portfolio is paid down. However, since July 1, 2010, which is the effective date on and after which no new loans can be originated under the FFEL Program, the Company has purchased $25.1 billion of FFELP loans from other FFELP loan holders looking to exit or adjust their FFELP businesses. The Company believes there may be additional opportunities to purchase FFELP portfolios to generate incremental earnings and cash flow. However, since all FFELP loans will eventually run off, a key objective of the Company is to reposition itself for the post-FFELP environment.

To reduce its reliance on interest income on student loans, the Company has expanded its services and products. This expansion has been accomplished through internal growth and innovation as well as business acquisitions. In addition, in 2009, the Company began servicing federally owned student loans for the Department.

Operating Segments

The Company has four reportable operating segments summarized below. Business activities and operating segments that are not reportable are combined and included in "Corporate and Other Activities."

Loan Servicing and Systems ("LSS")

- Referred to as Nelnet Diversified Solutions (“NDS”)
- Focuses on student loan servicing, consumer loan origination and servicing, student loan servicing-related technology solutions, and outsourcing services for lenders and other entities
- Includes the brands Nelnet Loan Servicing, Great Lakes, Firstmark Services, GreatNet Solutions, and Proxi

Education Technology, Services, and Payment Processing ("ETS&PP")

- Referred to as Nelnet Business Solutions (“NBS”)
- Focuses on tuition payment plans and billings, financial needs assessment services, online payment and refund processing, school information system software, payment technologies, and professional development and educational instruction services
- Includes the bran ds FACTS Management, FACTS SIS, Nelnet Campus Commerce, PaymentSpring, FACTS Education Solutions, Aware3, Unilink, and PCSchools

Communications

- Includes the operations of ALLO Communications LLC ("ALLO")
- Focuses on providing fiber optic service directly to homes and businesses for internet, telephone, and television services

Asset Generation and Management ("AGM")

- Includes the acquisition and management of the Company's student and other loan assets

A more detailed description of each of the Company's reportable operating segments and Corporate and Other Activities is provided below.

Loan Servicing and Systems

The primary service offerings of this operating segment include:

- Servicing federally-owned student loans for the Department
- Servicing FFELP loans
- Originating and servicing private education and consumer loans
- Providing student loan servicing software and other information technology products and services
- Providing outsourced services including call center, processing, and marketing services

On February 7, 2018, the Company acquired Great Lakes. The operating results of Great Lakes are included in the Loan Servicing and Systems operating segment from the date of acquisition. Nelnet Servicing, LLC ("Nelnet Servicing"), a subsidiary of the Company, and Great Lakes are two of the four large private sector companies (referred to as Title IV Additional Servicers, or "TIVAS") that have student loan servicing contracts awarded by the Department in June 2009 to provide servicing for loans owned by the Department. As of the acquisition date, Great Lakes was servicing approximately $242 billion in government-owned student loans, approximately $11 billion in FFELP loans, and approximately $2 billion in private education loans.

From the date of acquisition and going forward, Great Lakes and Nelnet Servicing have continued, and 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 has integrated, and will continue to 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 Servicing's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.

As of December 31, 2018, the Company serviced $464.6 billion of loans for 15.6 million borrowers. See Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") - "Loan Servicing and Systems Operating Segment - Results of Operations - Student Loan Servicing Volumes" for additional information related to the Company's servicing volume.

Servicing federally-owned student loans for the Department

As discussed above, Nelnet Servicing and Great Lakes are two of four large private sector companies, or TIVAS, awarded student loan servicing contracts by the Department to provide additional servicing capacity for loans owned by the Department. These loans include Federal Direct Loan Program loans originated directly by the Department and FFEL Program loans purchased by the Department. Under the servicing contracts, Nelnet Servicing and Great Lakes earn a monthly fee from the Department for each unique borrower who has loans owned by the Department and serviced by Nelnet Servicing or Great Lakes, respectively. The amount paid per each unique borrower is dependent on the status of the borrower (e.g., in school or in repayment). As of December 31, 2018, Nelnet Servicing was servicing $179.5 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. The Department is the Company's largest customer, representing 30 percent of the Company's revenue in 2018.

The servicing contracts with the Department are currently scheduled to expire on June 16, 2019. 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. On August 24, August 27, and September 24, 2018, FSA made announcements that included canceling certain components of the NextGen process and issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled.

On January 15, 2019, FSA released an amendment canceling all components of NextGen except the Enterprise-Wide Digital and Customer Care Platforms and Services component and issued new solicitations for three new NextGen components:

- NextGen Enhanced Processing Solution
- NextGen Business Process Operations
- NextGen Optimal Processing Solution

On February 20, 2019, FSA awarded the Enterprise-Wide Digital and Customer Care Platforms and Services component to Accenture Federal Services. The Company is part of teams that currently intend to respond to the solicitations for each of the three ongoing NextGen components. The Company cannot predict the timing, nature, or outcome of these solicitations.

The Department also has contracts with 31 not-for-profit ("NFP") entities to service student loans, although five NFP servicers currently service the volume allocated to these 31 entities. The Company licenses its remote-hosted servicing software to three of the five NFP servicers.

The Department currently allocates new loan volume among the TIVAS and NFP servicers based on the following performance metrics:

- Two metrics measure the satisfaction among separate customer groups, including borrowers (35 percent) and FSA personnel who work with the servicers (5 percent).

- Three metrics measure the success of keeping borrowers in an on-time repayment status and helping borrowers avoid default as reflected by the percentage of borrowers in current repayment status (30 percent), percentage of borrowers more than 90 days but fewer than 271 days delinquent (15 percent), and percentage of borrowers over 270 days and fewer than 361 days delinquent (15 percent). The loans are evaluated in 15 different loan portfolio stratifications to account for differences in portfolios.

The allocation of ongoing volume is determined twice each year based on the performance of each servicer in relation to the other servicers. Quarterly results are compiled for each servicer. The average of the September and December quarter-end results are used to allocate volume for the period from March 1 to August 31, and the average of the March and June quarter-end results are used to allocate volume for the period from September 1 to February month end, of each year.

Under the most recent publicly announced performance metrics measurements used by the Department for the quarterly periods January 1, 2018 through June 30, 2018, Great Lakes' and Nelnet Servicing's overall rankings among the nine current servicers for the Department were second and fourth, respectively. Based on these results, Great Lakes' and Nelnet Servicing's allocation of new student loan servicing volumes for the period September 1, 2018 through February 28, 2019 are 17 percent and 11 percent, respectively.

Incremental revenue components earned by Nelnet Servicing or Great Lakes from the Department (in addition to loan servicing revenues) include:

- *Administration of the Total and Permanent Disability (TPD) Discharge program* . Nelnet Servicing processes applications for the TPD discharge program and is responsible for discharge, monitoring, and servicing TPD loans. Individuals who are totally and permanently disabled may qualify for a discharge of their federal student loans, and the Company processes applications under the program and receives a fee from the Department on a per application basis, as well as a monthly servicing fee during the monitoring period. Nelnet Servicing is the exclusive provider of this service to the Department.

- *Origination of consolidation loans.* Beginning in 2014, the Department implemented a process to outsource the origination of consolidation loans whereby each of the four TIVAS, and beginning in December 2017, each of the NFP servicers, receives Federal Direct Loan consolidation origination volume based on borrower choice. The Department pays the Company a fee for each completed consolidation loan application it processes. Nelnet Servicing and Great Lakes each service the consolidation volume it originates.

Servicing FFELP loans

LSS, referred to as NDS, services the Company's student loan portfolio and the portfolios of third parties. The loan servicing activities include loan conversion activities, application processing, borrower updates, customer service, payment processing, due diligence procedures, funds management reconciliations, and claim processing. These activities are performed internally for the Company's portfolio, in addition to generating external fee revenue when performed for third-party clients.

The Company uses proprietary systems to manage the servicing process. These systems provide for automated compliance with most of the federal student loan regulations adopted under Title IV of the Higher Education Act of 1965, as amended (the “Higher Education Act”).

The Company serviced FFELP loans on behalf of 151 third-party servicing customers as of December 31, 2018. The Company's FFELP servicing customers include national and regional banks, credit unions, and various state and nonprofit secondary markets. The majority of the Company's external FFELP loan servicing activities are performed under “life of loan” contracts, which essentially provide that as long as the applicable loan exists, the Company shall be the sole servicer of that loan; however, the agreement may contain “deconversion” provisions where, for a fee, the lender may move the loan to another servicer.

The discontinuation of new FFELP loan originations in July 2010 has caused and will continue to cause FFELP servicing revenue to decline as these loan portfolios are paid down. However, the Company believes there may be opportunities to service additional FFELP loan portfolios from current FFELP participants as the program winds down.

Originating and servicing private education and consumer loans

NDS conducts origination and servicing activities for private education and consumer loans. Private education loans are non-federal loans made to students or their families; as such, the loans are not issued or guaranteed by the federal government. These loans are used primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans, or the borrowers' personal resources. Although similar in terms of activities and functions as FFELP loan servicing (i.e., application processing, disbursement processing, payment processing, customer service, statement distribution, and reporting), private education loan servicing activities are not required to comply with provisions of the Higher Education Act and may be more customized to individual client requirements.

The Company has invested and currently plans to continue to invest in modernizing key technologies and services to position its consumer loan servicing business for the long-term, expanding services to include personal loan products and other consumer installment assets. The Company is in the process of a complete re-architecting of its private education and consumer loan origination and repayment servicing systems. Improvements in systems will allow for diversified products to be both originated and serviced with state-of-the-art application and servicing platforms to drive growth for the Company's client partners. Presenting a very wide market opportunity of new entrants and existing players, consumer lending is a key growth area. In both back-up servicing and full servicing partnerships, the Company is a valuable resource for consumer lenders and asset holders as it allows for leveraged economies of scale, high compliance, and secure service to client partners.

The Company serviced private education and consumer loans on behalf of 59 third-party servicing customers as of December 31, 2018. In addition, the Company provides back-up servicing arrangements to assist 9 entities for more than 1.4 million borrowers. For a monthly fee, these arrangements require a 30 to 90 day notice from a triggering event to transfer the customer's servicing volume to the Company's platform and becoming a full servicing customer.

Providing student loan servicing software and other information technology products and services

NDS provides data center services, student loan servicing software for servicing private education and federal loans, guaranty servicing software, and consulting and professional services to support the technology platforms. These proprietary software systems are used internally by the Company and/or licensed to third-party student loan holders and servicers. These software systems have been adapted so they can be offered as hosted servicing software solutions that can be used by third parties for guaranty servicing and to service various types of student loans, including Federal Direct Loan Program and FFEL Program loans. The Company earns a monthly fee from its remote hosting customers for each loan or unique borrower on the Company's platform, with a minimum monthly charge for most contracts. As of December 31, 2018, 6.4 million borrowers were hosted on the Company's hosted servicing software solution platforms.

Providing outsourced services including call center, processing, and marketing services

The Company provides business process outsourcing specializing in contact center management. The contact center solutions and services include taking inbound calls, helping with outreach campaigns and sales, and interacting with customers through multi-channels.

Competition

The Company's scalable servicing platform allows it to provide compliant, efficient, and reliable service at a low cost, giving the Company a competitive advantage over others in the industry . The principal competitor for existing and prospective FFELP and private education loan servicing business is Navient Corporation ("Navient"). Navient is the largest for-profit provider of

servicing functions. In contrast to its competitors, the Company has segmented its private education loan servicing on a distinct platform, created specifically to meet the needs of private education student loan borrowers, their families, the schools they attend, and the lenders who serve them. This ensures access to specialized teams with a dedicated focus on servicing these borrowers.

With the elimination of new loan originations under the FFEL Program, four servicers, including Nelnet Servicing and Great Lakes, were named by the Department in 2009 as servicers of federally-owned loans. The two other servicers are FedLoan Servicing (Pennsylvania Higher Education Assistance Agency ("PHEAA")) and Navient. In addition, the Department has contracts with 31 NFP entities to service student loans that are serviced by 5 prime NFP servicers. The Company currently licenses its hosted servicing software to three prime NFP servicers that represent 13 NFP organizations. PHEAA is the only other TIVAS servicer offering a hosted Federal Direct Loan Program servicing solution to the NFP servicers.

The Company is one of the leaders in the development of servicing software for guaranty agencies, consumer and private education loan programs, the Federal Direct Loan Program, and FFELP student loans. Many student loan lenders and servicers utilize the Company's software either directly or indirectly. The Company believes the investments it has made to scale its systems and to create a secure infrastructure to support the Department's servicing volume and requirements increase its competitive advantage as a long-term partner in the loan servicing market.

Education Technology, Services, and Payment Processing

ETS&PP, referred to as NBS, provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools automate administrative processes and collect and process commerce data. The Company also provides to K-12 schools professional development and educational instruction services and provides payment technology and services for software platforms, businesses, and nonprofits beyond the K-12 and higher education space.

The majority of this segment's customers are located in the United States; however, the Company has begun providing its products and services in Australia, New Zealand, and Southeast Asia, and currently believes there are opportunities to increase its customer base and revenues internationally.

See the MD&A - "Education Technology, Services, and Payment Processing Operating Segment - Results of Operations" for a discussion of the seasonality of the business in this operating segment.

K-12

In the K-12 market, the Company (known as FACTS Management) offers (i) actively managed tuition payment plans and billing services; (ii) assistance with financial needs assessment and donor management; (iii) school information system software that helps schools automate administrative processes such as admissions, enrollment, scheduling, student billing, attendance, and grade book management; (iv) professional development and educational instruction services; and (v) innovative technology products that aid in teacher and student evaluations. The Company provides services for over 11,500 K-12 schools and serves nearly 4.0 million students and families.

The Company is the market leader in actively managed tuition payment plans and financial needs assessment services. Tuition management services include payment plan administration, incidental billing, accounts receivable management, and record keeping. K-12 educational institutions contract with the Company to administer deferred payment plans that allow families to make recurring payments generally over six to 12 months. The Company collects a fee from either the institution or the payer as an administration fee.

The Company's financial needs assessment service helps K-12 schools evaluate and determine the amount of financial aid to disburse to the families it serves. The Company's donor services allow schools to assess and deliver strategic fundraising solutions using the latest technology.

In 2018, the Company completed a significant rebranding effort bringing the RenWeb School Management Solutions brand under the FACTS Management brand, now referring to RenWeb as FACTS SIS. FACTS SIS provides school information systems to help schools automate administrative processes such as admissions, enrollment, scheduling, student billing, attendance, and grade book management. The Company’s information systems software is sold as a subscription service to schools. The Company also offers a streamlined, social, and fully integrated learning management system to enhance classroom instruction for both teachers and students. The combination of the Company’s school administration software and tuition management and financial needs assessment services has significantly increased the value of the Company’s offerings in this area, allowing the Company to deliver a comprehensive suite of solutions to schools. Under the PCSchools brand, the Company offers school information systems to schools in Australia and New Zealand as well.

Under the brand FACTS Education Solutions, the Company provides customized professional development services for teachers and school leaders as well as instructional services for students experiencing academic challenges. These services provide continuous advance learning and professional development while helping private schools identify and attain equitable participation in federal education programs. FACTS Education Solutions also offers innovative technology advancing products that aid in both teacher and student evaluation.

Higher Education

In the higher education market, the Company (known as Nelnet Campus Commerce) offers two principal products: actively managed tuition payment plans, and education technologies and payment processing. The Company provides service for 1,400 colleges and universities worldwide and serves 7.7 million students and families.

Higher education institutions contract with the Company to administer actively managed payment plans that allow the student and family to make recurring payments on either a semester or annual basis. The Company collects a fee from the student or family as an administration fee.

The Company's suite of education technology solutions provides services that allow for families' electronic billing and payment of campus charges. Education technologies includes cashiering for face-to-face transactions, campus-wide commerce management, and refunds management, among other activities. The Company earns revenue for e-billing, hosting and maintenance, credit card processing fees, and e-payment transaction fees, which are powered by the Company's secure payment processing systems.

The Company's education technology products are sold as a subscription service to colleges and universities. The systems process payments through the appropriate channels in the banking or credit card networks to make deposits into the client's bank account. The systems can be further deployed to other departments around campus as requested (e.g., application fees, alumni giving, parking, events, etc.).

Through the brand Unilink, the Company offers education technology and payment processing to higher education institutions in Australia, New Zealand, and Southeast Asia.

Non-education services

Under the brands PaymentSpring and Aware3, the Company has expanded its customer base to include both education and non-education customers. PaymentSpring offers technology and payments services including electronic transfer and credit card processing, reporting, billing and invoicing, mobile and virtual terminal solutions, and specialized integrations to business software. Aware3 is a mobile first technology focused on increasing engagement, online giving, and communication for church and not-for-profit customers.

Competition

The Company is the largest provider of tuition management and financial needs assessment services to the private and faith-based K-12 market in the United States. Competitors include financial institutions, tuition management providers, financial needs assessment providers, accounting firms, and a myriad of software companies.

In the higher education market, the Company targets business offices at colleges and universities. In this market, the primary competition is limited to only a few campus commerce and tuition payment providers, as well as solutions developed in-house by colleges and universities.

The Company's principal competitive advantages are (i) the customer service it provides to institutions and consumers, (ii) the technology provided with the Company's service, and (iii) the Company's ability to integrate its technology with the institution clients and their third party service providers. The Company believes its clients select products primarily based on technology features, functionality, and the ability to integrate with other systems, but price and service also impact the selection process.

Acquisition of Tuition Management Systems

In November 2018, the Company acquired Tuition Management Systems ("TMS"), a services company that offers tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the Company's customer base, further enhancing NBS' market share leading position with private faith-based K-12 schools and advancing to a market leading position in higher education.

Communications

The Company provides communication services through ALLO, a majority owned subsidiary. ALLO derives its revenue primarily from the sale of telecommunication services, including internet, telephone, and television services, to business and residential customers in Nebraska and Colorado, and specializes in high-speed internet and broadband services available through its all-fiber network. ALLO currently serves the Scottsbluff, Gering, Bridgeport, North Platte, Ogallala, Alliance, Lincoln, and Hastings communities in Nebraska, and Fort Morgan, Colorado. Total households in these communities is approximately 153,000. As of December 31, 2018, the Company provided services to approximately 37,000 households, an increase of almost 17,000, or 83 percent, from the prior year. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities.

Internet and television services

Internet and television services include data and video products and services to residential and business subscribers. ALLO data services provide high-speed internet access over ALLO's all-fiber network at various symmetrical speeds up to 1 gigabit per second for residential customers, depending on the nature of the network facilities that are available, the level of service selected, and the geographic market availability. ALLO also offers a variety of data connectivity services for businesses, including Ethernet services capable of multiple connections over ALLO's fiber-based networks. ALLO's Internet Protocol Television Video ("IPTV") services range from limited basic service to advanced television, which includes several plans, each with hundreds of local, national, and music channels, including premium and pay-per-view channels, as well as video on demand service. Subscribers may also subscribe to ALLO's advanced video services, which consist of high definition television, digital video recorders (“DVR”), and/or a whole home DVR. ALLO's whole home DVR gives customers the ability to watch recorded shows on any television in the house, record multiple shows at one time, and utilize an intuitive on-screen guide and user interface.

ALLO expects that internet services will continue to increase as a more significant component of its overall services, and offset the anticipated decline in traditional residential telephone and television services.

Telephone services

Local calling services include a full suite of telephone services, including basic services, primary rate interface ("PRI"), and session initiation protocol ("SIP"). ALLO's service plans include options for voicemail and other enhanced custom calling features including hunting, caller ID, call forwarding, and call waiting, among others. Services are charged at a fixed monthly rate or can be bundled with selected services at a discounted rate. ALLO provides a hosted private branch exchange ("PBX") package, which utilizes a soft switch and allows the customer the flexibility of utilizing new telephone technology and features without investing in a new telephone system. The package bundles local service, calling features, and internet protocol (“IP”) business telephones.

Long-distance services include traditional domestic and international long distance, which enables customers to make calls that terminate outside their local calling area. These services also include toll-free calls and conference calling. ALLO offers a variety of long distance plans, including unlimited flat-rate calling plans, and offers a combination of subscription and usage fees.

Sales and marketing

The key components of ALLO's overall marketing strategy include:

- Promoting the advantages of an all-fiber network connected directly to homes and businesses capable of delivering synchronous internet speeds of over one gigabit per second
- Building complete fiber communities by passing all homes and businesses within its network
- Organizing sales and marketing activities around consumer, enterprise, and carrier customers
- Positioning ALLO as a single point of contact for customers’ communications needs
- Providing customers with a broad array of internet, television, and telephone services and bundling these services whenever possible
- Providing excellent local customer service, including 24/7/365 customer support to coordinate installation of new services, repair, and maintenance functions
- Developing and delivering new services to meet evolving customer needs and market demands
- Utilizing proven modern technology to deliver services

ALLO currently offers services through social media platforms, direct marketing, call centers, its website, communication centers, and commissioned sales representatives. ALLO markets its services both individually and as bundled services, including its triple-play offering of internet, television, and telephone services. By bundling service offerings, ALLO is able to offer and sell a more complete and competitive package of services, which simultaneously increases its margin per customer and adds value for the consumer or business. ALLO also believes that bundling leads to increased customer loyalty and retention.

Network architecture and technology

ALLO has made significant investments in its technologically advanced telecommunications networks. As a result, ALLO is able to deliver high-quality, reliable internet, telephone, and television services through fiber optics. ALLO's wide-ranging network and extensive use of fiber provide an easy reach into existing and new areas. By bringing the fiber network to the customer premises, ALLO can increase its service offerings, quality, and bandwidth services. ALLO's existing fiber network enables it to efficiently respond and adapt to changes in technology and is capable of supporting the rising customer demand for bandwidth in order to support the growing number of internet devices in the home. ALLO's all-fiber network enhances its operating efficiencies by facilitating new network and technology choices that provide for lower costs to operate. ALLO's networks are supported by an advanced digital telephone switch and IPTV service platform. The digital switch provides all local telephone customers with access to a full suite of telecommunication products, custom calling features, and value-added services. ALLO's fiber network utilizes fiber-to-the-premise (“FTTP”) networks to offer bundled residential and commercial services. ALLO leverages its high definition IPTV headend equipment to distribute content across its network, allowing it to provide a sharp video picture and to better manage costs of future channel additions and upgrades. ALLO's network provides substantially all of its marketable homes and businesses with bandwidth of 1 gigabit per second or more.

Growth strategy

As discussed above, ALLO plans to increase its customer base with its superior all-fiber network by increasing its share in existing markets and potentially entering additional markets currently served by carriers using traditional copper and coaxial cable in their telecommunications networks. In addition, ALLO is focused on increasing revenues per customer by capitalizing on increased demand for bandwidth by commercial and residential customers and introducing new value add products.

Competition

Telecommunications businesses are highly competitive and continue to face increased competition as a result of technology changes and industry legislative and regulatory developments. ALLO faces actual or potential competition from many existing and emerging companies, including incumbent and competitive local telephone companies, long distance carriers and resellers, wireless companies, internet service providers ("ISPs"), satellite companies, cable television companies, and in some cases by new forms of providers who are able to offer competitive services through software applications, requiring a comparatively small initial investment. Due to consolidation and strategic alliances within the industry, ALLO cannot predict the number of competitors it will face at any given time. The wireless business has expanded significantly, causing many residential subscribers of traditional telephone services to discontinue those services and rely exclusively on wireless service. Consumers are finding individual television shows of interest to them through the internet and are watching content that is downloaded to their computers. Some providers, including television and cable television content owners, have initiated what are referred to as “over-the-top” services that deliver video content to televisions and computers over the internet. The incumbent telephone carriers in the markets ALLO serves enjoy certain business advantages, including size, financial resources, favorable regulatory position, a more diverse product mix, brand recognition, and connection to virtually all of ALLO's customers and potential customers. The largest cable operators also enjoy certain business advantages, including size, financial resources, ownership of or superior access to desirable programming and other content, a more diverse product mix, brand recognition, and first-in-the-field advantages with a customer base that generates positive cash flow for its operations. ALLO's competitors continue to add features and adopt aggressive pricing and packaging for services comparable to the services ALLO offers. Their success in selling some services competitive with ALLO's can lead to revenue erosion in other related areas. ALLO faces intense competition in its markets for long distance, internet access, and other ancillary services that are important to ALLO's business and to its growth strategy.

Asset Generation and Management

AGM includes the acquisition, management, and ownership of the Company's loan assets. Loans consist of federally insured student loans (originated under the FFEL Program), private education loans, and consumer loans. Substantially all of the Company's loan portfolio (98.5 percent as of December 31, 2018) is federally insured. As of December 31, 2018, the Company's loan portfolio was $22.4 billion. The Company generates a substantial portion of its earnings from the spread, referred to as the Company's loan spread, between the yield it receives on its loan portfolio and the associated costs to finance such portfolio. See the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis," for further details related to the loan spread. The student loan assets are held in a series of education lending subsidiaries and associated securitization trusts designed specifically for this purpose. In addition to the loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance, are included in this segment.

The Company's portfolio of federally insured student loans is subject to minimal credit risk, as these loans are guaranteed by the Department at levels ranging from 97 percent to 100 percent. The Higher Education Act regulates every aspect of the federally insured student loan program, including certain communications with borrowers, loan originations, and default aversion. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. In the case of death, disability, or bankruptcy of the borrower, the guarantee covers 100 percent of the loan's principal and accrued interest. FFELP loans are guaranteed by state agencies or nonprofit companies designated as guarantors, with the Department providing reinsurance to the guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program's soundness and accountability. Generally, the guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the Higher Education Act. When a borrower defaults on a FFELP loan, the Company submits a claim to the guarantor, who provides reimbursements of principal and accrued interest, subject to the applicable risk share percentage.

The Company's portfolios of private education loans and consumer loans are subject to credit risk and defaults may increase above current levels based on numerous factors, including a worsening economy or an increase in unemployment or a decrease in the availability of credit. The Company began to purchase consumer loans in 2017.

Origination and acquisition

The Reconciliation Act of 2010 discontinued originations of new FFELP loans, effective July 1, 2010. However, the Company believes there will be ongoing opportunities to continue to purchase FFELP loan portfolios from current FFELP participants looking to exit or adjust their FFELP businesses. For example, from July 1, 2010 through December 31, 2018, the Company purchased a total of $25.1 billion of FFELP student loans from various third parties, including a total of $3.7 billion during 2018. However, since all FFELP loans will eventually run off, a key objective of the Company is to reposition itself for the post-FFELP environment. As such, the Company is actively expanding its private education and consumer loan portfolios. The Company's competition for the purchase of loan portfolios and residuals includes large banks, hedge funds, and other student loan finance companies.

Interest rate risk management

Since the Company generates a significant portion of its earnings from its loan spread, the interest rate sensitivity of the Company's balance sheet is very important to its operations. The current and future interest rate environment can and will affect the Company's interest income and net income. The effects on the Company's results of operations as a result of the changing interest rate environments are further outlined in the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis" and Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk."

Corporate and Other Activities

Whitetail Rock Capital Management, LLC ("WRCM")

As of December 31, 2018, WRCM, the Company's SEC-registered investment advisor subsidiary, had $1.25 billion in assets under management for third-party customers, consisting primarily of student loan asset-backed securities. WRCM earns annual management fees of 25 basis points for asset-backed securities under management 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. During 2018, WRCM traded $0.88 billion for its customers, which generated $3.3 million in performance fees and earned $2.8 million in management fees. Assuming assets under management remain at their current levels, management fees should be relatively stable in future years. However, the Company currently anticipates that opportunities for WRCM to earn performance fees could be more limited in future years.

Real estate and other investments

The Company makes investments to further diversify itself both within and outside of its historical core education-related businesses, including investments in real estate and early-stage and emerging growth companies. Recent real estate investments have been focused on the development of commercial properties in the Midwest, and particularly in Lincoln, Nebraska, where the Company is headquartered. These investments include projects for the development of properties in Lincoln's east downtown Telegraph District, where a new facility for the Company's student loan servicing operations is located, and a building in Lincoln's Haymarket District that is the new headquarters of Hudl, an online video analysis and coaching tools software company for athletes of all levels. The Company is also a tenant at Hudl's headquarters. David S. Graff, a member of the Company's board of directors, is a co-founder, the chief executive officer, and a director of Hudl. In addition, the Company has a total equity investment in Hudl of $51.8 million.

Regulation and Supervision

The Company's operating segments and industry partners are heavily regulated by federal and state government regulatory agencies. The following provides a summary of the more significant existing and proposed legislation and regulations affecting the Company. A failure to comply with these laws and regulations could subject the Company to substantial fines, penalties, and remedial and other costs, restrictions on business, and the loss of business. Regulations and supervision can change rapidly, and changes could alter the manner in which the Company operates and increase the Company's operating expenses as new or additional regulatory compliance requirements are addressed.

Loan Servicing and Systems

NDS, which services Federal Direct Loan Program, FFELP, and private education and consumer loans, is subject to federal and state consumer protection, privacy, and related laws and regulations. Some of the more significant federal laws and regulations include:

- The Higher Education Act, which establishes financial responsibility and administrative capability requirements that govern all third-party servicers of federally insured student loans
- The Telephone Consumer Protection Act ("TCPA"), which governs communication methods that may be used to contact customers
- The Truth-In-Lending Act ("TILA") and Regulation Z, which governs disclosures of credit terms to consumer borrowers
- The Fair Credit Reporting Act ("FCRA") and Regulation V, which governs the use and provision of information to consumer reporting agencies
- The Equal Credit Opportunity Act ("ECOA") and Regulation B, which prohibits discrimination on the basis of race, creed, or other prohibited factors in extending credit
- The Servicemembers Civil Relief Act ("SCRA"), which applies to all debts incurred prior to commencement of active military service and limits the amount of interest, including certain fees or charges that are related to the obligation or liability
- The Electronic Funds Transfer Act ("EFTA") and Regulation E, which protects individual consumers engaged in electronic fund transfers ("EFTs")
- The Gramm-Leach-Bliley Act ("GLBA") and Regulation P, which govern a financial institution's treatment of nonpublic personal information about consumers and requires that an institution, under certain circumstances, notify consumers about its privacy policies and practices
- Laws prohibiting unfair, deceptive, or abusive acts or practices ("UDAAP")
- Various laws, regulations, and standards that govern government contractors

As a student loan servicer for the federal government and for financial institutions, including the Company's FFELP student loan portfolio, the Company is subject to the Higher Education Act and related laws, rules, regulations, and policies. The Higher Education Act regulates every aspect of the federally insured student loan program. The Company has designed its servicing operations to comply with the Higher Education Act, and it regularly monitors the Company's operations to maintain compliance.

Under the TCPA, plaintiffs may seek actual monetary loss or damages of $500 per violation, and courts may treble the damage award for willful or knowing violations. In addition, TCPA lawsuits have asserted putative class action claims.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") established the Consumer Financial Protection Bureau ("CFPB"), which has broad authority to regulate a wide range of consumer financial products and services. The Company's student loan servicing business is subject to CFPB oversight authority.

In 2015, the CFPB conducted a public inquiry into student loan servicing practices throughout the industry and issued a report discussing public comments submitted in response to the inquiry, and suggesting a framework to improve borrower outcomes and reduce defaults, including the creation of consistent, industry-wide standards for the entire servicing market.

The CFPB has authority to draft new regulations implementing federal consumer financial protection laws, to enforce those laws and regulations, and to conduct examinations of the Company's operations to determine compliance. The CFPB's authority includes the ability to assess financial penalties and fines and provide for restitution to consumers if it determines there have been violations of consumer financial protection laws. The CFPB also provides consumer financial education, tracks consumer complaints, requests data from industry participants, and promotes the availability of financial services to underserved consumers and communities. The CFPB has authority to prevent unfair, deceptive, or abusive acts or practices and to ensure that all consumers have access to fair, transparent, and competitive markets for consumer financial products and services. The CFPB's scrutiny of financial services has impacted industry participants' approach to their services, including how the Company interacts with consumers.

The Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions to remedy violations of state law. Most states also have statutes that prohibit unfair and deceptive practices. To the extent states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB under the Dodd-Frank Act, the Company's ability to offer the same products and services to consumers nationwide may be limited.

As a third-party service provider to financial institutions, the Company is subject to periodic examination by the Federal Financial Institutions Examination Council ("FFIEC"). FFIEC is a formal interagency body of the U.S. government empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Federal Reserve Banks, the Federal Deposit Insurance Corporation ("FDIC"), and the CFPB, and to make recommendations to promote uniformity in the supervision of financial institutions.

Education Technology, Services, and Payment Processing

NBS provides tuition management services and school information software for K-12 schools and tuition management services and payment processing solutions for higher education institutions. The Company also provides payment technologies and payment services for software platforms, businesses, and nonprofits beyond the K-12 and higher education space. As a service provider that takes payment instructions from institutions and their constituents and sends them to bank partners, the Company is directly or indirectly subject to a variety of federal and state laws and regulations. The Company's contracts with clients and bank partners require the Company to comply with these laws and regulations.

The Company's payment processing services are subject to the EFTA and Regulation E, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of debit cards and certain other electronic banking services. The Company assists bank partners with fulfilling their compliance obligations pursuant to these requirements.

The Company's payment processing services are also subject to the National Automated Clearing House Association ("NACHA") requirements, which include operating rules and sound risk management procedures to govern the use of the Automated Clearing House ("ACH") Network. These rules are used to ensure that the ACH Network is efficient, reliable, and secure for its members. Because the ACH Network uses a batch process, the importance of proper submissions by NACHA members is magnified. The Company is also impacted by laws and regulations that affect the bankcard industry. The Company is registered with Visa, Mastercard, American Express, and the Discover Network as a service provider and is subject to their respective rules.

The Company's higher education institution clients are subject to the Family Educational Rights and Privacy Act ("FERPA"), which protects the privacy of student education records. These clients disclose certain non-directory information concerning their students to the Company, including contact information, student identification numbers, and the amount of students' credit balances pursuant to one or more exceptions under FERPA. Additionally, as the Company is indirectly subject to FERPA, it may not permit the transfer of any personally identifiable information to another party other than in a manner in which an educational institution may properly disclose it. While the Company believes that it has adequate policies and procedures in place to safeguard the privacy of such information, a breach of this prohibition could result in a five-year suspension of the Company's access to the related client's records. The Company may also be subject to similar state laws and regulations that restrict higher education institutions from disclosing certain personally identifiable student information.

Some of the Company's K-12 and higher education institution clients choose to charge convenience fees to students, parents, or other payers who make online payments using a credit or debit card. Laws and regulations related to such fees vary from state to state and certain states have laws that to varying degrees prohibit the imposition of a surcharge on a cardholder who elects to use a credit or debit card in lieu of cash, check, or other means.

The Company's contracts with higher education institution clients also require the Company to comply with regulations promulgated by the Department regarding the handling of student financial aid funds received by institutions on behalf of their students under Title IV of the Higher Education Act. These regulations are designed to ensure students have convenient access to their Title IV funds, do not incur unreasonable fees, and are not led to believe they must open a financial account to receive such funds.

Communications

The telecommunications business is subject to extensive federal, state, and local regulation. Under the Telecommunications Act of 1996 ("Telecommunications Act"), federal and state regulators share responsibility for implementing and enforcing statutes and regulations designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the Federal Communications Commission ("FCC") generally exercises jurisdiction over facilities and services of local exchange carriers to the extent they are used to provide, originate, or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate, or revoke operating authority for failure to comply with applicable federal laws or FCC rules, regulations, and policies.

State regulatory commissions generally exercise jurisdiction over carriers' facilities and services to the extent they are used to provide, originate, or terminate intrastate communications. These regulatory commissions may dictate service standards and may require the payment of fees to remain in good standing with the applicable regulatory commission. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks.

The Communications Act of 1934 ("Communications Act") requires, among other things, that telecommunications carriers offer services at just and reasonable rates and on non-discriminatory terms and conditions. The 1996 amendments to the Communications Act, contained in the Telecommunications Act, dramatically changed, and likely will continue to change, the landscape of the telecommunications industry. The central aim of the Telecommunications Act is to open local telecommunications markets to competition while enhancing universal service. The Telecommunications Act imposes a number of interconnection and other requirements on all local communications providers. All telecommunications carriers have a duty to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers.

Municipalities where ALLO operates may require ALLO to obtain permits for street opening and construction. These permits or other licenses or agreements typically require the payment of fees. In addition, ALLO's aerial and underground construction operations are subject to extensive laws and regulations relating to the maintenance of safe conditions in the workplace.

Internet services

The provision of internet access services is not significantly regulated by either the FCC or the state commissions. However, the FCC has in recent years taken some steps toward the imposition of some controls on the provision of internet access, and has asserted that it has jurisdictional authority in some areas related to the promotion of an open internet. The extent of the FCC's jurisdiction with respect to the internet has not been resolved, and this lack of resolution could lead to increased costs for ALLO in connection with its provision of internet services and affect ALLO's ability to effectively compete.

As the internet has matured, it has become the subject of increasing regulatory interest. Congress and federal regulators have adopted a wide range of measures directly or potentially affecting internet use, including, for example, consumer privacy, copyright protections, defamation liability, taxation, obscenity, and unsolicited commercial email. ALLO's internet services are subject to the Communications Assistance for Law Enforcement Act ("CALEA") requirements regarding law enforcement surveillance. Content owners are now seeking additional legal mechanisms to combat copyright infringement over the internet. Pending and future legislation in this area could adversely affect ALLO's operations as an ISP and relationship with internet customers. Additionally, the FCC and Congress are considering subjecting internet access services to the Universal Service funding requirements. These funding requirements could impose significant new costs on ALLO's high-speed internet service. State and local governmental organizations have also adopted internet-related regulations. These various governmental jurisdictions are also considering additional regulations in these and other areas, such as privacy, pricing, service and product quality, and taxation. The adoption of new internet regulations or the adaptation of existing laws to the internet could adversely affect ALLO's business.

In 2015, an FCC Net Neutrality Order went into effect. On December 14, 2017, the FCC voted to repeal the Open Internet Order and effectively the net neutrality rules. The previous rules prohibited ISPs from engaging in blocking, throttling, and paid prioritization, and transparency rules compelling the disclosure of network management policies were enhanced. The FCC was also granted the authority under the rules to hear complaints and take enforcement action if it determined that the interconnection activities of ISPs were not just and reasonable, or if ISPs failed to meet general obligations not to harm consumers or what are referred to as edge providers. The final version of the net neutrality repeal order restores the Federal Trade Commission's jurisdiction over broadband internet access services. The uncertainty around how the Federal Trade Commission will respond and challenges to the FCC repeal could limit ALLO's ability to efficiently manage internet service and respond to operational and competitive challenges.

Although the FCC approved the repeal of Net Neutrality regulations, ALLO's views on the consumer protection aspect of Net Neutrality remain intact. ALLO will continue to treat internet speeds and access as they were under Net Neutrality regulations.

Television services

Federal regulations currently restrict the prices that cable systems charge for the minimum level of television programming service, referred to as "basic service," and associated equipment. All other television service offerings are now universally exempt from rate regulation. Although basic service rate regulation operates pursuant to a federal formula, local governments, commonly referred to as local franchising authorities, are primarily responsible for administering this regulation. The majority of ALLO's local franchising authorities have never been certified to regulate basic service cable rates (and order rate reductions and refunds), but they generally retain the right to do so (subject to potential regulatory limitations under state franchising laws), except in those specific communities facing "effective competition," as defined under federal law. There have been frequent calls to impose expanded rate regulation on the cable industry. As a result of rapidly increasing cable programming costs, it is possible that Congress may adopt new constraints on the retail pricing or packaging of cable programming. Federal rate regulations currently include certain marketing restrictions that could affect ALLO's pricing and packaging of service tiers and equipment. As ALLO attempts to respond to a changing marketplace with competitive pricing practices, it may face regulations that impede its ability to compete.

IPTV operations require state or local franchise or other authorization in order to provide cable service to customers. ALLO is subject to regulation under a Communications Act framework that addresses such issues as the use of local streets and rights of way; the carriage of public, educational, and governmental channels; the provision of channel space for leased commercial access; the amount and payment of franchise fees; consumer protection; and similar issues. In addition, federal laws and FCC regulations place limits on the common ownership of cable systems and competing multichannel television distribution systems, and on the common ownership of cable systems and local telephone systems in the same geographic area. The FCC has recently expanded its oversight and regulation of cable television-related matters. Federal law and regulations also affect numerous issues related to television programming and other content. Under federal law, certain local television broadcast stations (both commercial and non-commercial) can elect, every three years, to take advantage of rules that require a cable operator to distribute the station's content to the cable system's customers without charge, or to forego this "must-carry" obligation and to negotiate for carriage on an arm's length contractual basis, which typically involves the payment of a fee by the cable operator, and sometimes involves other consideration as well. The current three-year cycle began on January 1, 2018. ALLO has negotiated agreements with the local television broadcast stations that would have been eligible for "must carry" treatment in each of its current markets. The contractual relationships between cable operators and most providers of content who are not television broadcast stations generally are not subject to FCC oversight or other regulation.

The Communications Act requires most utilities owning utility poles to provide access to poles and conduits, and subjects the rates charged for this access to either federal or state regulation. The FCC's pole attachment rules promote broadband deployment through the ability to access investor-owned utility poles on reasonable rates, terms, and conditions, subject to penalties in certain cases involving unauthorized attachments.

ALLO's IPTV systems are subject to a federal copyright compulsory license covering carriage of television and radio broadcast signals. The possible modification or elimination of this copyright compulsory license is the subject of continuing legislative proposals and administrative review and could adversely affect ALLO's ability to obtain desired broadcast programming. Copyright clearances for non-broadcast programming services are arranged through private negotiations. IPTV operators also must obtain music rights for locally originated programming and advertising from the major music performing rights organizations. These licensing fees have been the source of litigation in the past, and license fee disputes may arise in the future.

Telephone services

ALLO offers voice communications services over a broadband network. The FCC has ruled that competitive telephone companies are entitled to interconnect with incumbent providers of traditional telecommunications services, which ensures that services can compete in the market. The FCC has also declared that certain services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of state and local regulation of services is not yet clear.

Corporate

Governmental bodies in the United States and abroad have adopted, or are considering the adoption of, laws and regulations restricting the transfer and requiring the safeguarding of nonpublic personal information. For example, in the United States, the Company and its financial institution clients are, respectively, subject to the Federal Trade Commission's and the federal banking regulators' privacy and information safeguarding requirements under the GLBA. With certain exceptions, the GLBA prohibits a financial institution from disclosing a consumer's nonpublic personal information to a nonaffiliated third party unless the institution satisfies various notice requirements and the consumer does not elect to prevent, or "opt out of," the disclosure. The GLBA also imposes specific requirements regarding the disclosure of customer account numbers and the reuse and redisclosure of information a financial institution provides to a third party. Additionally, the European Union ("EU") has adopted a General Data Protection Regulation ("GDPR"), which went into effect in May 2018. The GDPR imposes significant new requirements on businesses that collect and process personal data of individuals residing in the EU, and provides for significant fines and other penalties for non-compliance. While the Company's operations are subject to certain provisions of these privacy laws, the Company has limited use of consumer information solely to providing services to other businesses and financial institutions. The Company limits sharing of nonpublic personal information to that necessary to complete transactions on behalf of the consumer and to that permitted by federal and state laws.

Intellectual Property

The Company owns numerous trademarks and service marks ("Marks") to identify its various products and services. As of December 31, 2018, the Company had 57 registered Marks. The Company actively asserts its rights to these Marks when it believes infringement may exist. The Company believes its Marks have developed and continue to develop strong brand-name recognition in the industry and the consumer marketplace. Each of the Marks has, upon registration, an indefinite duration so long as the Company continues to use the Mark on or in connection with such goods or services as the Mark identifies. In order to protect the indefinite duration, the Company makes filings to continue registration of the Marks. The Company owns one patent application that has been published, but has not yet been issued, and has also actively asserted its rights thereunder in situations where the Company believes its claims may be infringed upon. The Company owns many copyright protected works, including its various computer system codes and displays, websites, and marketing materials. The Company also has trade secret rights to many of its processes and strategies and its software product designs. The Company's software products are protected by both registered and common law copyrights, as well as strict confidentiality and ownership provisions placed in license agreements, which restrict the ability to copy, distribute, or improperly disclose the software products. The Company also has adopted internal procedures designed to protect the Company's intellectual property.

The Company seeks federal and/or state protection of intellectual property when deemed appropriate, including patent, trademark/service mark, and copyright. The decision whether to seek such protection may depend on the perceived value of the intellectual property, the likelihood of securing protection, the cost of securing and maintaining that protection, and the potential for infringement. The Company's employees are trained in the fundamentals of intellectual property, intellectual property protection, and infringement issues. The Company's employees are also required to sign agreements requiring, among other things, confidentiality of trade secrets, assignment of inventions, and non-solicitation of other employees post-termination. Consultants, suppliers, and other business partners are also required to sign nondisclosure agreements to protect the Company's proprietary rights.

Employees

As of December 31, 2018, the Company had approximately 6,200 employees. None of the Company's employees are covered by collective bargaining agreements. The Company is not involved in any material disputes with any of its employees, and the Company believes that relations with its employees are good.

Available Information

The Company's internet website address is www.nelnet.com, and the Company's investor relations website address is www.nelnetinvestors.com. Copies of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available on the Company's investor relations website free of charge as soon as reasonably practicable after such reports are filed with or furnished to the SEC. The Company routinely posts important information for investors on its investor relations website.

The Company has adopted a Code of Ethics and Conduct that applies to directors, officers, and employees, including the Company's principal executive officer and its principal financial and accounting officer, and has posted such Code of Ethics and Conduct on its investor relations website. Amendments to and waivers granted with respect to the Company's Code of Ethics and Conduct relating to its executive officers and directors, which are required to be disclosed pursuant to applicable securities laws and stock exchange rules and regulations, will also be posted on its investor relations website. The Company's Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Risk and Finance Committee Charter, and Compliance Committee Charter are also posted on its investor relations website.

Information on the Company's websites is not incorporated by reference into this report and should not be considered part of this report.

ITEM 1A. RISK FACTORS

We operate our businesses in a highly competitive and regulated environment. We are subject to risks including, but not limited to, strategic, market, liquidity, credit, regulatory, technology, operational, security, and other business risks such as reputation damage related to negative publicity and dependencies on key personnel, customers, vendors, and systems. This section highlights specific risks that could affect us. Although this section attempts to highlight key risk factors, other risks may emerge at any time and we cannot predict all risks or estimate the extent to which they may affect our financial performance. These risk factors should be read in conjunction with the other information included in this report.

Loan Portfolio

Our loan portfolio is subject to certain risks related to interest rates, our ability to manage the risks related to interest rates, prepayment, and credit risk, each of which could reduce the expected cash flows and earnings on our portfolio.

Interest rate risk - basis and repricing risk

We are exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of our loan assets do not always match the interest rate characteristics of the funding for those assets.

We fund the majority of our FFELP student loan assets with one-month or three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on our FFELP student loan assets is indexed to one-month LIBOR, three-month commercial paper, and Treasury bill rates. The differing interest rate characteristics of our loan assets versus the liabilities funding these assets result in basis risk, which impacts the excess spread earned on our loans. We also face repricing risk due to the timing of the interest rate resets on our liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on our assets, which generally occur daily. In a declining interest rate environment, this may cause our student loan spread to compress, while in a rising interest rate environment, it may cause the spread to increase.

As of December 31, 2018, we had $20.6 billion, $1.0 billion, and $0.6 billion of FFELP loans indexed to the one-month LIBOR, three-month commercial paper, and three-month Treasury bill rate, respectively, all of which reset daily, and $9.9 billion of debt indexed to three-month LIBOR, which resets quarterly, and $10.3 billion of debt indexed to one-month LIBOR, which resets monthly. While these indices are all short term in nature with rate movements that are highly correlated over a longer period of time, there can be no assurance that the indices' historically high level of correlation will not be disrupted in the future due to capital market dislocations or other factors not within our control. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

We have entered into basis swaps to hedge our basis and repricing risk. For these derivatives, we receive three-month LIBOR set discretely in advance and pay one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps").

Interest rate risk - loss of floor income

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 Payments ("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. We generally finance our student loan portfolio with variable rate debt. In low and/or certain declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, these 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, we may earn additional spread income that we refer 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, we may earn floor income for an extended period of time, which we refer to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, we may earn floor income to the next reset date, which we refer to as variable rate floor income.

For the year ended December 31, 2018, we earned $121.7 million of fixed rate floor income, which includes $64.9 million of net settlement proceeds received related to derivatives used to hedge loans earning fixed rate floor income. Absent the use of derivative instruments, a rise in interest rates will reduce the amount of floor income received and this will have an impact on earnings due to interest margin compression caused by increased 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 convert to variable rate loans, the impact of the rate fluctuations is reduced.

Interest rate risk - use of derivatives

We utilize derivative instruments to manage interest rate sensitivity. Our derivative instruments are intended as economic hedges but do not qualify for hedge accounting; consequently, the change in fair value, called the “mark-to-market,” of these derivative instruments is included in our operating results. Changes or shifts in the forward yield curve can and have significantly impacted the valuation of our derivatives. Accordingly, changes or shifts in the forward yield curve will impact our results of operations.

Although we believe our derivative instruments are highly effective, developing an effective strategy for dealing with movements in interest rates is complex, and no strategy can completely insulate us from risks associated with such fluctuations. Because many of our derivatives are not balance guaranteed to a particular pool of student loans and we may not elect to fully hedge our risk on a notional and/or duration basis, we are subject to the risk of being under or over hedged, which could result in material losses. In addition, our interest rate risk management activities could expose us to substantial mark-to-market losses if interest rates move in a materially different way than was expected based on the environment when the derivatives were entered into. As a result, we cannot offer any assurance that our economic hedging activities will effectively manage our interest rate sensitivity or have the desired beneficial impact on our results of operations or financial condition.

The Dodd-Frank Act provides the CFTC with substantial authority to regulate over-the-counter derivative transactions. Since June 10, 2013, the CFTC has required over-the-counter derivative transactions to be executed through an exchange or central clearinghouse. Accordingly, all over-the-counter derivative contracts executed by us since that date are cleared post-execution at a regulated clearinghouse. Clearing is a process by which a third-party, the clearinghouse, steps in between the original counterparties and guarantees the performance of both, by requiring that each post substantial amounts of liquid collateral on an initial (initial margin) and mark-to-market (variation margin) basis to cover the clearinghouse's potential future exposure in the event of default. The clearing requirements require us to post substantial amounts of liquid collateral when executing new derivative instruments, which could negatively impact our liquidity and capital resources and may prevent or limit us from utilizing derivative instruments to manage interest rate sensitivity and risks. However, the clearing requirements reduce counterparty risk associated with over-the-counter derivative instruments executed by us after June 10, 2013.

For derivatives executed on and prior to June 10, 2013 or not required to be executed through an exchange or central clearinghouse ("non-centrally cleared derivatives"), we are exposed to credit risk. We attempt to manage credit risk by entering into transactions with high-quality counterparties that are reviewed periodically by our internal risk committee and our board of directors' Risk and Finance Committee. As of December 31, 2018, all of our derivative counterparties had investment grade credit ratings. We also have a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement. When the fair value of a non-centrally cleared derivative is positive (an asset on our balance sheet), this generally indicates that the counterparty owes us if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any

collateral held by us. If we were unable to collect from a counterparty, we would have a loss equal to the amount at which the derivative is recorded on the consolidated balance sheet.

When the fair value of a non-centrally cleared derivative is negative (a liability on our balance sheet), we would owe the counterparty if the derivative was settled and, therefore, have no immediate credit risk. If the negative fair value of derivatives with a counterparty exceeds a specified threshold, we may have to make a collateral deposit with the counterparty. The threshold at which we may be required to post collateral is dependent upon our unsecured credit rating. We believe any downgrades from our current unsecured credit ratings (Standard & Poor's: BBB- (stable outlook), Moody's: Ba1 (stable outlook), and DBRS: BBB (low) (stable outlook)), would not result in additional collateral requirements of a material nature. In addition, no counterparty has the right to terminate our contracts in the event of downgrades from the current ratings.

Interest rate movements have an impact on the amount of collateral we are required to deposit with our derivative instrument counterparties and variation margin payments with our clearinghouse. We attempt to manage market risk associated with interest rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Our derivative portfolio and hedging strategy is reviewed periodically by our internal risk committee and our board of directors' Risk and Finance Committee.

With our current derivative portfolio, we do not currently anticipate a near term movement in interest rates having a material impact on our liquidity or capital resources, nor expect future movements in interest rates to have a material impact on our ability to meet potential collateral deposit requirements with our counterparties or variation margin payments to our clearinghouse. Based on the interest rate swaps outstanding as of December 31, 2018, if the forward interest rate curve was 50 basis points lower for the remaining duration of these derivatives, we would have been required to pay approximately $32 million in additional collateral and/or variation margin. In addition, if the forward basis curve between one-month and three-month LIBOR experienced a ten basis point reduction in spread for the remaining duration of our 1:3 Basis Swaps (in which we pay one-month LIBOR and receive three-month LIBOR), we would have been required to post approximately $31 million in additional collateral and/or variation margin. Due to the existing low interest rate environment, our exposure to downward movements in interest rates on our interest rate swaps is limited. In addition, we believe the historical high correlation between one-month and three-month LIBOR limits our exposure to interest rate movements on the 1:3 Basis Swaps.

However, if interest rates move materially and negatively impact the fair value of our derivative portfolio or if we enter into additional derivatives in which the fair value of such derivatives becomes negative, we could be required to pay a significant amount of collateral to our derivative instrument counterparties and/or variation margin to our clearinghouse. These payments, if significant, could negatively impact our liquidity and capital resources.

Interest rate risk - replacement of LIBOR as a benchmark rate

As of December 31, 2018, the interest earned on a principal amount of $20.6 billion in our FFELP student loan asset portfolio was indexed to one-month LIBOR, and the interest paid on a principal amount of $20.2 billion of our FFELP student loan asset-backed debt securities was indexed to one-month or three-month LIBOR. In addition, the majority of our derivative financial instrument transactions used to manage LIBOR interest rate risks are indexed to LIBOR.

The United Kingdom’s Financial Conduct Authority, which regulates LIBOR, has publicly announced that it intends to stop persuading or compelling banks to submit information to the administrator of LIBOR after 2021. This indicates that the continuation of LIBOR on the current basis cannot be assured after 2021. There is no consensus on, and at this time it is impossible to predict, what rate or rates may become accepted alternatives to LIBOR.

If LIBOR in its current form does not survive, a market transition away from the current LIBOR framework to an alternative benchmark rate or rates is expected to involve significant complexity and uncertainty as to, among other things, when and in what manner such transition would be implemented, and could have a range of potential adverse effects on our business, financial condition, results of operations, and cash flows. In particular, any such transition could:

- adversely affect the interest rates paid or received on, the income and expenses associated with, and the pricing and value of our LIBOR-based assets and liabilities, which include the majority of our FFELP student loan assets and FFELP student loan asset-backed debt securities issued to fund those assets, as well as certain derivative financial instruments we use to manage LIBOR-based interest rate risks associated with such FFELP student loan-related assets and liabilities;

- result in uncertainty or differences in the calculation of the applicable interest rate or payment amounts on our LIBOR-based assets and liabilities depending on the terms of the governing instruments, which in turn could result in disputes, litigation, or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based securities and contracts, and the potential renegotiation of previous contracts; and

- make future asset-backed securitizations more difficult to complete or more expensive until LIBOR or alternative benchmark rate uncertainties are resolved.

In addition, a transition away from LIBOR to an alternative benchmark rate or rates may impact our existing transaction data, systems, operations, pricing and risk management processes, and require significant efforts to transition to or develop appropriate systems and analytics to reflect a new benchmark rate environment. There can be no assurance that such efforts will successfully mitigate the financial and operational risks associated with a transition away from LIBOR.

Prepayment risk

Higher rates of prepayments of student loans, including consolidations by the Department through the Federal Direct Loan Program or private refinancing programs, would reduce our interest income.

Pursuant to the Higher Education Act, borrowers may prepay loans made under the FFEL Program at any time without penalty. Prepayments may result from consolidations of student loans by the Department through the Federal Direct Loan Program or by a lending institution through a private education or unsecured consumer loan, which historically tend to occur more frequently in low interest rate environments; from borrower defaults, which will result in the receipt of a guaranty payment; and from voluntary full or partial prepayments; among other things.

Legislative risk exists as Congress evaluates proposals to reauthorize the Higher Education Act. If the federal government and the Department initiate additional loan forgiveness, other repayment options or plans, or consolidation loan programs, such initiatives could further increase prepayments and reduce interest income, and could also reduce servicing fees.

The rate of prepayments of student loans may be influenced by a variety of economic, social, political, and other factors affecting borrowers, including interest rates, federal budgetary pressures, and the availability of alternative financing. Our profits could be adversely affected by higher prepayments, which reduce the balance of loans outstanding and, therefore, the amount of interest income we receive.

Credit risk

Future losses due to defaults on loans held by us present credit risk which could adversely affect our earnings.

The vast majority (98.5 percent) of our student loan portfolio is federally guaranteed. The allowance for loan losses from the federally insured loan portfolio is based on periodic evaluations of our loan portfolios, considering loans in repayment versus those in nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government currently guarantees 97 percent of the principal and interest on federally insured student loans disbursed on and after July 1, 2006 (and 98 percent for those loans disbursed on and after October 1, 1993 and prior to July 1, 2006), which limits our loss exposure on the outstanding balance of our federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured for both principal and interest.

Our private education and consumer loans are unsecured, with neither a government nor a private insurance guarantee. Accordingly, we bear the full risk of loss on these loans if the borrower and co-borrower, if applicable, default. In determining the adequacy of the allowance for loan losses on the private education and consumer loans, we consider several factors, including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. We place our private education and consumer loans on nonaccrual status when the collection of principal and interest is 90 days past due, and charge off the loan when the collection of principal and interest is 120 days or 180 days past due, depending on the type of loan program.

The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. As of December 31, 2018, our allowance for loan losses was $60.4 million. During the year ended December 31, 2018, we recognized a provision for loan losses of $23.0 million. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that management believes is appropriate to cover probable losses inherent in the loan portfolio. However, future defaults can be higher than anticipated due to a variety of factors, such as downturns in the economy, regulatory or operational changes, and other unforeseen future trends. If actual performance is significantly worse than currently estimated, it would materially affect our estimate of the allowance for loan losses and the related provision for loan losses in our statements of income.

In June 2016, the Financial Accounting Standards Board 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. We currently use an incurred loss model when calculating our allowance for loan losses. As a result, we expect the new guidance will increase our allowance for loan losses. This guidance will be effective for us beginning January 1, 2020. This standard represents a significant departure from existing accounting standards, and may result in significant changes to our accounting for the allowance for loan losses and could negatively impact our financial position and results of operations.

Liquidity and Funding

The current maturities of our student loan warehouse financing facilities do not match the maturities of the related funded student loans, and we may not be able to modify and/or find alternative funding related to the student loan collateral in these facilities prior to their expiration.

The majority of our portfolio of student loans is funded through asset-backed securitizations that are structured to substantially match the maturities of the funded assets, and there are minimal liquidity issues related to these facilities. We also have student loans funded in shorter term warehouse facilities. The current maturities of these facilities do not match the maturity of the related funded assets. Therefore, we will need to modify and/or find alternative funding related to the student loan collateral in these facilities prior to their expiration.

As of December 31, 2018, we maintained two FFELP warehouse facilities as described in note 4 of the notes to consolidated financial statements included in this report. The FFELP warehouse facilities have revolving financing structures supported by liquidity provisions, which expire in May 2019. In the event we are unable to renew the liquidity provisions for a facility, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and we would be required to refinance the existing loans in the facility by the final maturity dates in May 2020 and May 2021, respectively. The FFELP warehouse facilities also contain financial covenants relating to levels of our consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any noncompliance with these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facilities. As of December 31, 2018, $986.9 million was outstanding under the FFELP warehouse facilities and $57.0 million was advanced as equity support.

If we are unable to obtain cost-effective funding alternatives for the loans in the warehouse facilities prior to the facilities' maturities, our cost of funds could increase, adversely affecting our results of operations. If we cannot find any funding alternatives, we would lose our collateral, including the student loan assets and cash advances, related to these facilities.

We are exposed to mark-to-formula collateral support risk on one of our FFELP warehouse facilities.

One of our FFELP warehouse facilities has a static advance rate until the expiration date of the liquidity provisions (May 2019). 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.

As of December 31, 2018, $620.7 million was outstanding under this warehouse facility and $30.6 million was advanced as equity support. In the event that the liquidity provisions are not renewed, a significant change in the valuation of loans could result in additional required equity funding support for this warehouse facility greater than what we can provide, which could result in an event of default resulting in termination of the facility and an acceleration of the repayment provisions. If we cannot find any funding alternatives, we would lose our collateral, including the student loan assets and cash advances, related to this facility. A default on the FFELP warehouse facility would result in an event of default on our $382.5 million unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Changes in ratings on asset-backed securitization transactions, including those we sponsor, can have a material adverse impact on our ability to access the asset-backed securities market.

After securitizations are initially issued, if their performance does not align with rating agencies' expectations at the time of issuance, or if the rating agencies modify their assumptions and methodologies used for rating student loan securitizations, it is possible that initial high quality ratings on our subsidiaries' securitizations, or those of other asset-backed securities issuers, could be materially lowered. Such actions could adversely affect our ability to access the asset-backed securities market, or make new securitization transactions more expensive by requiring us to pay a higher spread over LIBOR when pricing new bonds.

Operations

Risks associated with our operations, as further discussed below, include those related to our information technology systems and potential security and privacy breaches, our ability to manage performance related to regulatory requirements, and the importance of maintaining scale by retaining existing customers and attracting new business opportunities.

Our largest fee-based customer, the Department of Education, represented 30 percent of our revenue in 2018. Failure to extend the Department contracts or obtain new Department contracts for different components, unfavorable contract modifications or interpretations, or our inability to consistently surpass competitor performance metrics, could significantly lower loan servicing revenue and hinder future servicing opportunities.

With the acquisition of Great Lakes, we are two of four TIVAS awarded a student loan servicing contract by the Department to provide additional servicing capacity for loans owned by the Department. The Department also has contracts with 31 NFP entities to service student loans, although currently five NFP servicers service the volume allocated to these 31 entities. New loan volume is allocated among the four TIVAS and five NFP servicers based on certain performance metrics established by the Department and compared among all loan servicers in this group. As of December 31, 2018, Nelnet Servicing was servicing $179.5 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. For the year ended December 31, 2018, we recognized $325.4 million in revenue from the Department under these contracts, which represented 30 percent of our revenue.

Nelnet Servicing's and Great Lakes' contracts with the Department are currently scheduled to expire on June 16, 2019. Currently, FSA has ongoing solicitations for three new servicing components for the Department to replace the existing contracts. We are part of teams that currently intend to respond to the solicitations for each of the three components.

In the event that our servicing contracts are not extended beyond the current expiration date or we are not chosen as a subsequent servicer, loan servicing revenue would decrease significantly. There are significant risks and uncertainties regarding the current Department contracts and potential future Department contracts, including potential delays, cancellations, or material changes to the structure of the contract procurement process, and we cannot predict the timing or outcome of the Department's contract procurement solicitations.

Even if the current contracts are extended or we are successful in obtaining new contracts, the amount of future allocations of new loan volume could be negatively impacted if we are unable to consistently surpass comparable competitor and/or other performance metrics. In addition, in the event the Department servicing contracts become subject to unfavorable modifications or interpretations by the Department, loan servicing revenue could decrease significantly.

Additionally, we are partially dependent on the existing Department contracts to broaden servicing operations with the Department, other federal and state agencies, and commercial clients. The size and importance of these contracts provide us the scale and infrastructure needed to profitably expand into new business opportunities. Failure to extend the Department contracts beyond the current expiration date, or obtain new Department contracts, could significantly hinder future opportunities.

Various events could disrupt our networks, information systems, or properties which could impair our operating activities and negatively impact our reputation.

As a loan servicer, software provider, payment provider, and telecommunications company for the federal government, financial institutions, education industry, and local communities that serve millions of customers through the internet and other distribution channels across the U.S., we depend on our ability to process, secure, record, and monitor a large number of customer transactions and confidential information on a continuous basis. Additionally, we depend on the efficient and uninterrupted operation of our computer network systems, software, datacenters, and telecommunications systems, as well as the systems of third parties.

Information security risks continue to increase in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to support and process customer transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our business segments rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems.

Although we believe we have robust information security procedures, controls, and business continuity plans, we may be subject to information technology system failures and network disruptions. Malicious and abusive activities, such as the dissemination of computer viruses, worms, and other destructive or disruptive software, computer hackings, social engineering,

process breakdowns, denial of service attacks, and other malicious activities have become more common. If directed at us or technologies upon which we depend, these activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers, and damage to our or our customers' equipment and data. Further, these activities could result in security breaches, such as misappropriation, misuse, leakage, falsification or accidental release or loss of information maintained in our information technology systems and networks, and in our vendors' systems and networks, including customer, personnel, and vendor data. System failures and network disruptions may also be caused by natural disasters, accidents, power disruptions, or telecommunications failures. If a significant incident were to occur, it could damage our reputation and credibility, lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to service our customers and protect our network. These events also could result in large expenditures to repair or replace the damaged properties, networks, or information systems or to protect them from similar events in the future. System redundancy may be ineffective or inadequate, and our business continuity plans may not be sufficient for all eventualities. Any significant loss of customers or revenue, or significant increase in costs of serving those customers, could adversely affect our growth, financial condition, and results of operations.

Although to date we have not experienced a material loss relating to cyber-attacks, information security breaches, or system outage, there can be no assurance that we will not suffer such losses in the future or that there is not a current threat that remains undetected at this time. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, and the size and scale of our services.

In addition, the personal consumer data that we receive and maintain in our operations is subject to privacy laws and regulations, and we expect regulatory oversight will continue to increase and consumer privacy protection regulations, standards, supervision, examinations, and enforcement practices will continue to evolve in both detail and scope. This evolution may significantly add to our privacy compliance and operating costs.

As a result of these matters, the continued development and enhancement of our training, controls, processes, and practices designed to protect, monitor, and restore our systems, computers, software, data, and networks from attack, damage, or unauthorized access remain a priority for the Company and each of our business segments. Even though we maintain technology and telecommunication, professional services, media, network security, privacy, injury, and liability insurance coverage to offset costs that may be incurred as a result of a cyber-attack, information security breach, or extended system outage, this insurance coverage may not cover all costs of such incidents.

We must adapt to rapid technological change. If we are unable to take advantage of technological developments, or if we adopt and implement them more slowly than our competitors, we may experience a decline in the demand for our products and services.

Our long-term operating results depend substantially upon our ability to continually enhance, develop, introduce, and market new products and services. We must continually and cost-effectively maintain and improve our information technology systems and infrastructure in order to successfully deliver competitive and cost effective products and services to our customers. The widespread adoption of new technologies and market demands could require substantial expenditures to enhance system infrastructure and existing products and services. If we fail to enhance and scale our systems and operational infrastructure or products and services, our operating segments may lose their competitive advantage and this could adversely affect financial and operating results.

Our software products may experience quality problems and development delays, which could damage client relations, our potential profitability, and expose us to liability.

Our NDS and NBS products are based on sophisticated software and computing systems that often encounter development delays, and the underlying software may contain undetected bugs or other defects that interfere with its intended operation. Quality problems with our software products and errors or delays in our processing of electronic transactions could result in additional development costs, diversion of technical and other resources from our other development efforts, loss of credibility with current or potential clients, harm to our reputation, or exposure to liability claims. In addition, we rely on technologies supplied to us by third parties that may also contain undetected errors or defects that could have a material adverse effect on our business, financial condition, and results of operations.

We outsource critical operations, which exposes us to risks related to our third-party vendors.

We have entered into contracts with third-party service providers that provide critical services, technology, and software to our business segments. Some of our third-party vendors are primary service providers for which there are few substitutes. If any of these vendors should experience financial difficulties, system interruptions, regulatory violations, security threats, or they cannot otherwise meet our specifications, our ability to provide some services may be materially adversely affected, in which case our business, results of operations, and financial condition may be adversely affected.

We must satisfy certain requirements necessary to maintain the federal guarantees of our federally insured loans and the federally insured loans that we service for third parties, and we may incur penalties or lose our guarantees if we fail to meet these requirements.

As of December 31, 2018, we serviced $36.7 billion of FFELP loans that maintained a federal guarantee, of which $18.9 billion and $17.8 billion were owned by the Company and third-party entities, respectively. We must meet various requirements in order to maintain the federal guarantee on federally insured loans. The federal guarantee on federally insured loans is conditional based on compliance with origination, servicing, and collection policies set by the Department and guaranty agencies. If the Company misinterprets Department guidance, or incorrectly applies the Higher Education Act, the Department could determine that the Company is not in compliance. Federally insured loans that are not originated, disbursed, or serviced in accordance with the Department's and guaranty agency regulations may risk partial or complete loss of the guarantee. If we experience a high rate of servicing deficiencies (including any deficiencies resulting from the conversion of loans from one servicing platform to another, errors in the loan origination process, establishment of the borrower's repayment status, and due diligence or claim filing processes), it could result in the loan guarantee being revoked or denied. In most cases we have the opportunity to cure these deficiencies by following a prescribed cure process which usually involves obtaining the borrower's reaffirmation of the debt. However, not all deficiencies can be cured.

A guaranty agency may also assess an interest penalty upon claim payment if the deficiency does not result in a loan rejection. These interest penalties are not subject to cure provisions and are typically related to isolated instances of due diligence deficiencies. Additionally, we may become ineligible for special allowance payment benefits from the time of the first deficiency leading to the loan rejection through the date that the loan is cured.

Failure to comply with federal and guarantor regulations may result in fines, penalties, the loss of the insurance and related federal guarantees on affected FFELP loans, the loss of special allowance payment benefits, expenses required to cure servicing deficiencies, suspension or termination of the right to participate as a FFELP servicer, negative publicity, and potential legal claims, including potential claims by our servicing customers if they lose the federal guarantee on loans that we service for them. If the Company is subjected to significant fines, or loss of insurance or guarantees on a material number of FFELP loans, or if the Company loses its ability to service FFELP loans, it could have a material, negative impact on the Company's business, financial condition, or results of operations.

Our contracts with the Department of Education expose us to additional risks inherent in government contracts.

The Federal government could engage in a prolonged debate linking the federal deficit, debt ceiling, government shutdown and other budget issues. If U.S. lawmakers in the future fail to reach agreement on these issues, the federal government could stop or delay payment on its obligations. Further, legislation to address the federal deficit and spending could impose proposals that would adversely affect the FFEL and Federal Direct Loan Programs' servicing businesses.

We contract with FSA to administer loans held by FSA in both the FFEL and Federal Direct Loan Programs, we own a portfolio of FFELP loans, and we service our FFELP loans and loans for third parties. These loan programs are authorized by the Higher Education Act and subject to periodic reauthorization and changes to the programs by the Administration and U.S. Congress. The latest round of reauthorization is taking place currently. We cannot predict what will or will not be in the final law. However, any changes, including the potential for borrowers to refinance loans via Direct Consolidation Loans, could have a material impact to our cash flows from servicing, interest income, and operating margins.

Government entities in the United States often reserve the right to audit contract costs and conduct inquiries and investigations of business practices. These entities also conduct reviews and investigations and make inquiries regarding systems, including systems of third parties, used in connection with the performance of the contracts. Negative findings from audits, investigations, or inquiries could affect the contractor’s future revenues and profitability. If improper or illegal activities are found in the course of government audits or investigations, we could become subject to various civil and criminal penalties, including those under the civil U.S. False Claims Act. Additionally, we may be subject to administrative sanctions, which may include termination or non-renewal of contracts, forfeiture of profits, suspension of payments, fines and suspensions, or debarment from doing

business with other agencies of that government. Due to the inherent limitations of internal controls, it may not be possible to detect or prevent all improper or illegal activities.

The Government could change governmental policies, regulatory environments, spending sentiment, and many other factors and conditions, some of which could adversely impact our business, financial condition, and results of operations. We cannot predict how or what programs or policies will be impacted by the federal government. The conditions described above could impact not only our contracts with the Department, but also other existing or future contracts with government or commercial entities.

Our ability to continue to grow and maintain our contracts with commercial businesses and government agencies is partly dependent on our ability to maintain compliance with various laws, regulations, and industry standards applicable to those contracts.

We are subject to various laws, regulations, and industry standards related to our commercial and government contracts. In most cases, these contracts are subject to termination rights, audits, and investigations. The laws and regulations that impact our operating segments are outlined in Part I, Item 1, "Regulation and Supervision." Additionally, our contracts with the federal government require that we maintain internal controls in accordance with the National Institute of Standards and Technologies (“NIST”) and our operating segments that utilize payment cards are subject to the Payment Card Industry Data Security Standards (“PCI-DSS”). If we are found to be in noncompliance with the contract provisions or applicable laws, regulations, or standards, or the contracted party exercises its termination or other rights for that or other reasons, our reputation could be negatively affected, and our ability to compete for new contracts or maintain existing contracts could diminish. If this were to occur, our results of operations from existing contracts and future opportunities for new contracts could be negatively affected.

Our failure to successfully manage business and certain asset acquisitions and other investments could have a material adverse effect on our business, financial condition, and/or results of operations.

The success of our acquisition of ALLO in December 2015 and continued investment in the communications business depends in large part on the ability of ALLO to successfully develop and expand fiber networks in existing service areas and additional communities within acceptable cost parameters, gain market share in communities in existing service areas, and obtain acceptable market share levels in additional communities that we do not yet serve. ALLO may not be able to achieve those objectives and we may not realize the expected benefits from ALLO. In addition, the expected benefits are subject to risks related to the uncertain nature of our ability to successfully integrate operations; the ability to successfully maintain technological competitive advantages with respect to the offered telecommunications, internet, television, telephone, and other related services and minimize potential system disruptions to the availability, speed, and quality of such services; potential changes in the marketplace, including potential decreases in market pricing for telecommunications and related services; potential changes in the demand for fiber optic internet, television, and telephone services; and increases in transport and content costs as discussed below.

We acquired Great Lakes on February 7, 2018. The success of our acquisition of Great Lakes depends on our ability to successfully integrate technology, shared services, and other operating activities and successfully maintain and increase allocated volumes of student loans serviced by Great Lakes and Nelnet Servicing under existing and any future servicing contracts with the Department. Great Lakes and Nelnet Servicing have also been working for over two years to develop a new, state-of-the-art servicing system for government-owned student loans. The servicing platform under development will utilize modern technology to effectively scale for additional volume, protect customer information, and support enhanced borrower experience initiatives. The expected benefits from the servicing platform under development may not be realized.

We may acquire other new businesses, products, and services, or enhance existing businesses, products, and services, or make other investments to further diversify our businesses both within and outside of our historical education-related businesses, through acquisitions of other companies, product lines, technologies, and personnel, or through investments in new asset classes, real estate, or other companies. Any acquisition or investment is subject to a number of risks. Such risks may include diversion of management time and resources, disruption of our ongoing businesses, difficulties in integrating acquisitions, loss of key employees, degradation of services, difficulty expanding information technology systems and other business processes to incorporate the acquired businesses, extensive regulatory requirements, dilution to existing shareholders if our common stock is issued in consideration for an acquisition or investment, incurring or assuming indebtedness or other liabilities in connection with an acquisition, unexpected declines in real estate values or the failure to realize expected benefits from real estate development projects, lack of familiarity with new markets, and difficulties in supporting new product lines. Our failure to successfully manage acquisitions or investments, or successfully integrate acquisitions, could have a material adverse effect on our business, financial condition, and/or results of operations. Correspondingly, our expectations as to the accretive nature of the acquisitions or investments could be inaccurate.

Transport and content costs related to ALLO's video products and services are substantial and continue to increase.

The cost of video transport and content costs is expected to continue to be one of ALLO's largest operating costs associated with providing television service. Television programming content includes cable-oriented programming, as well as the programming of local over-the-air television stations that ALLO retransmits. In addition, on-demand programming is being made available in response to customer demand. In recent years, the cable industry has experienced rapid increases in the cost of programming, especially the costs for sports programming and for local broadcast station retransmission consent. Programming costs are generally assessed on a per-subscriber basis, and therefore are related directly to the number of subscribers to which the programming is provided. ALLO's relatively small base of subscribers limits our ability to negotiate lower per-subscriber programming costs, whereas larger providers can often obtain discounts based on the number of their subscribers. This cost difference can cause ALLO to experience reduced operating margins relative to our competitors with a larger subscriber base. In addition, escalators in existing content agreements cause cost increases that are greater than general inflation. While ALLO expects these increases to continue, it may not be able to pass programming cost increases on to customers, particularly as an increasing amount of programming content becomes available via the internet at little or no cost. Also, some competitors (or their affiliates) own programming in their own right and ALLO may be unable to secure license rights to that programming. As ALLO's programming contracts with content providers expire, there can be no assurance that they will be renewed on acceptable terms or at all, in which case ALLO may be unable to provide such television programming, causing business results to be adversely affected.

If ALLO cannot obtain and maintain necessary rights-of-way for its communications network, ALLO's operations may be interrupted and it would likely face increased costs.

ALLO is dependent on easements, franchises, and licenses from various private parties such as established telephone companies and other utilities, railroads, long-distance companies and from state highway authorities, local governments and transit authorities for access to aerial pole space, underground conduits, and other rights-of-way in order to construct and operate its networks. Some agreements relating to rights-of-way may be short-term or revocable at will, and ALLO cannot be certain that it will continue to have access to existing rights-of-way after the governing agreements are terminated or expire. If any of ALLO's right-of-way agreements were terminated or could not be renewed, it may be forced to remove network facilities from the affected areas, relocate, or abandon networks, which would interrupt operations and force ALLO to find alternative rights-of-way, and make unexpected capital expenditures.

If ALLO cannot successfully manage construction risks and uncertainties, the expansion of its communications networks may not be achieved within acceptable cost parameters or result in desired levels of market share.

The success of our investment in ALLO depends on the ability of ALLO to successfully execute its current efforts and plans to construct expanded fiber communications networks to make its services available to additional homes and businesses. The construction of communications networks is subject to various risks and uncertainties, including risks and uncertainties related to the determination of the precise locations of easements and other rights-of-way necessary to construct and operate the networks, and the management of such construction in a manner that reasonably minimizes the disruption to other private property owners, including minimizing any unintended damage to property or equipment owned or utilized by private parties. If ALLO is not successful in managing these and similar construction risks, it could experience higher than expected costs and reputational damage that adversely impacts market share and future revenues, and the currently expected benefits from its expansion efforts and plans may not be realized.

ALLO may incur liabilities or suffer negative financial impact relating to occupational, health, and safety matters or failure to comply with safety or environmental laws.

Aerial and underground construction of new networks and service requires employees and contractors to work in the proximity of gas, electric, water, sewer, and other competitors' utility services, and ALLO's operations are subject to extensive laws and regulations relating to the maintenance of safe conditions in the workplace. While ALLO has invested, and will continue to invest, substantial resources in its robust occupational, health, and safety programs, ALLO's business involves a high degree of operational risk, and there can be no assurance that it will avoid significant exposure. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment, and other consequential damages and could lead to suspension of operations, large damage claims and, in extreme cases, criminal liability. ALLO could also be subject to potential liabilities in the event it causes a release of hazardous substances or other environmental damage resulting from underground objects it encounters. Environmental laws and regulations can impose significant fines and criminal sanctions for violations. Costs associated with the discharge of hazardous substances may include clean-up costs and related damages or liabilities. These costs could be significant and could adversely affect ALLO's results of operations and cash flows.

Industry changes and competitive pressures may harm revenues and profit margins, including future revenues and profit margins of our communications business through ALLO.

We face aggressive price competition for our products and services and, as a result, we may have to lower our product and service prices to stay competitive, while at the same time, expand market share and maintain profit margins. Even if we are able to maintain or increase market share for a product or service, revenue or profit margins could decline because the product or service is in a maturing market or market conditions have changed due to economic, political, or regulatory pressures.

The internet, television, and telecommunications businesses are highly competitive. For a discussion of the competitive factors faced by ALLO, see Part I, Item I, "Communications - Competition." ALLO may not be able to successfully anticipate and respond to many of these various competitive factors affecting the industry, including regulatory changes that may affect competitors and ALLO differently, new technologies, services and applications that may be introduced, and changes in consumer preferences, demographic trends, and discount or bundled pricing strategies by competitors which are larger and have more resources than ALLO. If ALLO does not compete effectively, it could lose customers, revenue, and market share; customers may reduce their usage of ALLO's services or switch to a less profitable service; and ALLO may need to lower prices or increase marketing efforts to remain competitive.

Our enterprise risk management framework may not be effective in mitigating all risks.

Our enterprise risk management framework includes policies, processes, personnel, and control systems to identify, measure, monitor, control, and report risks. This framework is designed to mitigate and appropriately balance risk exposure with the company’s strategic objectives and desired returns. However, there may be risks that exist, or that develop in the future, that we have not anticipated, identified, or mitigated. If our enterprise risk management framework does not effectively identify and manage these risks, we could suffer unexpected losses, and our results of operations, cash flow, or financial condition could be materially adversely affected.

Regulatory and Legal

Federal and state laws and regulations can restrict our businesses and result in increased compliance expenses, and noncompliance with these laws and regulations could result in penalties, litigation, reputation damage, and a loss of customers.

Our operating segments and customers are heavily regulated by federal and state government regulatory agencies. See Part I, Item 1, "Regulation and Supervision." The laws and regulations enforced by these agencies are proposed or enacted to protect consumers and the financial industry as a whole, not necessarily the Company, our operating segments, or our shareholders. We have procedures and controls in place to monitor compliance with numerous federal and state laws and regulations. However, because these laws and regulations are complex, differ between jurisdictions, and are often subject to interpretation, or as a result of unintended errors, we may, from time to time, inadvertently violate these laws and regulations. Compliance with these laws and regulations is expensive and requires the time and attention of management. These costs divert capital and focus away from efforts intended to grow our business. If we do not successfully comply with laws, regulations, or policies, we could incur fines or penalties, lose existing or new customer contracts or other business, and suffer damage to our reputation. Changes in these laws and regulations can significantly alter our business environment, limit business operations, and increase costs of doing business, and we cannot predict the impact such changes would have on our profitability.

The CFPB has the authority to supervise and examine large nonbank student loan servicers, including us. If in the course of such an examination the CFPB were to determine that we were not in compliance with applicable laws, regulations, and CFPB guidance, it is possible that this could result in material adverse consequences, including, without limitation, settlements, fines, penalties, public enforcement action, adverse regulatory actions, changes in our business practices, or other actions. In 2015, the CFPB conducted a public inquiry into student loan servicing practices and issued a report recommending the creation of consistent, industry-wide standards for the entire servicing market. The CFPB has also announced that it may issue student loan servicing rules in the future.

There is significant uncertainty regarding how the CFPB's recommendations, strategies, and priorities will impact our businesses and our results of operations going forward. Actions by the CFPB could result in requirements to alter our services, causing them to be less attractive or effective and impair our ability to offer them profitably. In the event that the CFPB changes regulations adopted in the past by other regulators, or modifies past regulatory guidance, our compliance costs and litigation exposure could increase.

As a result of the Reconciliation Act of 2010, interest income on our existing FFELP loan portfolio, as well as revenue from FFELP servicing and FFELP loan servicing software licensing and consulting fees, will continue to decline over time as our and our third-party lender clients' FFELP loan portfolios are paid down and FFELP clients exit the market.

The Reconciliation Act of 2010 discontinued new loan originations under the FFEL Program effective July 1, 2010, and requires that all new federal loan originations be made through the Federal Direct Loan Program. Although the law did not alter or affect the terms and conditions of existing FFELP loans, interest income and revenue streams related to existing FFELP loans will continue to decline over time as existing FFELP loans are paid down, refinanced, or repaid by guaranty agencies after default.

During the years ended December 31, 2018, 2017, and 2016, we recognized approximately $230 million, $290 million, and $360 million, respectively, of net interest income on our FFELP loan portfolio, approximately $32 million, $16 million, and $26 million, respectively, in guaranty and third-party FFELP servicing revenue, and approximately $5 million, $5 million, and $6 million, respectively, in FFELP loan servicing software licensing and consulting fees related to the FFEL Program. The 2018 increase in FFELP servicing revenue was due to the acquisition of Great Lakes, and these amounts will otherwise continue to decline over time as our and our third-party lender clients' FFELP loan portfolios are paid down and FFELP clients exit the market.

If we are unable to grow or develop new revenue streams, our consolidated revenue and operating margin will decrease as a result of the decline in FFELP loan volume outstanding.

Exposure related to certain tax issues could decrease our net income.

Federal and state income tax laws and regulations are often complex and require interpretation. From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. We prepare and file tax returns based on the interpretation of tax laws and regulations. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In accordance with authoritative accounting guidance, we establish reserves for tax contingencies related to deductions and credits that we may be unable to sustain. Differences between the reserves for tax contingencies and the amounts ultimately owed are recorded in the period they become known. Adjustments to our reserves could have a material effect on our financial statements.

We may also be impacted by changes in tax laws, including tax rate changes, new tax laws, and subsequent interpretations of tax laws by federal and state tax authorities.

In addition to corporate tax matters, as both a lender and servicer of student loans, we are required to report student loan interest received and cancellation of indebtedness to individuals and the Internal Revenue Service on an annual basis. These informational forms assist individuals in complying with their federal and state income tax obligations. The statutory and regulatory guidance regarding the calculations, recipients, and timing are complex and we know that interpretations of these rules vary across the industry. The complexity and volume associated with these informational forms creates a risk of error which could result in penalties or damage to our reputation.

Principal Shareholder and Related Party Transactions

Our Executive Chairman beneficially owns 77.1 percent of the voting rights of our shareholders and effectively has control over all matters at our Company.

Michael S. Dunlap, our Executive Chairman and a principal shareholder, beneficially owns 77.1 percent of the voting rights of our shareholders. Accordingly, each member of the Board of Directors and each member of management has been elected or effectively appointed by Mr. Dunlap and can be removed by Mr. Dunlap. As a result, Mr. Dunlap, as Executive Chairman and controlling shareholder, has control over all matters at our Company and has the ability to take actions that benefit him, but may not benefit other minority shareholders, and may otherwise exercise his control in a manner with which other minority shareholders may not agree or which they may not consider to be in their best interests.

Our contractual arrangements and transactions with Union Bank and Trust Company ("Union Bank"), which is under common control with us, present conflicts of interest and pose risks to our shareholders that the terms may not be as favorable to us as we could receive from unrelated third parties.

Union Bank is controlled by Farmers & Merchants Investment Inc. ("F&M"), which owns 81.4 percent of Union Bank's common stock and 15.4 percent of Union Bank's non-voting non-convertible preferred stock. Mr. Dunlap, a significant shareholder, as well as Executive Chairman, and a member of our Board of Directors, along with his spouse and children, owns or controls a total of 33.0 percent of the stock of F&M, including a total of 48.6 percent of the outstanding voting common stock of F&M, and Mr. Dunlap's sister, Angela L. Muhleisen, along with her spouse and children, owns or controls a total of 31.7 percent of F&M stock, including a total of 47.5 percent of the outstanding voting common stock of F&M. Mr. Dunlap serves as a Director and Chairman of F&M. Ms. Muhleisen serves as a Director and Chief Executive Officer of F&M and as a

Director, Chairperson, President, and Chief Executive Officer of Union Bank. Union Bank is deemed to have beneficial ownership of a significant number of shares of Nelnet because it serves in a capacity of trustee or account manager for various trusts and accounts holding shares of Nelnet, and may share voting and/or investment power with respect to such shares. As of December 31, 2018, Union Bank was deemed to beneficially own 10.9 percent of the voting rights of our outstanding common stock. As of December 31, 2018, Mr. Dunlap and Ms. Muhleisen beneficially owned 77.1 percent and 12.0 percent, respectively, of the voting rights of our outstanding common stock (with certain shares deemed under applicable SEC rules to be beneficially owned by both Mr. Dunlap and Ms. Muhleisen).

We have entered into certain contractual arrangements with Union Bank, including loan purchases, loan servicing, loan participations, banking services, 529 Plan administration services, lease arrangements, trustee services, and various other investment and advisory services. The net aggregate impact on our consolidated statements of income for the years ended December 31, 2018, 2017, and 2016 related to the transactions with Union Bank was income (before income taxes) of $9.2 million, $12.5 million, and $7.0 million, respectively. See note 19 of the notes to consolidated financial statements included in this report for additional information related to the transactions between us and Union Bank.

Transactions between Union Bank and us are generally based on available market information for comparable assets, products, and services and are extensively negotiated. In addition, all related party transactions between Union Bank and us are approved by both the Union Bank Board of Directors and our Board of Directors. Furthermore, Union Bank is subject to regulatory oversight and review by the FDIC, the Federal Reserve, and the State of Nebraska Department of Banking and Finance. The FDIC and the State of Nebraska Department of Banking and Finance regularly review Union Bank's transactions with affiliates. The regulatory standard applied to the bank falls under Regulation W, which places restrictions on certain “covered” transactions with affiliates.

We intend to maintain our relationship with Union Bank, which our management believes provides certain benefits to us. Those benefits include Union Bank's knowledge of and experience in the FFELP industry, its willingness to provide services, and at times liquidity and capital resources, on an expedient basis, and the proximity of Union Bank to our corporate headquarters located in Lincoln, Nebraska.

The majority of the transactions and arrangements with Union Bank are not offered to unrelated third parties or subject to competitive bids. Accordingly, these transactions and arrangements not only present conflicts of interest, but also pose the risk to our shareholders that the terms of such transactions and arrangements may not be as favorable to us as we could receive from unrelated third parties. Moreover, we may have and/or may enter into contracts and business transactions with related parties that benefit Mr. Dunlap and his sister, as well as other related parties, that may not benefit us and/or our minority shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved comments from the staff of the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The following table lists the principal facilities for office space owned or leased by the Company as of December 31, 2018. The Company owns the building in Lincoln, Nebraska where its principal office is located.

Location	Primary function or segment	Approximate square feet	Lease expiration date
Lincoln, NE	Corporate Headquarters, Loan Servicing and Systems, Education Technology, Services, and Payment Processing, Communications	308,000 (a)	—
Madison, WI	Loan Servicing and Systems	182,000	—
Highlands Ranch and Aurora, CO	Loan Servicing and Systems	104,000	January 2020 and October 2020
Lincoln, NE	Loan Servicing and Systems, Asset Generation and Management, Education Technology, Services, and Payment Processing, Communications	78,000	Month-to-month, June 2023, November 2023, and April 2024
Omaha, NE	Loan Servicing and Systems, Education Technology, Services, and Payment Processing	58,000	December 2020 and December 2025
Aberdeen, SD	Loan Servicing and Systems	57,000	—
Eau Claire, WI	Loan Servicing and Systems	43,000	—
Eagan, MN	Loan Servicing and Systems	38,000	January 2024
Plano, TX	Loan Servicing and Systems	27,000	March 2025
Stevens Point, WI	Loan Servicing and Systems	24,000	November 2023
Burleson, TX	Education Technology, Services, and Payment Processing	17,000	October 2022
Boscobel, WI	Loan Servicing and Systems	16,000	December 2019
Scottsbluff, NE	Communications	15,000	April 2019
Rocky Hill, CT	Loan Servicing and Systems	13,000	July 2021
Hastings, NE	Communications	12,000	September 2020 and March 2025
North Platte, NE	Communications	11,000	August 2026
Boise, ID	Loan Servicing and Systems	7,000	July 2021
Alliance, NE	Communications	6,000	May 2022
Imperial, NE	Communications	6,000	—
Fort Morgan, CO	Communications	5,000	March 2023

(a) Excludes a total of approximately 22,000 square feet of owned office space that the Company leases to third parties.

ALLO's physical assets consist of network plant and fiber, including signal receiving, encoding and decoding devices, headend reception facilities, distribution systems, and customer-located property. The network plant and fiber assets are generally attached to utility poles under pole rental agreements with local public utilities and telephone companies, or are buried in underground ducts or trenches, generally in utility easements. ALLO owns or leases real property for signal reception sites, and owns its own vehicles. ALLO's headend reception facilities and most offices are located on leased property. Additionally, ALLO leases office and warehouse facilities in most communities where it operates.

The Company leases other office facilities located throughout the United States. These properties are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located. The Company believes that its respective properties are generally suitable and adequate to meet its long term business goals. The Company's principal office is located at 121 South 13 th Street, Suite 100, Lincoln, Nebraska 68508.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters frequently involve claims by student loan borrowers disputing the manner in which their student loans have been serviced or the accuracy of reports to credit bureaus, claims by student loan borrowers or other consumers alleging that state or Federal consumer protection laws have been violated in the process of collecting loans or conducting other business activities, and disputes with other business entities. In addition, from time to time the Company receives information and document requests from state or federal regulators concerning its business practices. The Company cooperates with these inquiries and responds to the requests. While the Company cannot predict the ultimate outcome of any regulatory examination, inquiry, or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department thereunder, and the Department's guidance regarding those rules and regulations. On the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company's management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company's business, financial position, or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

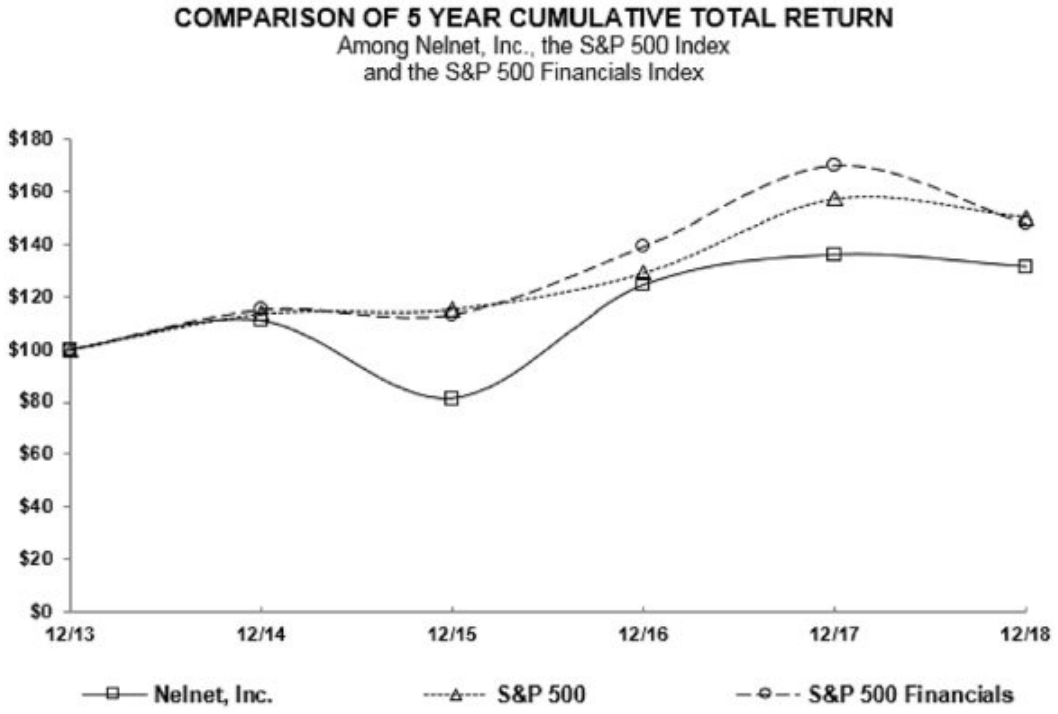
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Class A common stock is listed and traded on the New York Stock Exchange under the symbol “NNI,” while its Class B common stock is not publicly traded. The number of holders of record of the Company's Class A common stock and Class B common stock as of January 31, 2019 was 1,031 and 54, respectively. The record holders of the Class B common stock are Michael S. Dunlap and the estate of Stephen F. Butterfield, an entity controlled by Mr. Dunlap and the estate of Mr. Butterfield, various members of their families, and various estate planning trusts established by them. Because many shares of the Company's Class A common stock are held by brokers and other institutions on behalf of shareholders, the Company is unable to estimate the total number of beneficial owners represented by these record holders.

The Company paid quarterly cash dividends on its Class A and Class B common stock during the years ended December 31, 2017 and 2018 in amounts totaling $0.58 per share and $0.66 per share, respectively. The Company currently plans to continue making comparable regular quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors.

Performance Graph

The following graph compares the change in the cumulative total shareholder return on the Company's Class A common stock to that of the cumulative return of the S&P 500 Index and the S&P 500 Financials Index. The graph assumes that the value of an investment in the Company's Class A common stock and each index was $100 on December 31, 2013 and that all dividends, if applicable, were reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.



Company/Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Nelnet, Inc.	$ 100.00	$ 111.01	$ 81.31	$ 124.49	$ 136.04	$ 131.48
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P 500 Financials	100.00	115.20	113.44	139.31	170.21	148.03

The preceding information under the caption “Performance Graph” shall be deemed to be “furnished” but not “filed” with the Securities and Exchange Commission.

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the fourth 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. Certain share repurchases included in the table below were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Maximum number of shares that may yet be purchased under the plans or programs (b)
October 1 - October 31, 2018	78,464	$ 55.27	78,290	2,774,065
November 1 - November 30, 2018	164,413	53.63	164,413	2,609,652
December 1 - December 31, 2018	306,179	51.14	304,400	2,305,252
Total	549,056	$ 52.48	547,103	

(a) The total number of shares includes: (i) shares repurchased pursuant to the stock repurchase program discussed in footnote (b) below; and (ii) shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares. Shares of Class A common stock tendered by employees to satisfy tax withholding obligations included 174 shares, 0 shares, and 1,779 shares in October, November, and December, respectively. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations 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.

Equity Compensation Plans

For information regarding the securities authorized for issuance under the Company's equity compensation plans, see Part III, Item 12 of this report.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The following selected financial data should be read in conjunction with the consolidated financial statements, the related notes, and the MD&A included in this report.

	Year ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except share data)				
Operating Data:					
Net interest income	$ 254,360	305,238	372,563	431,899	436,563
Loan servicing and systems revenue	440,027	223,000	214,846	239,858	240,414
Education technology, services, and payment processing revenue (a)	221,962	193,188	175,682	120,365	98,156
Communications revenue	44,653	25,700	17,659	—	—
Other income	54,446	52,826	58,255	98,335	136,885
Net income attributable to Nelnet, Inc.	227,913	173,166	256,751	267,979	307,610
Earnings per common share attributable to Nelnet, Inc. shareholders - basic and diluted:	5.57	4.14	6.02	5.89	6.62
Dividends per common share	0.66	0.58	0.50	0.42	0.40
Other Data:					
Fixed rate floor income, net of derivative settlements	$ 121,712	117,272	152,336	184,746	179,870
Core loan spread (b)	1.32 %	1.23 %	1.28 %	1.43 %	1.48 %
Acquisition of loans (par value)	$ 3,897,007	330,251	356,110	4,036,333	6,099,249
Loans serviced (at end of period)	464,615,053	211,413,959	194,821,646	176,436,497	161,642,254

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except share data)				
Balance Sheet Data:					
Cash and cash equivalents	$ 121,347	66,752	69,654	63,529	130,481
Loans receivable, net	22,377,142	21,814,507	24,903,724	28,324,552	28,005,195
Goodwill and intangible assets, net	271,202	177,186	195,125	197,062	168,782
Total assets	25,220,968	23,964,435	27,193,095	30,419,144	30,027,739
Bonds and notes payable	22,218,740	21,356,573	24,668,490	28,105,921	27,956,946
Nelnet, Inc. shareholders' equity	2,304,464	2,149,529	2,061,655	1,884,432	1,725,448
Tangible Nelnet, Inc. shareholders' equity (c)	2,033,262	1,972,343	1,866,530	1,687,370	1,556,666
Outstanding common shares	40,258,105	40,810,104	42,105,044	43,953,460	46,243,316
Book value per common share	57.24	52.67	48.96	42.87	37.31
Tangible book value per common share (c)	50.51	48.33	44.33	38.39	33.66
Ratios:					
Shareholders' equity to total assets	9.14 %	8.97 %	7.58 %	6.19 %	5.75 %

(a) Amounts for 2017 and 2016 have been recasted to reflect the Revenue from Contracts with Customers guidance adopted as of January 1, 2018. See note 2, Summary of Significant Accounting Policies and Practices, of the notes to consolidated financial statements included in this report for additional information. The 2015 and 2014 amounts are not recasted for this guidance and are not comparative.

(b) Core loan spread, a non-GAAP measure, is computed as set forth in the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis." Management believes core loan spread is a useful supplemental non-GAAP measure that reflects adjustments for derivative settlements related to net interest income (loan spread). However, there is no comprehensive authoritative guidance for the presentation of this measure, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

(c) Tangible Nelnet, Inc. shareholders' equity, a non-GAAP measure, equals "Nelnet, Inc. shareholders' equity" less "Goodwill and intangible assets, net." Management believes tangible shareholders' equity and the corresponding tangible book value per common share are useful supplemental non-GAAP measures to evaluate the strength of the Company's capital position and facilitate comparisons with other companies in the financial services industry. However, there is no comprehensive authoritative guidance for the presentation of these measures, and similarly titled measures may be calculated differently by other companies.

ITEM 7. 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 years ended December 31, 2018, 2017, and 2016. All dollars are in thousands, except share data, 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 and analysis should be read in conjunction with the Company's consolidated financial statements and related notes included in this report. This discussion and analysis contains forward-looking statements and should be read in conjunction with the disclosures and information contained in "Forward-Looking and Cautionary Statements" and Item 1A "Risk Factors" included in this report.

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 early-stage and emerging growth companies.

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

The Company prepares its financial statements and presents its financial results in accordance with 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.

	Year ended December 31,		
	2018	2017	2016
GAAP net income attributable to Nelnet, Inc.	$ 227,913	173,166	256,751
Realized and unrealized derivative market value adjustments	(1,014)	(26,379)	(59,895)
Unrealized foreign currency transaction adjustments	—	45,600	(11,849)
Net tax effect (a)	243	(7,304)	27,263
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	$ 227,142	185,083	212,270
Earnings per share:			
GAAP net income attributable to Nelnet, Inc.	$ 5.57	4.14	6.02
Realized and unrealized derivative market value adjustments	(0.02)	(0.63)	(1.40)
Unrealized foreign currency transaction adjustments	—	1.09	(0.28)
Net tax effect (a)	—	(0.17)	0.63
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	$ 5.55	4.43	4.97

(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 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 in 2017 and 2016 for periodic fluctuations in currency exchange rates between the U.S. dollar and Euro in connection with its student loan asset-backed bonds that were previously denominated in Euros 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 three-month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, foreign currency transaction adjustments will not be incurred with respect to those bonds after October 25, 2017.

GAAP net income increased for the year ended December 31, 2018 compared to the same period in 2017 primarily due to the following factors:

- The contribution to ne t income from the acquisition of Great Lakes;
- The inc rease in core spread on the Company's loan portfolio;
- The decrease in the Compan y's effective tax rate due to the Tax Cuts and Jobs Act, effective January 1, 2018;
- Gains recognized from investment activities, primarily attributable to one equity security for which there was an observable price increase in 2018, resulting in an upward adjustment in the investment's carrying value; and
- 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.

These factors were partially offset by the following items:

- The incr ease 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 FFELP loan portfolio;
- The increase in the provision for loan losses related to the Company's portfolio of consumer loans;
- The impair ment of software development costs at NDS and NBS related to its servicing software and its payment processing platform, respectively;
- A decrease in performance fees earned from the Company's SEC-registered investment advisor subsidiary;
- The increase in interest expense due to a larger weighted average outstanding balance under the Company's unsecured line of credit in 2018 as compared to 2017; and
- The recognition of a larger net gain during 2017 as compared to 2018 due to changes in the fair values of derivative instruments that do not qualify for hedge accounting.

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 December 31, 2018, the Company had a $22.4 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.7 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, due to the continued amortization of the Company's FFELP loan portfolio, over time, 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 years ended December 31, 2018, 2017, and 2016 (dollars in millions). See "Results of Operations" for each reportable operating segment under this Item 7 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 (the "Act"), signed into law on December 22, 2017, and effective January 1, 2018, reduced the corporate statutory federal tax rate from 35 percent to 21 percent. The Company's effective tax rate in 2018 was 20.5 percent. During 2018, the Company obtained clarity regarding certain tax positions that resulted in a reduction to income tax expense. The Company currently anticipates its effective tax rate will range between 23 to 24 percent in future periods.

Loan Servicing and Systems

- On February 7, 2018, the Company paid $150.0 million in cash to acquire Great Lakes. The operating results of Great Lakes are reported in the Company's consolidated financial statements from the date of acquisition.

  Nelnet Servicing and Great Lakes are two companies that have student loan servicing contracts awarded by the Department to provide servicing for loans owned by the Department. In addition to servicing loans for the Department, Great Lakes serviced FFELP and private education loans.

From the date of acquisition and going forward, Great Lakes and Nelnet Servicing have continued, and 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 continues to compete for new student loan volume under its respective existing contract with the Department. The Company has integrated, and will continue to integrate, technology as well as shared services and other activities to become more efficient and effective in meeting borrower needs. During 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet Servicing's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.

As of December 31, 2018, Nelnet Servicing was servicing $179.5 billion of student loans for 5.8 million borrowers under its contract with the Department, 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.

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. On August 24, August 27, and September 24, 2018, FSA made announcements that included canceling certain components of the NextGen process and issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled.

On January 15, 2019, FSA released an amendment canceling all components of NextGen except the Enterprise-Wide Digital and Customer Care Platforms and Services component and issued new solicitations for three new NextGen components:

- NextGen Enhanced Processing Solution
- NextGen Business Process Operations
- NextGen Optimal Processing Solution

On February 20, 2019, FSA awarded the Enterprise-Wide Digital and Customer Care Platforms and Services component to Accenture Federal Services. The Company is part of teams that currently intend to respond to the solicitations for each of the three ongoing NextGen components. The Company cannot predict the timing, nature, or outcome of these solicitations.

- The Company will incur additional cost s in 2019 to integrate two core processing systems for government-owned loans, be responsive to the Department's procurement, and develop new private education and consumer loan origination and servicing systems, a multi-year project, which the Company currently expects will decrease operating margin from recent historical results.

Education Technology, Services, and Payment Processing

- In 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.

- Effective January 1, 2018 , the Company adopted the FASB's new revenue recognition standard 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 this 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 note 2 of the notes to consolidated financial statements included in this report.

- 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 recorded an impairment charge of $7.8 million (pre-tax) in 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.

- On November 7, 2018, the Company paid $27.0 million in cash to acquire Tuition Management Systems ("TMS"), a services company that offers tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the Company's customer base, further enhancing NBS' market share leading position with private faith-based K-12 schools and advancing to a market leading position in higher education.

Communications

- In 2018, ALLO increased its residential households served from 20,428 as of December 31, 2017 to 37,351 as of December 31, 2018 and increased revenue from $25.7 million in 2017 to $44.7 million in 2018. In 2018, ALLO also began to provide its services in Fort Morgan, Colorado, and Hastings, Nebraska, increasing households in its current markets to 152,840 from 137,500. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities.

- In 2018, ALLO 's capital expenditures were $87.5 million, and the Company currently anticipates total expenditures of approximately $50 million in 2019. ALLO began providing services in Lincoln, Nebraska in September 2016, as part of a multi-year project to pass substantially all commercial and residential properties in the community. The Company currently anticipates the Lincoln build-out will be substantially complete during the first quarter of 2019.

- The Company currently anticipates ALLO's operating results will be dilutive to the Company's consolidated earnings as it finishes its network build-out in Lincoln, Nebraska, and continues to build its network in other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.

Asset Generation and Management

- During 2018, the Company purchased $3.9 billion in loans. The vast majority of these loans are federally insured student loans.

- The Company's average balance of loans decreased to $ 22.6 billion in 2018, compared with $23.6 billion in 2017. Core loan spread increased to 1.32 percent in 2018, compared with 1.23 percent in 2017. Core loan spread, a non-GAAP measure, is computed as set forth in "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis" below. Management believes core loan spread is a useful supplemental non-GAAP measure that reflects adjustments for derivative settlements related to net interest income (loan spread). However, there is no comprehensive authoritative guidance for the presentation of this measure, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

  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 1.27 percent and 1.21 percent in 2018 and 2017, respectively.

  In 2018, the Company recognized $121.7 million in fixed rate floor income (which includes $64.9 million of settlement payments received on derivatives used to hedge student loans earning fixed rate floor income). Fixed rate floor income contributed 55 basis points of core loan spread in 2018.

Liquidity and Capital Resources

- As of De cember 31, 2018, the Company had cash and cash equivalents of $121.3 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 $53.0 million as of December 31, 2018.

- The Company has historically generated positive cash flow from operations. For the year ended December 31, 2018, the Company’s net cash provided by operating activities was $270.9 million.

- On June 22, 2018, the Company amended its unsecured line of credit to, among other things, extend the maturity date of the facility from December 12, 2021 to June 22, 2023. On December 14, 2018, the Company increased the aggregate amount it can borrow under this facility from $350.0 million to $382.5 million. As of December 31, 2018, the unsecured line of credit had $310.0 million outstanding and $72.5 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 December 31, 2018, the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately $2.1 billion, of which approximately $1.3 billion will be generated over the next five years.

- During 2018, the Company repurchased a total of 868,147 shares of Class A common stock for $45.3 million ($52.22 per share).

- During 2018, the Company paid quarterly cash dividends totaling $26.8 million ($0.66 per share).
- 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.

CONSOLIDATED RESULTS OF OPERATIONS

An analysis of the Company's operating results for the years ended December 31, 2018, 2017, and 2016 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 14 of the notes to consolidated financial statements included in 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.

	Year ended December 31,			
	2018	2017	2016	Additional information
Loan interest	$ 897,666	757,731	751,280	Year over year increases were due to increases in the gross yield earned on the loan portfolio, partially offset by decreases in the average balance of student loans and gross fixed rate floor income.
Investment interest	26,600	12,695	9,466	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations. Year over year increases were due to increases in interest-earning investments and interest rates.
Total interest income	924,266	770,426	760,746	
Interest expense	669,906	465,188	388,183	Year over year increases were due to increases in cost of funds, partially offset by decreases in the average balance of debt outstanding.
Net interest income	254,360	305,238	372,563	See table below for additional analysis.
Less provision for loan losses	23,000	14,450	13,500	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	231,360	290,788	359,063	
Other income:				
LSS revenue	440,027	223,000	214,846	See LSS operating segment - results of operations.
ETS&PP revenue	221,962	193,188	175,682	See ETS&PP operating segment - results of operations.
Communications revenue	44,653	25,700	17,659	See Communications operating segment - results of operations.
Other income	54,446	52,826	58,255	See table below for the components of "other income."
Gain from debt repurchases	359	2,902	7,981	Gains are from the Company repurchasing its own debt. See note 4 of the notes to consolidated financial statements included in this report for additional details on these debt repurchases.
Derivative settlements, net	70,071	667	(21,949)	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	1,014	(19,221)	71,744	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 caused by the re-measurement to U.S. dollars of the Company's bonds that prior to October 25, 2017 were denominated in Euros.
Total other income	832,532	479,062	524,218	
Cost of services:				
Cost to provide education technology, services, and payment processing services	59,566	48,678	44,316	Represents primarily direct costs to provide payment processing services in the ETS&PP operating segment.
Cost to provide communications services	16,926	9,950	6,866	Represents costs of services and products primarily associated with television programming costs in the Communications operating segment.
Total cost of services	76,492	58,628	51,182	

Operating expenses:				
Salaries and benefits	436,179	301,885	255,924	Year over year increases were due to (i) increases in contract programming related to the GreatNet joint venture (increase in 2017 as compared to 2016 only) and 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 in the LSS operating segment; (ii) increases in personnel to support the growth in revenue in the ETS&PP operating segment; and (iii) increases in personnel at ALLO to support the Lincoln, Nebraska network expansion. In addition, a significant part of the increase in 2018 was due to an increase in personnel as a result of the acquisition of Great Lakes on February 7, 2018. See each individual operating segment results of operations discussion for additional information.
Depreciation and amortization	86,896	39,541	33,933	Year over year increases were due to additional 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. In addition, a significant part of the increase in 2018 was due to the amortization of intangible assets related to the acquisition of Great Lakes on February 7, 2018.
Loan servicing fees to third parties	12,059	22,734	25,750	Third-party loan servicing fees decreased year over year due to runoff of the Company's 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	165,972	120,378	117,678	Other expenses includes expenses necessary for operations, such as postage and distribution, consulting and professional fees, occupancy, communications, and certain information technology-related costs. Year over year increases were due primarily to 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. In addition, a significant part of the increase in 2018 as compared to 2017 was due to the acquisition of Great Lakes on February 7, 2018. See each individual operating segment results of operations discussion for additional information.
Total operating expenses	701,106	484,538	433,285	
Income before income taxes	286,294	226,684	398,814	
Income tax expense	58,770	64,863	141,313	Effective tax rate: 2018 - 20.50%, 2017 - 27.25%, 2016 - 35.50%. The lower effective tax rate in 2018 as compared to 2017 was due to the Tax Cuts and Jobs Act effective January 1, 2018. In addition, the Company obtained clarity regarding certain tax positions that reduced the effective tax rate in 2018. The decrease in the effective tax rate in 2017 as compared to 2016 was due to the Company remeasuring its net deferred tax liabilities upon the date the Tax Cuts and Jobs Act was signed into law (December 22, 2017), resulting in a decrease to income tax expense of $19.3 million. The Company expects its future effective tax rate will range between 23 to 24 percent.
Net income	227,524	161,821	257,501	
Net loss (income) attributable to noncontrolling interests	389	11,345	(750)	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.	$ 227,913	173,166	256,751	
Additional information:				
Net income attributable to Nelnet, Inc.	$ 227,913	173,166	256,751	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 adjustments.
Derivative market value and foreign currency transaction adjustments, net	(1,014)	19,221	(71,744)	
Net tax effect	243	(7,304)	27,263	
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments	$ 227,142	185,083	212,270	

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 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 in 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.

	Year ended December 31,			
	2018	2017	2016	Additional information
Variable loan interest margin	$ 181,488	189,594	199,215	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	5,577	(9,390)	(3,391)	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	187,065	180,204	195,824	
Fixed rate floor income	56,811	106,434	169,979	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 7A, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk" for additional information.
Settlements on associated derivatives	64,901	10,838	(17,643)	Includes the net settlements received (paid) related to the Company's floor income interest rate swaps.
Fixed rate floor income, net of settlements on derivatives	121,712	117,272	152,336	
Investment interest	26,600	12,695	9,466	
Corporate debt interest expense	(10,539)	(3,485)	(6,097)	Includes interest expense on the Junior Subordinated Hybrid Securities and unsecured line of credit. Increase in 2018 as compared to 2017 was due to a larger weighted average outstanding balance under the Company's unsecured line of credit in 2018 as compared to 2017. Decrease in 2017 as compared to 2016 was due to (i) during the first quarter of 2017, the Company repurchased $29.7 million of its Hybrid Securities and (ii) the weighted average balance outstanding under the Company's unsecured line of credit was lower during 2017 as compared to 2016.
Non-portfolio related derivative settlements	(407)	(781)	(915)	Includes the net settlements received (paid) related to the Company's hybrid debt hedges.
Net interest income (net of settlements on derivatives)	$ 324,431	305,905	350,614	

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

	Year ended December 31,		
	2018	2017	2016
Borrower late fee income	$ 12,302	11,604	12,838
Gain on investments and notes receivable, net of losses (a)	9,579	939	4,549
Management fee revenue (b)	6,497	—	—
Investment advisory fees (c)	6,009	12,723	6,129
Peterson's revenue (d)	—	12,572	14,254
Enrollment services revenue (e)	—	—	4,326
Other	20,059	14,988	16,159
Other income	$ 54,446	52,826	58,255

(a) The Company accounts for 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 year ended December 31, 2018, the Company recorded upward adjustments of $7.2 million on venture capital investments, of which $6.9 million was attributable to a single investment.

(b) 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.

(c) The Company provides investment advisory services through WRCM under various arrangements and earns annual fees of 25 basis points on the majority of 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 December 31, 2018, the outstanding balance of investments subject to these arrangements was $935.7 million. The decrease in advisory fees in 2018 as compared to 2017 was the result of a decrease in performance fees earned.

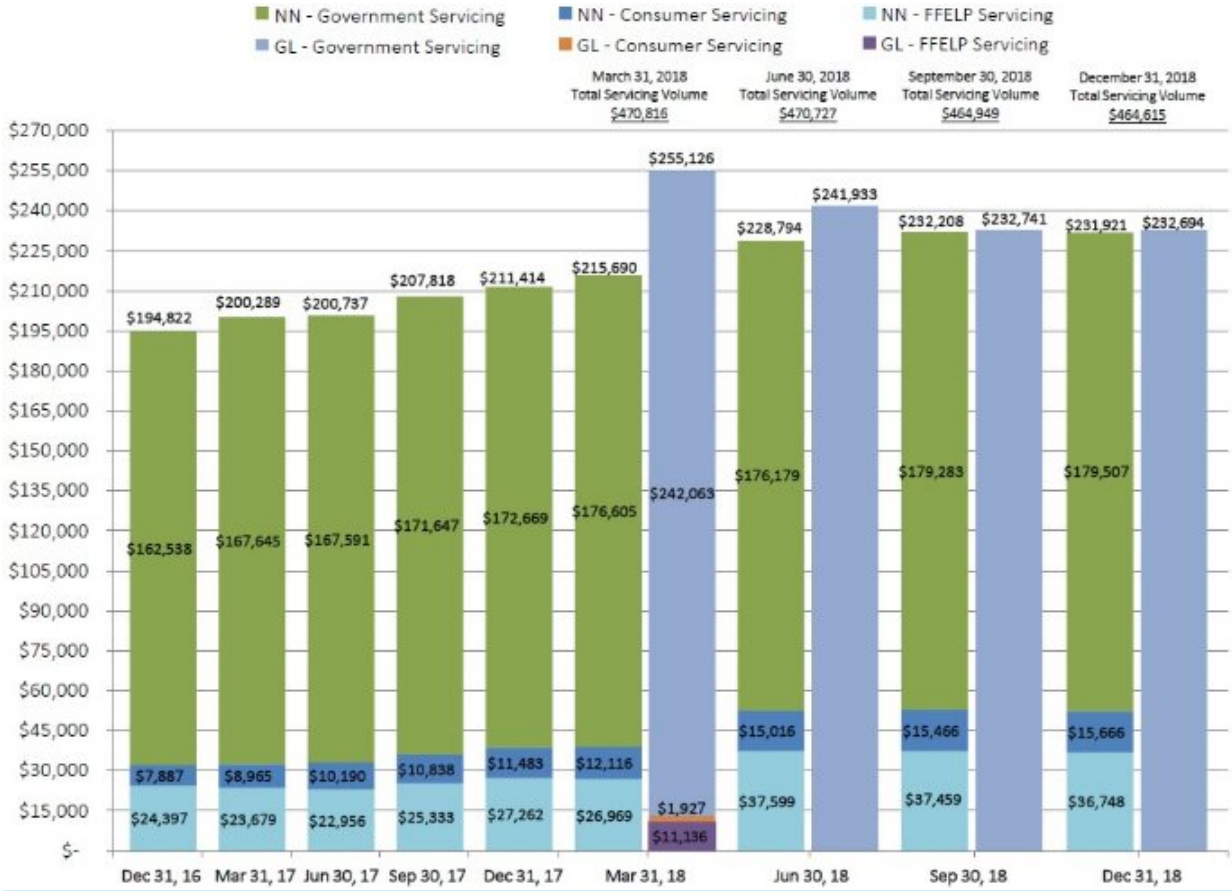
(d) On December 31, 2017, the Company sold Peterson's.

(e) On February 1, 2016, the Company sold Sparkroom, LLC. After this sale, the Company no longer earns enrollment services revenue.

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. As part of the acquisition, the Company acquired the remaining 50 percent ownership in GreatNet Solutions, LLC ("GreatNet"), a joint venture formed in 2017 between Nelnet Servicing and Great Lakes to respond to the initiative by the Department for the procurement of a contract for federal student loan servicing. 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.

Student Loan Servicing Volumes (dollars in millions)



Company owned	$16,962	$16,352	$15,789	$18,403	$17,827	$17,866	$19,113	$19,206	$19,123
% of total	8.7%	8.2%	7.9%	8.9%	8.4%	3.8%	4.1%	4.1%	4.1%
Number of servicing borrowers:									
Government servicing - Nelnet	5,972,619	5,924,099	5,849,283	5,906,404	5,877,414	5,819,286	5,745,181	5,805,307	5,771,923
Government servicing - Great Lakes	—	—	—	—	—	7,456,830	7,378,875	7,486,311	7,458,684
FFELP servicing - Nelnet	1,312,192	1,263,785	1,218,706	1,317,552	1,420,311	1,399,280	1,787,419	1,754,247	1,709,853
FFELP servicing - Great Lakes	—	—	—	—	—	461,553	—	—	—
Private education and consumer loan servicing - Nelnet	355,096	389,010	454,182	478,150	502,114	508,750	672,520	692,763	696,933
Private education and consumer loan servicing - Great Lakes	—	—	—	—	—	118,609	3,987	—	—
Total:	7,639,907	7,576,894	7,522,171	7,702,106	7,799,839	15,764,308	15,587,982	15,738,628	15,637,393
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	6,393,151

Summary and Comparison of Operating Results

	Year ended December 31,			
	2018	2017	2016	Additional information
Net interest income	$ 1,351	510	111	
Loan servicing and systems revenue	440,027	223,000	214,846	See table below for additional analysis.
Intersegment servicing revenue	47,082	41,674	45,381	Represents revenue earned by the LSS operating segment as a result of servicing loans for the AGM operating segment. Increase in 2018 compared to 2017 was a result of significant purchases of loans by AGM during 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. Decrease in 2017 compared to 2016 was due to AGM's portfolio run-off.
Other income	7,284	—	—	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	494,393	264,674	260,227	
Salaries and benefits	267,458	156,256	132,072	Increase in 2018 compared to 2017 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. Increase in 2017 compared to 2016 was due to contract programming related to GreatNet, 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	32,074	2,864	1,980	Amortization of intangible assets and depreciation of fixed assets recorded as a result of the Great Lakes acquisition on February 7, 2018 was $18.0 million and $2.6 million, respectively, in 2018. Increase in 2018 was also due to continued investment in servicing and related support systems. Increase in 2017 compared to 2016 was due to infrastructure spend for GreatNet.
Other expenses	67,336	39,126	40,715	Increase in 2018 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 2018 the Company recorded an impairment charge of $3.9 million related to certain external software development costs that were previously capitalized.
Intersegment expenses	59,042	31,871	24,204	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 in 2018 was due to the Great Lakes acquisition.
Total operating expenses	425,910	230,117	198,971	
Income before income taxes	69,834	35,067	61,367	
Income tax expense	(16,954)	(18,128)	(23,319)	Reflects income tax expense at an effective tax rate of 24% in 2018 and 38% in 2017 and 2016, 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 effective January 1, 2018.
Net income	52,880	16,939	38,048	
Net loss attributable to noncontrolling interest	808	12,640	—	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.	$ 53,688	29,579	38,048	
Before tax and noncontrolling interest operating margin	14.3 %	18.0 %	23.6 %	Excluding the amortization of intangibles recorded as a result of the Great Lakes acquisition on February 7, 2018, and the impairment of external software development costs recognized in 2018, as discussed above, before tax and noncontrolling interest operating margin was 18.7% in 2018. The Company will incur additional costs in 2019 to integrate two core processing systems for the government-owned loans, be responsive to the Department's procurement, and develop new private education and consumer loan origination and servicing systems, a multi-year project, which the Company currently expects will decrease operating margin from recent historical results.

Loan servicing and systems revenue

	Year ended December 31,			
	2018	2017	2016	Additional information
Government servicing - Nelnet	$ 157,091	155,829	151,728	Represents revenue from Nelnet Servicing's Department servicing contract. Increase in 2018 compared to 2017 was due to a shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses, partially offset by a decrease in the number of servicing borrowers. Increase in 2017 compared to 2016 was due to an increase in application volume for the TPD program, which the Company exclusively administers for the Department, the transfer of borrowers from a NFP servicer who exited the loan servicing business in August 2016, and the shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses.
Government servicing - Great Lakes	168,298	—	—	Represents revenue from the Great Lakes' Department servicing contract from the date of acquisition, February 7, 2018.
FFELP servicing	31,542	15,542	15,948	Increase in 2018 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	41,474	28,060	15,600	Increase in 2018 compared to 2017 was due to growth in loan servicing volume from existing and new clients, along with the Great Lakes acquisition. Increase in 2017 compared to 2016 was due to growth in private loan servicing volume from existing and new clients.
FFELP guaranty collection and servicing	—	—	9,560	The Company's one remaining guaranty servicing and collection client exited the FFELP guaranty business at the end of their contract term on June 30, 2016.
Software services	32,929	17,782	18,132	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 an unrelated third-party FFELP guaranty agency. Increase in 2018 was due to an increase in hosted student loan servicing volume and providing the new hosted guaranty servicing.
Outsourced services and other	8,693	5,787	3,878	The majority of this revenue relates to providing contact center outsourcing activities.
Loan servicing and systems revenue	$ 440,027	223,000	214,846	

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. Tuition management revenue is recognized over the course of the academic term, but the peak operational activities take place in summer and early fall. Higher amounts of revenue are typically recognized during the first quarter due to fees related to grant and aid applications 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. 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

	Year ended December 31,			
	2018	2017	2016	Additional information
Net interest income	$ 4,444	17	9	Increase was due to additional interest earnings on cash deposits due to an increase of interest rates in 2018.
Education technology, services, and payment processing revenue	221,962	193,188	175,682	See table below for additional information.
Cost to provide education technology, services, and payment processing services	59,566	48,678	44,316	Costs primarily relate to payment processing revenue. Increase was due to an increase in payments volume.
Salaries and benefits	81,080	69,500	62,329	Year over year increases were 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	13,484	9,424	10,595	Amortization of intangible assets related to business acquisitions for 2018, 2017, and 2016 was $11.4 million, $8.5 million, and $9.2 million, respectively. Increase in 2018 as compared to 2017 was also due to continued investment in payment and related support systems.
Other expenses	28,137	17,897	17,122	Year over year increases were due to additional costs to support the increase in payment plans and campus commerce activity and continued investments in and enhancements of existing payment plan and campus commerce systems and products. Additionally, 2018 includes a $7.8 million impairment charge as the result of the Company's decision to terminate its investment in a proprietary payment processing platform. The decision to terminate this investment will not impact existing payment processing revenue or customers.
Intersegment expenses, net	10,681	9,079	6,615	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	133,382	105,900	96,661	
Income before income taxes	33,458	38,627	34,714	
Income tax expense	(8,030)	(14,678)	(13,191)	Reflects income tax expense based on effective tax rates of 24% in 2018 and 38% in 2017 and 2016. 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	$ 25,428	23,949	21,523	

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.

	Year ended December 31,			
	2018	2017	2016	Additional information
Tuition payment plan services	$ 85,381	76,753	72,405	Year over year increases were due to increases in the number of managed tuition payment plans resulting from the addition of new school customers.
Payment processing	84,289	71,652	64,100	Year over year increases were due to increases in payments volume from new school and non-education customers.
Education technology and services	51,155	44,539	38,308	Year over year increases were due to increases in the number of customers using the Company's financial needs assessment services and school administration software and services. Additionally, in 2018, FACTS Education Solutions experienced growth in the number of students and teachers receiving its professional development and educational instruction services.
Other	1,137	244	869	
Education technology, services, and payment processing revenue	221,962	193,188	175,682	
Cost to provide education technology, services, and payment processing services	59,566	48,678	44,316	Costs primarily relate to payment processing revenue. Year over year increases were due to increases in payments volume.
Net revenue	$ 162,396	144,510	131,366	
Before tax operating margin	20.6 %	26.7 %	26.4 %	Excluding the impairment charge of $7.8 million in 2018 related to the Company's decision to terminate its investment in a proprietary payment processing platform, as discussed above, before tax operating margin was 25.4% in 2018.

COMMUNICATIONS OPERATING SEGMENT - RESULTS OF OPERATIONS

Summary and Comparison of Operating Results

	Year ended December 31,			
	2018	2017	2016	Additional information
Net interest expense	$ (9,983)	(5,424)	(1,270)	See note (a) below for additional information.
Communications revenue	44,653	25,700	17,659	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. Year over year increases were primarily due to additional residential households served. See additional financial and operating data for ALLO in the tables below.
Other income	1,075	—	—	In 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	45,728	25,700	17,659	
Cost to provide communications services	16,926	9,950	6,866	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	18,779	14,947	7,649	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, 2015, 2016, 2017, and 2018, ALLO had 97, 318, 508, and 550 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	23,377	11,835	6,060	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. The gross property and equipment balances related to this segment as of December 31, 2015, 2016, 2017, and 2018 were $32.5 million, $71.3 million, $186.4 million, and $273.9 million, respectively. 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	11,900	8,074	4,370	Other expenses includes selling, general, and administrative expenses necessary for operations, such as advertising, occupancy, professional services, construction materials, and personal property taxes. Year over year increases were due to expansion of the Lincoln, Nebraska network and number of households served.
Intersegment expenses, net	2,578	2,101	958	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	56,634	36,957	19,037	
Loss before income taxes	(37,815)	(26,631)	(9,514)	
Income tax benefit	9,075	10,120	3,615	Reflects income tax benefit based on effective tax rates of 24% in 2018 and 38% in 2017 and 2016. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act effective January 1, 2018.
Net loss	$ (28,740)	(16,511)	(5,899)	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	$ (28,740)	(16,511)	(5,899)	
Net interest expense	9,983	5,424	1,270	
Income tax benefit	(9,075)	(10,120)	(3,615)	
Depreciation and amortization	23,377	11,835	6,060	
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	$ (4,455)	(9,372)	(2,184)	For additional information regarding this non-GAAP measure, see the table below.

(a) Nelnet, Inc. (parent company) issued a line of credit to ALLO for network capital expenditures and related expenses. In 2016 and 2017, 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, Nelnet, Inc. contributed equity to ALLO with an associated guaranteed payment and 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 guaranteed payment recorded by ALLO was classified as debt and such debt and the guaranteed return paid to Nelnet, Inc. (reflected as interest expense for ALLO) was eliminated in the consolidated financial statements. On October 1, 2018, the guaranteed payment was replaced with a yield-based preferred return of future earnings on the contributed equity. For financial reporting purposes, the preferred interest recorded by ALLO is classified as equity and the preferred return on the preferred interest is no longer reflected by ALLO as interest expense. Accordingly, subsequent to October 1, 2018, ALLO will not reflect interest expense in its income statement related to amounts contributed to ALLO from Nelnet, Inc.

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

	Year ended December 31,		
	2018	2017	2016
Residential revenue	$ 33,434	17,696	11,088
Business revenue	10,976	7,744	6,235
Other revenue	243	260	336
Communications revenue	$ 44,653	25,700	17,659
Net (loss) income	$ (28,740)	(16,511)	(5,899)
EBITDA (a)	(4,455)	(9,372)	(2,184)
Capital expenditures	87,466	115,102	38,817
Revenue contribution:			
Internet	53.9 %	46.6 %	39.8 %
Television	29.0	31.2	32.7
Telephone	16.9	21.8	27.0
Other	0.2	0.4	0.5
	100.0 %	100.0 %	100.0 %

	As of December 31, 2018	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	37,351	32,529	27,643	23,541	20,428	16,394	12,460	10,524	9,814
Households passed (b)	122,396	110,687	98,538	84,475	71,426	54,815	45,880	34,925	30,962
Total households in current markets (c)	152,840	142,602	137,500	137,500	137,500	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. During the fourth quarter of 2018, ALLO began providing service in Hastings, Nebraska.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

Loan Portfolio

As of December 31, 2018, the Company had a $22.4 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 8.7 years. For a summary of the Company's loan portfolio as of December 31, 2018 and 2017, see note 3 of the notes to consolidated financial statements included in this report.

Loan Activity

The following table sets forth the activity of loans:

	Year ended December 31,		
	2018	2017	2016
Beginning balance	$ 21,995,877	25,103,643	28,555,749
Loan acquisitions:			
Federally insured student loans	3,708,188	254,740	295,443
Private education loans	68,337	3,785	60,667
Consumer loans	120,482	71,726	—
Total loan acquisitions	3,897,007	330,251	356,110
Repayments, claims, capitalized interest, and other	(2,282,631)	(2,257,450)	(2,520,835)
Consolidation loans lost to external parties	(1,066,043)	(1,127,364)	(1,242,621)
Loans sold	(23,712)	(53,203)	(44,760)
Ending balance	$ 22,520,498	21,995,877	25,103,643

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 expense 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 2018, 2017, and 2016, and a summary of the Company's loan delinquency amounts as of December 31, 2018, 2017, and 2016, see note 3 of the notes to consolidated financial statements included in this report.

Provision for loan losses for federally insured loans was $14.0 million, $13.0 million, and $14.0 million in 2018, 2017, and 2016, respectively. During 2018, 2017, and 2016, the Company determined an additional allowance was necessary related to portfolios of federally insured loans that were purchased in prior periods and recognized $5.0 million (pre-tax) in 2018, 2017, and 2016 in provision expense related to such loans.

The Company did not record a provision for private education loans in 2018, and recorded a negative provision in 2017 and 2016 due to better than expected credit performance.

The Company began to purchase consumer loans in 2017. Provision for loan losses for consumer loans was $9.0 million and $3.5 million in 2018 and 2017, respectively. The increase in the provision for loan losses for consumer loans was due to purchasing $120.5 million of consumer loans in 2018.

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.

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.

	Year ended December 31,		
	2018	**2017**	**2016**
Variable loan yield, gross	4.52 %	3.53 %	2.90 %
Consolidation rebate fees	(0.84)	(0.84)	(0.83)
Discount accretion, net of premium and deferred origination costs amortization (a)	0.04	0.07	0.06
Variable loan yield, net	3.72	2.76	2.13
Loan cost of funds - interest expense (b)	(2.98)	(1.99)	(1.41)
Loan cost of funds - derivative settlements (c) (d)	0.03	(0.04)	(0.01)
Variable loan spread	0.77	0.73	0.71
Fixed rate floor income, gross	0.25	0.45	0.63
Fixed rate floor income - derivative settlements (c) (e)	0.30	0.05	(0.06)
Fixed rate floor income, net of settlements on derivatives	0.55	0.50	0.57
Core loan spread (f)	1.32 %	1.23 %	1.28 %
Average balance of loans	$ 22,596,436	23,560,412	26,863,526
Average balance of debt outstanding	22,181,932	23,250,268	26,729,196

(a) In the third quarter of 2016, the Company revised its policy to correct for an error in its method of applying the interest method used to amortize premiums and accrete discounts on its student loan portfolio. Under the Company's revised policy, as of September 30, 2016, the constant prepayment rate used by the Company to amortize/accrete student loan premiums/discounts was decreased. During the third quarter of 2016, the Company recorded an adjustment to reflect the net impact on prior periods for the correction of this error that resulted in an $8.2 million reduction to the Company's net loan discount balance and a corresponding increase in interest income. The impact of this adjustment was excluded from the above table.

(b) In the fourth quarter of 2016, the Company redeemed certain debt securities prior to their legal maturity and recognized $7.4 million in interest expense to write off the remaining debt discount associated with these bonds. The impact of this expense was excluded from the above table.

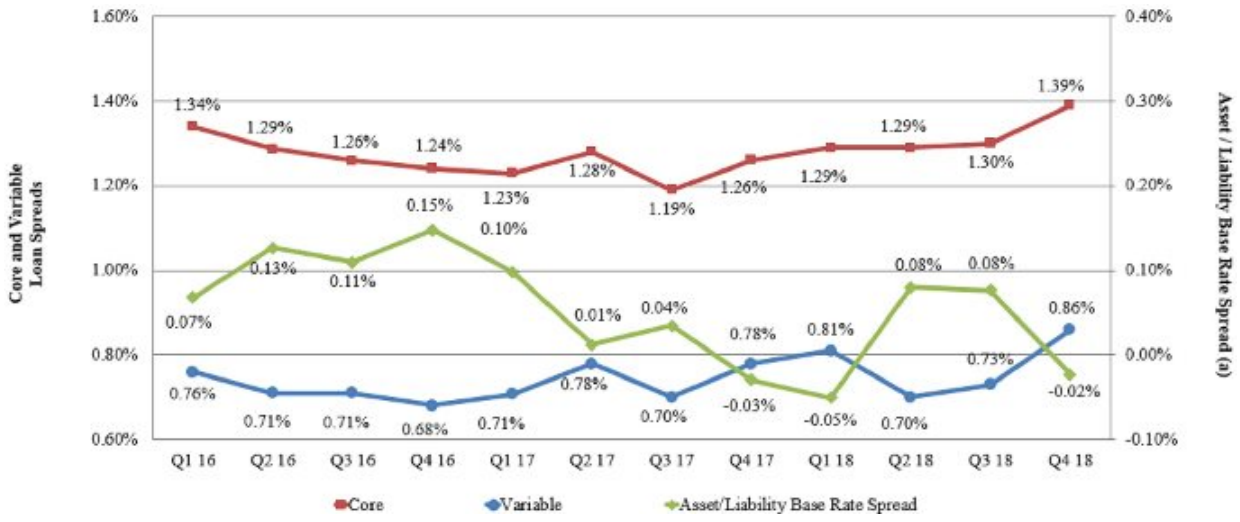
(c) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to 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 in 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.

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

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

(f) The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans were funded by the Company in 2017 and 2018 and will continue to be funded with operating cash until they can be funded in a secured financing transaction. As such, in 2017 and 2018 consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.27% and 1.21% in 2018 and 2017, respectively.

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



(a) The interest earned on a large portion of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds a 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 fu nds 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 7A, "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 in 2018 compared to 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 0.71% for both 2018 and 2017. Variable loan spread increased in 2017 as compared to 2016 due to a tightening in the basis between the asset and debt indices in which the Company earns interest on its loans and funds such loans (as reflec ted in the table above).

The primary 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:

	Year ended December 31,		
	2018	2017	2016
Fixed rate floor income, gross	$ 56,811	106,434	169,979
Derivative settlements (a)	64,901	10,838	(17,643)
Fixed rate floor income, net	$ 121,712	117,272	152,336
Fixed rate floor income contribution to spread, net	0.55 %	0.50 %	0.57 %

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

The year over year decrease in gross fixed rate floor income 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 7A, "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

	Year ended December 31,			
	2018	2017	2016	Additional information
Net interest income after provision for loan losses	$ 226,142	285,519	355,375	See table below for additional analysis.
Other income	12,364	13,424	15,709	The primary component of other income is borrower late fees, which were $12.3 million, $11.6 million, and $12.8 million in 2018, 2017, and 2016, respectively.
Gain (loss) on debt repurchases	359	(1,567)	5,846	Historically, the Company has recorded gains from repurchasing its own asset-backed debt securities at less than par. In 2017, the Company paid a $2.7 million premium, and recorded a loss, to repurchase certain asset-backed debt securities that had above market interest rates. The underlying collateral was refinanced with a significantly lower cost of funds.
Derivative settlements, net	70,478	1,448	(21,034)	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	(2,159)	(19,357)	70,368	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 caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars.
Total other income	81,042	(6,052)	70,889	
Salaries and benefits	1,526	1,548	1,985	
Loan servicing fees to third parties	12,059	22,734	25,750	Third party loan servicing fees decreased year over year 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, 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	3,902	3,900	6,005	
Intersegment expenses	47,870	42,830	46,494	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 in 2018 as compared to 2017 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. Decrease in 2017 as compared to 2016 was due to a decrease in loans serviced by the LSS operating segment due to portfolio runoff. 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	65,357	71,012	80,234	Total operating expenses were 29, 30, and 30 basis points of the average balance of student loans for 2018, 2017, and 2016, respectively.
Income before income taxes	241,827	208,455	346,030	
Income tax expense	(58,038)	(79,213)	(131,492)	Reflects income tax expense based on effective tax rates of 24% in 2018 and 38% in 2017 and 2016. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act effective January 1, 2018.
Net income	$ 183,789	129,242	214,538	
Additional information:				
Net income	$ 183,789	129,242	214,538	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 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 loan spread. These items were partially offset by a decrease in the average balance of loans. The decrease in 2017 compared to 2016 was due to a decrease in the Company's loan portfolio and a decrease in core loan spread.
Derivative market value and foreign currency transaction adjustments, net	2,159	19,357	(70,368)	
Net tax effect	(518)	(7,356)	26,740	
Net income, excluding derivative market value and foreign currency transaction adjustments	$ 185,430	141,243	170,910	

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."

	Year ended December 31,			
	2018	2017	2016	Additional information
Variable interest income, gross	$ 1,021,326	833,318	780,314	Year over year increases were due to increases in the gross yield earned on loans, partially offset by a decrease in the average balance of loans.
Consolidation rebate fees	(190,350)	(199,108)	(223,911)	Year over year decreases were due to decreases in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	9,879	17,087	24,900	Net discount accretion is due to the Company's purchases of loans at a net discount over the last several years. The decrease in 2018 was due to significant loan purchases in 2018 at a net premium. In the third quarter of 2016, the Company revised its policy to correct for an error in its method of applying the interest method used to amortize premiums and accrete discounts on its loan portfolio. Under the Company's revised policy, as of September 30, 2016, the constant prepayment rate used by the Company to amortize/accrete loan premiums/discounts was decreased. During the third quarter of 2016, the Company recorded an adjustment to reflect the net impact on prior periods for the correction of this error that resulted in an $8.2 million reduction to the Company's net loan discount balance and a corresponding increase in interest income.
Variable interest income, net	840,855	651,297	581,303	
Interest on bonds and notes payable	(659,367)	(461,703)	(382,088)	Year over year increases were due to increases in cost of funds, partially offset by decreases in the average balance of debt outstanding.
Derivative settlements, net (a)	5,577	(9,390)	(3,391)	Derivative settlements include the net settlements received (paid) related to the Company's 1:3 basis swaps and previous cross-currency interest rate swap.
Variable loan interest margin, net of settlements on derivatives (a)	187,065	180,204	195,824	
Fixed rate floor income, gross	56,811	106,434	169,979	Year over year decreases in fixed rate floor income were due to the rising interest rate environment.
Derivative settlements, net (a)	64,901	10,838	(17,643)	Derivative settlements include the net settlements received (paid) related to the Company's floor income interest rate swaps. Year over year increases in net settlements received were due to the rising interest rate environment.
Fixed rate floor income, net of settlements on derivatives	121,712	117,272	152,336	
Core loan interest income (a)	308,777	297,476	348,160	
Investment interest	13,836	6,494	3,506	Year over year increases were due to higher balances of interest-earning investments and increases in interest rates.
Intercompany interest	(2,993)	(2,553)	(3,825)	
Provision for loan losses - federally insured loans	(14,000)	(13,000)	(14,000)	See "Allowance for Loan Losses and Loan Delinquencies" included above under "Asset Generation and Management Operating Segment - Results of Operations."
Negative provision for loan losses - private education loans	—	2,000	500	
Provision for loan losses - consumer loans	(9,000)	(3,450)	—	
Net interest income after provision for loan losses (net of settlements on derivatives) (a)	$ 296,620	286,967	334,341	

(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 in 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 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 Company's Communications operating segment.

The Company may issue equity and debt securities in the future in order to improve capital, increase liquidity, refinance upcoming maturities, or provide for general corporate purposes. Moreover, the Company may from time-to-time repurchase certain amounts of its outstanding secured and unsecured debt securities, including debt securities which the Company may issue in the future, for cash and/or through exchanges for other securities. Such repurchases or exchanges may be made in open market transactions, privately negotiated transactions, or otherwise. Any such repurchases or exchanges will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions, compliance with securities laws, and other factors. The amounts involved in any such transactions may be material.

The Company has historically utilized operating cash flow, secured financing transactions (which include warehouse facilities, asset-backed securitizations, and liquidity programs offered by the Department), operating lines of credit, and other borrowing arrangements to fund its Asset Generation and Management operations and loan acquisitions. In addition, the Company has used operating cash flow, borrowings on its unsecured line of credit, repurchase agreements, and unsecured debt offerings to fund corporate activities, business acquisitions, repurchases of common stock, repurchases of its own debt, and expansion of ALLO's fiber network. The Company has also used its common stock to partially fund certain business acquisitions.

Sources of Liquidity

The Company has historically generated positive cash flow from operations. For the years ended December 31, 2018 and 2017, the Company's net cash provided by operating activities was $270.9 million and $322.3 million, respectively.

As of December 31, 2018, the Company had cash and cash equivalents of $121.3 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 $53.0 million as of December 31, 2018.

The Company also has a $382.5 million unsecured line of credit that matures on June 22, 2023. As of December 31, 2018, there was $310.0 million outstanding on the unsecured line of credit and $72.5 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 December 31, 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 year ended December 31, 2018, the Company generated $270.9 million from operating activities, compared to $322.3 million for the same period in 2017. The decrease in cash provided by operating activities reflects the 2017 adjustments to net income from foreign currency transaction adjustments, the decrease in proceeds from the clearinghouse related to the Company's derivative portfolio in 2018 as compared to 2017, and the impact of changes in loan accrued interest receivable during 2018 as compared to 2017. These factors were partially offset by an increase in net income, the adjustments to net income for depreciation and amortization and derivative market value adjustments, an increase in net proceeds received from termination of derivative instruments in 2018 as compared to 2017, and the impact of changes in other assets during 2018 as compared to 2017.

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 cash provided by financing activities for the year ended December 31, 2018 was $732.4 million and $711.8 million, respectively, and cash provided by investing activities and cash used in financing activities for the year ended December 31, 2017 was $2.9 billion and $3.5 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:

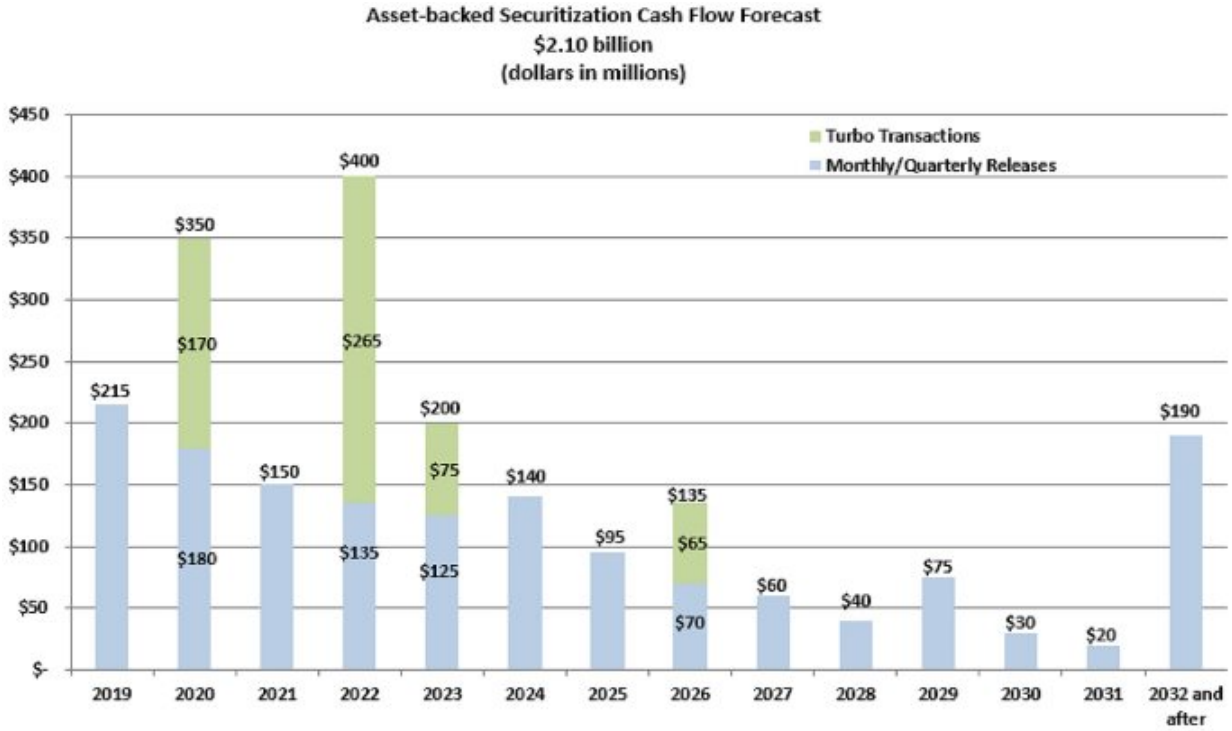
	As of December 31, 2018	
	Carrying amount	Final maturity
Bonds and notes issued in asset-backed securitizations	$ 21,099,490	11/25/24 - 2/25/67
FFELP warehouse facilities	986,886	5/20/20 / 5/31/21
	$ 22,086,376	

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 December 31, 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 $2.10 billion as detailed below.

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of December 31, 2018. As of December 31, 2018, the Company had $21.3 billion of loans included in asset-backed securitizations, which represented 94.7 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 December 31, 2018, private education and consumer loans funded with operating cash, or loans acquired subsequent to December 31, 2018.



The forecasted future undiscounted cash flows of approximately $2.10 billion include approximately $0.90 billion (as of December 31, 2018) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances on 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 $1.20 billion, or approximately $0.91 billion after estimated income taxes based on the estimated effective tax rate, is expected to be accretive to the Company's December 31, 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's forecast of the timing of the release of the equity in the Turbo Transactions is highly sensitive to prepayment rate assumptions.

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 $120 million to $150 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.

There is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021, and any market transition away from the current LIBOR framework could result in significant changes to the forecasted cash flows from the Company's asset-backed securitizations. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate."

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. See Item 7A, "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 December 31, 2018, the Company had two FFELP warehouse facilities with an aggregate maximum financing amount available of $1.2 billion, of which $1.0 billion was outstanding and $0.2 billion was available for additional funding. One warehouse facility has a static advance rate until the expiration date of the liquidity provisions (May 20, 2019). 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 (May 20, 2020). The other warehouse facility has static advance rates that requires initial equity for loan funding and does not require increased equity based on market movements. As of December 31, 2018, the Company had $57.0 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at December 31, 2018, see note 4 of the notes to consolidated financial statements included in 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 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 existing 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 December 31, 2018, $664.3 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 2018, the Company completed five asset-backed securitizations totaling $3.0 billion (par value). See note 4 of the notes to consolidated financial statements included in this report for additional information on these securitizations. In addition, on February 27, 2019, the Company completed an asset-backed securitization of $496.8 million (par value). 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 loans included in its warehouse facilities, loans purchased from third parties, and/or loans in its existing asset-backed securitizations.

Consumer Loan Warehouse Facility

On January 11, 2019, the Company closed on a consumer loan warehouse facility with an aggregate maximum financing amount available of $100.0 million, an advance rate of 70 or 75 percent depending on type of collateral, and a maturity date of January 10, 2021. Upon closing, the Company initially funded $98.1 million (par value) of consumer loan assets in this facility.

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 December 31, 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 additional 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 in 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 eight communities in Nebraska and one in Colorado. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities. ALLO began providing services in Lincoln, Nebraska in September 2016, as part of a multi-year project to pass substantially all commercial and residential properties in the community. The Company currently anticipates the Lincoln build-out will be substantially complete during the first quarter of 2019. In 2018, ALLO's capital expenditures were $87.5 million and the Company currently anticipates total expenditures of approximately $50 million in 2019. However, this amount could change based on customer demand for ALLO's services. The Company currently plans to use cash from operating activities and its third-party unsecured line of credit to fund ALLO's capital expenditures, as well as potentially other third-party financing alternatives.

Other Debt Facilities

As discussed above, the Company has a $382.5 million unsecured line of credit with a maturity date of June 22, 2023. As of December 31, 2018, the unsecured line of credit had $310.0 million outstanding and $72.5 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 December 31, 2018, the Company had $20.4 million of Hybrid Securities that remain outstanding.

The Company entered into a repurchase agreement in both 2017 and 2018, the proceeds of which are collateralized by FFELP asset-backed security investments and private education loans, respectively. As of December 31, 2018, $41.4 million and $45.0 million were subject to these repurchase agreements, respectively. Upon termination or expiration of the repurchase agreements, the Company would use cash proceeds or transfer collateral to satisfy any outstanding obligations subject to the agreements.

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 December 31, 2018 was $33.9 million, of which $7.7 million was recourse to the Company.

For further discussion of these debt facilities described above, see note 4 of the notes to consolidated financial statements included in this report.

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 4 of the notes to consolidated financial statements included in this report for information on debt repurchased by the Company during the years ended December 31, 2018, 2017, and 2016.

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 2018, 2017, and 2016 are shown in the table 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.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Year ended December 31, 2018	868,147	$ 45,331	$ 52.22
Year ended December 31, 2017	1,473,054	68,896	46.77
Year ended December 31, 2016	2,038,368	69,091	33.90

As of December 31, 2018, 2,305,252 shares remain authorized for purchase under the Company's repurchase program.

Dividends

Dividends of $0.16 per share on the Company’s Class A and Class B common stock were paid on March 15, 2018, June 15, 2018, and September 14, 2018, respectively, and a dividend of $0.18 per share was paid on December 14, 2018.

The Company's Board of Directors declared a first quarter 2019 cash dividend on the Company's Class A and Class B common stock of $0.18 per share. The dividend will be paid on March 15, 2019, to shareholders of record at the close of business on March 1, 2019.

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.

Contractual Obligations

The Company's contractual obligations were as follows:

	As of December 31, 2018				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable (a)	$ 22,537,099	86,408	986,886	323,685	21,140,120
Operating lease obligations	35,346	9,181	14,037	6,649	5,479
Total	$ 22,572,445	95,589	1,000,923	330,334	21,145,599

(a) Amounts exclude interest as substantially all bonds and notes payable carry variable rates of interest.

As of December 31, 2018, the Company had a reserve of $18.5 million for uncertain income tax positions (including the federal benefit received from state positions). This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. The Company bases its estimates and judgments on historical experience and on various other factors that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the notes to consolidated financial statements included in this report includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

On an on-going basis, management evaluates its estimates and judgments, particularly as they relate to accounting policies that management believes are most "critical" — that is, they are most important to the portrayal of the Company's financial condition and results of operations and they require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the allowance for loan losses as a critical accounting policy.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses on loans. This evaluation process is subject to numerous estimates and judgments. The Company evaluates the appropriateness of the allowance for loan losses separately on each of its federally insured, private education, and consumer loan portfolios.

The allowance for the federally insured student loan portfolio is based on periodic evaluations of the Company's loan portfolios considering loans in repayment versus those in a nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for loan losses.

In determining the appropriateness of the allowance for loan losses on the private education and consumer loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for loan losses. The Company places a private education or consumer loan on nonaccrual status when the collection of principal and interest is 90 days past due and charges off the loan and accrued interest when the collection of principal and interest is 120 days or 180 days past due, depending on type of loan program.

The allowance for loan losses is maintained at a level management believes is appropriate to provide for estimated probable credit losses inherent in the loan portfolios. This evaluation is inherently subjective because it requires estimates that may be susceptible to significant changes.

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.

The Company believes the most significant effects of this adoption 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 deconsolidation 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.

On adoption, the Company currently expects to recognize lease liabilities of approximately $34 million based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. It will recognize ROU assets of approximately $33 million, which corresponds to the lease liabilities reduced by deferred rent expense as of the effective date. The Company will also deconsolidate total assets of approximately $44 million and total liabilities of approximately $35 million for those entities that have been consolidated due to sale-leaseback transactions that failed to qualify for recognition as sales under the prior guidance. Deconsolidation of these entities will reduce noncontrolling interests by approximately $6 million.

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 office space 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 loans 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. Upon adoption, this pronouncement will not have a material impact on the Company's consolidated financial statements.

ITEM 7A. 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 December 31, 2018		As of December 31, 2017	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 2,792,734	12.4 %	$ 4,966,125	22.6 %
Variable-rate loan assets	19,727,764	87.6	17,029,752	77.4
Total	$ 22,520,498	100.0 %	$ 21,995,877	100.0 %
Fixed-rate debt instruments	$ 88,128	0.4 %	$ 101,002	0.5 %
Variable-rate debt instruments	22,448,971	99.6	21,626,125	99.5
Total	$ 22,537,099	100.0 %	$ 21,727,127	100.0 %

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 years ended December 31, 2018, 2017, and 2016. A summary of fixed rate floor income earned by the Company during these years follows.

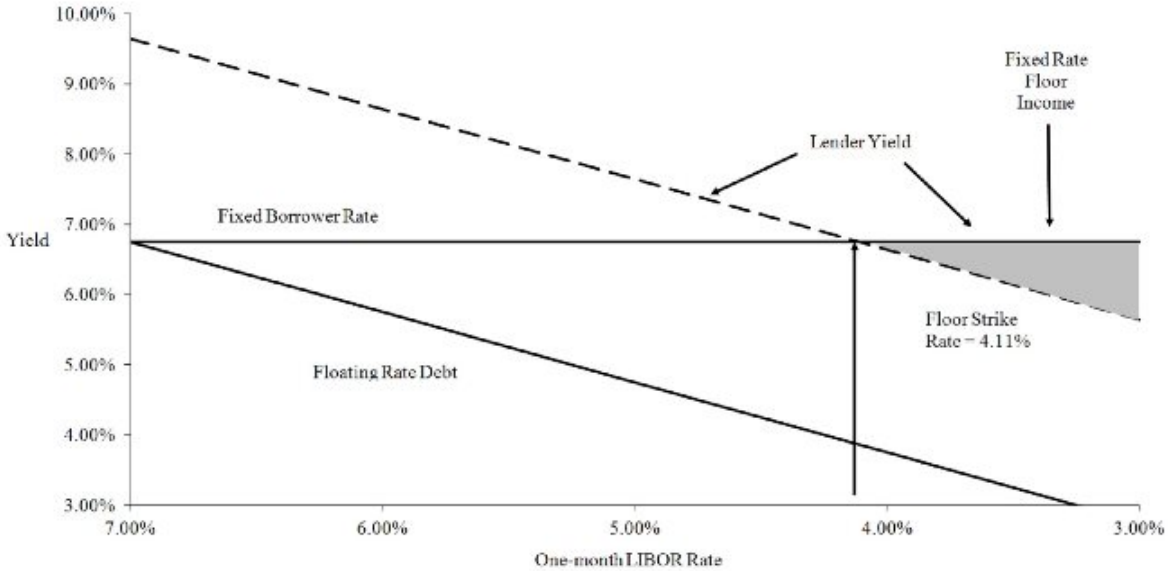
	Year ended December 31,		
	2018	2017	2016
Fixed rate floor income, gross	$ 56,811	106,434	169,979
Derivative settlements (a)	64,901	10,838	(17,643)
Fixed rate floor income, net	$ 121,712	117,272	152,336

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

The year over year decreases in gross fixed rate floor income were due to increases in interest rates.

Absent the use of derivative instruments, a rise in interest rates may reduce the amount of floor income received and this may have 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 special allowance payment 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 December 31, 2018:

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
5.0 - 5.49%	5.30%	2.66%	$ 367,077
5.5 - 5.99%	5.67%	3.03%	357,259
6.0 - 6.49%	6.19%	3.55%	392,253
6.5 - 6.99%	6.70%	4.06%	382,285
7.0 - 7.49%	7.17%	4.53%	134,034
7.5 - 7.99%	7.71%	5.07%	229,966
8.0 - 8.99%	8.18%	5.54%	532,171
> 9.0%	9.05%	6.41%	198,597
			$ 2,593,642

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of December 31, 2018, the weighted average estimated variable conversion rate was 4.24% and the short-term interest rate was 240 basis points.

The following table summarizes the outstanding derivative instruments as of December 31, 2018 used by the Company to economically hedge loans earning fixed rate floor income.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)
2019	$ 3,250,000	0.97 %
2020	1,500,000	1.01
2021	100,000	2.95
2023	400,000	2.24
2024	300,000	2.28
2027	25,000	2.35
	$ 5,575,000	1.18 %

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

In addition, during 2014 and 2018, the Company paid $9.1 million and $4.6 million, respectively for interest rate swap options to economically hedge loans earning fixed rate floor income. The interest rate swap options give the Company the right, but not the obligation, to enter into interest rate swaps in which the Company would pay a fixed amount and receive discrete one-month LIBOR. The following table summarizes these derivative instruments as of December 31, 2018.

If exercised effective date	Notional amount	Weighted average fixed rate paid by the Company	If exercised maturity date
August 21, 2019	$ 750,000	3.28 %	August 21, 2024
September 25, 2019	250,000	3.00	September 25, 2024
	$ 1,000,000	3.21 %	

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 December 31, 2018:

Index	Frequency of variable resets	Assets	Funding of student loan assets
1 month LIBOR (a)	Daily	$ 20,574,347	—
3 month H15 financial commercial paper	Daily	970,261	—
3 month Treasury bill	Daily	611,288	—
3 month LIBOR (a)	Quarterly	—	9,851,965
1 month LIBOR	Monthly	—	10,340,158
Auction-rate (b)	Varies	—	793,476
Asset-backed commercial paper (c)	Varies	—	986,886
Other (d)		1,351,899	1,535,310
		$ 23,507,795	23,507,795

(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 December 31, 2018.

Maturity	Notional amount
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
	$ 10,000,000

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

(b) As of December 31, 2018, the Company was sponsor for $793.5 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 FFELP 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.

There is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021, and any market transition away from the current LIBOR framework could result in significant changes to the interest rate characteristics of the Company's LIBOR-indexed assets and funding for those assets. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate."

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
	Year ended December 31, 2018							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (20,162)	(7.0) %	$ (35,592)	(12.4) %	$ (11,769)	(4.1) %	$ (35,306)	(12.3) %
Impact of derivative settlements	62,310	21.8	186,927	65.3	7,775	2.7	23,326	8.1
Increase (decrease) in net income before taxes	$ 42,148	14.8 %	$ 151,335	52.9 %	$ (3,994)	(1.4) %	$ (11,980)	(4.2) %
Increase (decrease) in basic and diluted earnings per share	$ 0.78		$ 2.81		$ (0.07)		$ (0.22)	
	Year ended December 31, 2017							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (39,894)	(17.6) %	$ (73,999)	(32.5) %	$ (13,423)	(5.9) %	$ (40,271)	(17.8) %
Impact of derivative settlements	59,639	26.3	178,911	79.0	6,408	2.8	19,226	8.5
Increase (decrease) in net income before taxes	$ 19,745	8.7 %	$ 104,912	46.5 %	$ (7,015)	(3.1) %	$ (21,045)	(9.3) %
Increase (decrease) in basic and diluted earnings per share	$ 0.29		$ 1.55		$ (0.09)		$ (0.30)	
	Year ended December 31, 2016							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (67,877)	(17.0) %	$ (124,818)	(31.3) %	$ (16,033)	(4.1) %	$ (48,098)	(12.1) %
Impact of derivative settlements	59,847	15.0	179,541	45.0	3,052	0.8	9,155	2.3
Increase (decrease) in net income before taxes	$ (8,030)	(2.0) %	$ 54,723	13.7 %	$ (12,981)	(3.3) %	$ (38,943)	(9.8) %
Increase (decrease) in basic and diluted earnings per share	$ (0.12)		$ 0.80		$ (0.19)		$ (0.57)	

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 in this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the consolidated financial statements listed under the heading "(a) 1. Consolidated Financial Statements" of Item 15 of this report, which consolidated financial statements are incorporated into this report by reference in response to this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 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 December 31, 2018.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2018, the Company implemented a plan that called for modifications to its processes related to the accounting for leases as a result of ASC Topic 842, *Leases* . The modified controls have been designed to address risks associated with accounting for lease assets and liabilities and the related income and expense under ASC 842.

There were no other changes in the Company's internal control over financial reporting during the Company's last fiscal quarter that have materially affected, or are 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.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) for the Company. The Company's internal control system is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on the criteria for effective internal control described in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report included herein.

Inherent Limitations on Effectiveness of Internal Controls

The Company's management, including the chief executive and chief financial officers, understands that the disclosure controls and procedures and internal control over financial reporting are subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors
Nelnet, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Nelnet, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 27, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting* . Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Lincoln, Nebraska
February 27, 2019

ITEM 9B. OTHER INFORMATION

During the fourth quarter of 2018, no information was required to be disclosed in a report on Form 8-K, but not reported.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information as to the directors, executive officers, corporate governance, and Section 16(a) beneficial ownership reporting compliance of the Company set forth under the captions “PROPOSAL 1 - ELECTION OF DIRECTORS,” “EXECUTIVE OFFICERS,” “CORPORATE GOVERNANCE,” and “SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement to be filed on Schedule 14A with the SEC, no later than 120 days after the end of the Company's fiscal year, relating to the Company's 2019 Annual Meeting of Shareholders scheduled to be held on May 23, 2019 (the “Proxy Statement”), is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions “CORPORATE GOVERNANCE” and “EXECUTIVE COMPENSATION” in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption “SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - Stock Ownership” in the Proxy Statement is incorporated herein by reference. There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in the control of the Company.

The following table summarizes information about compensation plans under which equity securities are authorized for issuance.

Equity Compensation Plan Information

	As of December 31, 2018		
Plan category	**Number of shares to be issued upon exercise of outstanding options, warrants, and rights (a)**	**Weighted-average exercise price of outstanding options, warrants, and rights (b)**	**Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by shareholders	—	—	2,144,814 (1)
Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	2,144,814

(1) Includes 1,563,438, 118,498, and 462,878 shares of Class A Common Stock remaining available for future issuance under the Nelnet, Inc. Restricted Stock Plan, Nelnet, Inc. Directors Stock Compensation Plan, and Nelnet, Inc. Employee Share Purchase Plan, respectively.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth under the captions "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," "CORPORATE GOVERNANCE - Board Composition and Director Independence," and "CORPORATE GOVERNANCE - Board Committees" in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information set forth under the caption "PROPOSAL 2 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM - Independent Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

The following consolidated financial statements of Nelnet, Inc. and its subsidiaries and the Report of Independent Registered Public Accounting Firm thereon are included in Item 8 above:

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

The exhibits listed in the accompanying index to exhibits are filed, furnished, or incorporated by reference as part of this report.

(b) Exhibits

Exhibit Index

Exhibit No.	Description
2.1 ++	Stock Purchase Agreement dated as of October 18, 2017, among Nelnet Diversified Solutions, LLC, as Purchaser, Nelnet, Inc., as Purchaser Parent, and Great Lakes Higher Education Corporation, as Seller, filed as Exhibit 2.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
2.2	First Amendment to Stock Purchase Agreement dated as of February 1, 2018, among Nelnet Diversified Solutions, LLC, as Purchaser, Nelnet, Inc., as Purchaser Parent, and Great Lakes Higher Education Corporation, as Seller, filed as Exhibit 2.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
2.3	Second Amendment to Stock Purchase Agreement dated as of February 1, 2018, among Nelnet Diversified Solutions, LLC, as Purchaser, Nelnet, Inc., as Purchaser Parent, and Great Lakes Higher Education Corporation, as Seller , filed as Exhibit 2. 3 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.

3.1	Third Amended and Restated Articles of Incorporation of Nelnet, Inc., filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on May 24, 2018 and incorporated herein by reference .
3.2	Ninth Amended and Restated Bylaws of Nelnet, Inc., as amended as of May 24, 2018, filed as Exhibit 3.2 to the registrant's Current Report on Form 8-K filed on May 24, 2018 and incorporated herein by reference .
4.1	Form of Class A Common Stock Certificate of Nelnet, Inc., filed on November 24, 2003 as Exhibit 4.1 to the registrant's Registration Statement on Form S-1 (Registration No. 333-108070) and incorporated herein by reference .
4.2	Certain instruments, including indentures of trust, defining the rights of holders of long-term debt of the registrant and its consolidated subsidiaries, none of which instruments authorizes a total amount of indebtedness thereunder in excess of 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis, are omitted from this Exhibit Index pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. Many of such instruments have been previously filed with the Securities and Exchange Commission, and the registrant hereby agrees to furnish a copy of any such instrument to the Commission upon request.
4.3	Registration Rights Agreement, dated as of December 16, 2003, by and among Nelnet, Inc. and the shareholders of Nelnet, Inc. signatory thereto, filed on November 24, 2003 as Exhibit 4.11 to the registrant's Registration Statement on Form S-1 (Registration No. 333-108070) and incorporated herein by reference .
10.1	Composite Form of Amended and Restated Participation Agreement, dated as of June 1, 2001, between NELnet, Inc. (subsequently renamed National Education Loan Network, Inc.) and Union Bank and Trust Company, as amended by the First Amendment thereto dated as of December 19, 2001 through the Cancellation of the Fifteenth Amendment thereto dated as of March 16, 2011 (such Participation Agreement and each amendment through the Cancellation of the Fifteenth Amendment thereto have been previously filed as set forth in the Exhibit Index for the registrant's Annual Report on Form 10-K for the year ended December 31, 2012, and are incorporated herein by reference), filed as Exhibit 10.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference .
10.2	Sixteenth Amendment of Amended and Restated Participation Agreement, dated as of March 23, 2012, by and between Union Bank and Trust Company and National Education Loan Network, Inc., filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated herein by reference .
10.3	Guaranteed Purchase Agreement, dated as of March 19, 2001, by and between NELnet, Inc. (subsequently renamed National Education Loan Network, Inc.) and Union Bank and Trust Company, filed on September 25, 2003 as Exhibit 10.36 to the registrant's Registration Statement on Form S-1 (Registration No. 333-108070) and incorporated herein by reference .
10.4	First Amendment of Guaranteed Purchase Agreement, dated as of February 1, 2002, by and between NELnet, Inc. (subsequently renamed National Education Loan Network, Inc.) and Union Bank and Trust Company, filed on September 25, 2003 as Exhibit 10.37 to the registrant's Registration Statement on Form S-1 (Registration No. 333-108070) and incorporated herein by reference .
10.5	Second Amendment of Guaranteed Purchase Agreement, dated as of December 1, 2002, by and between Nelnet, Inc. (f/k/a/ NELnet, Inc.) (subsequently renamed National Education Loan Network, Inc.) and Union Bank and Trust Company, filed on September 25, 2003 as Exhibit 10.38 to the registrant's Registration Statement on Form S-1 (Registration No. 333-108070) and incorporated herein by reference.
10.6	Guaranteed Purchase Agreement, dated as of September 1, 2010, by and between Nelnet, Inc. and Union Bank and Trust Company, filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and incorporated herein by reference.
10.7	First Amendment of Guaranteed Purchase Agreement, dated as of March 22, 2011, by and between Nelnet, Inc. and Union Bank and Trust Company, filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by reference.
10.8	Amendment of Agreements dated as of February 4, 2005, by and between National Education Loan Network, Inc. and Union Bank and Trust Company, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on February 10, 2005 and incorporated herein by reference.
10.9+	Nelnet, Inc. Employee Share Purchase Plan, as amended through March 17, 2011, filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by reference.
10.10	Office Building Lease dated June 21, 1996 between Miller & Paine and Union Bank and Trust Company, filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated herein by reference.

10.11	Amendment to Office Building Lease dated June 11, 1997 between Miller & Paine and Union Bank and Trust Company, filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated herein by reference.
10.12	Lease Amendment Number Two dated February 8, 2001 between Miller & Paine and Union Bank and Trust Company, filed as Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated herein by reference.
10.13	Lease Amendment Number Three dated May 23, 2005 between Miller & Paine, LLC and Union Bank and Trust Company, filed as Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated herein by reference.
10.14	Lease Amendment Number Four dated November 13, 2007 between M & P Building, LLC and Union Bank and Trust Company , filed as Exhibit 10.1 4 to the registrant's Annual Report on Form 10-K for t he year ended December 31, 2017 and incorporated herein by reference .
10.15	Lease Amendment Number Five entered into in September 2008 between M & P Building, LLC and Union Bank and Trust Company , filed as Exhibit 10.1 5 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
10.16	Lease Amendment Number Six dated December 15, 2017 between Nelnet Real Estate Ventures, Inc. and Union Bank and Trust Company , filed as Exhibit 10.1 6 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
10.17	Lease Agreement dated May 20, 2005 between Miller & Paine, LLC and Union Bank and Trust Company, filed as Exhibit 10.7 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated herein by reference .
10.18	Office Sublease dated April 30, 2001 between Union Bank and Trust Company and Nelnet, Inc., filed as Exhibit 10.8 to the registrant's Current Report on Form 8-K filed on October 16, 2006 and incorporated herein by reference.
10.19+	Nelnet, Inc. Restricted Stock Plan, as amended through May 22, 2014, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 28, 2014 and incorporated herein by reference.
10.20+	Nelnet, Inc. Directors Stock Compensation Plan, as amended through March 21, 2018, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 24, 2018 and incorporated herein by reference.
10.23+	
10.21+	Nelnet, Inc. Executive Officers Incentive Compensation Plan, as amended effective March 9, 2017, filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 and incorporated herein by reference.
10.22	Loan Purchase Agreement, dated as of November 25, 2008, by and between Nelnet Education Loan Funding, Inc., f/k/a NEBHELP, INC., acting, where applicable, by and through Wells Fargo Bank, National Association, not individually but as Eligible Lender Trustee for the Seller under the Warehouse Agreement or Eligible Lender Trust Agreement, and Union Bank and Trust Company, acting in its individual capacity and as trustee, filed as Exhibit 10.71 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.
10.23	Student Loan Servicing Contract between the United States Department of Education and Nelnet Servicing, LLC, filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference.
10.24	Modification of Contract dated effective as of June 17, 2014 for Student Loan Servicing Contract between the United States Department of Education and Nelnet Servicing, LLC, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 18, 2014 and incorporated herein by reference.
10.25	Modification of Contract dated effective as of September 1, 2014 for Student Loan Servicing Contract between the United States Department of Education and Nelnet Servicing, LLC, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 2, 2014 and incorporated herein by reference.
10.26	Management Agreement, dated effective as of May 1, 2011, by Whitetail Rock Capital Management, LLC and Union Bank and Trust Company, filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by reference.
10.27	Management Agreement, dated effective as of January 20, 2012, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.58 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference.
10.28	Management Agreement, dated effective as of October 27, 2015, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.25 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

10.29	Management Agreement, dated effective as of January 4, 2016, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and incorporated herein by reference.
10.30	Management Agreement, dated effective as of March 23, 2017, by and between Union Bank and Trust Company and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 and incorporated herein by reference.
10.31	Investment Management Agreement, dated effective as of February 10, 2012, by and among Whitetail Rock SLAB Fund I, LLC, Whitetail Rock Fund Management, LLC, and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated herein by reference.
10.32	Investment Management Agreement, dated effective as of February 14, 2013, by and among Whitetail Rock SLAB Fund III, LLC, Whitetail Rock Fund Management, LLC, and Whitetail Rock Capital Management, LLC, filed as Exhibit 10.31 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.
10.33	Form of Custodian Agreement for Whitetail Rock SLAB Funds by and among the Fund, Whitetail Rock Fund Management, LLC, and Union Bank and Trust Company, filed as Exhibit 10.27 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
10.34	Form of Administrative Services Agreement for Whitetail Rock SLAB Funds by and among the Fund, Whitetail Rock Fund Management, LLC, Adminisystems, Inc., and Union Bank and Trust Company, filed as Exhibit 10.28 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
10.35	Amended and Restated Credit Agreement dated as of October 30, 2015, among Nelnet, Inc., U.S. Bank National Association, as Administrative Agent, Lead Arranger and Book Runner, Wells Fargo Bank, National Association, as Syndication Agent, and Citibank, N.A. and Royal Bank of Canada, as Co-Documentation Agents, and various lender parties thereto, filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and incorporated herein by reference.
10.36	Amendment No. 1 dated as of December 12, 2016 to the Amended and Restated Credit Agreement dated as of October 30, 2015, by and among Nelnet, Inc., U.S. Bank National Association, as Administrative Agent, and various lender parties thereto, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 14, 2016 and incorporated herein by reference.
10.37	Amendment No. 2 dated as of June 22, 2018 to the Amended and Restated Credit Agreement dated as of October 30, 2015 and as amended as of December 12, 2016, by and among Nelnet, Inc., U.S. Bank National Association, as Administrative Agent, and various lender parties thereto, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 28, 2018 and incorporated herein by reference.
10.38*	Increase Joinder and Waiver to Amended and Restated Credit Agreement dated as of December 14, 2018, by and among Nelnet, Inc., Mutual of Omaha Bank, as Additional Lender, Wells Fargo Bank, National Association, the Increasing Lender, U.S. Bank National Association, as Administrative Agent, and various lender parties thereto.
10.39	Amended and Restated Guaranty dated as of October 30, 2015, by each of the subsidiaries of Nelnet, Inc. signatories thereto, in favor of U.S. Bank National Association, as Administrative Agent, filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and incorporated herein by reference.
10.40	Annex I to Guaranty dated as of December 12, 2016 to the Amended and Restated Guaranty dated as of October 30, 2015 by ALLO Communications LLC, a subsidiary of Nelnet, Inc., in favor of U.S. Bank National Association, as Administrative Agent, filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 14, 2016 and incorporated herein by reference.
10.41	Annex I to Guaranty dated as of June 22, 2018 to the Amended and Restated Guaranty dated as of October 30, 2015 by Great Lakes Educational Loan Services, Inc., a subsidiary of Nelnet, Inc., in favor of U.S. Bank National Association, as Administrative Agent, filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on June 28, 2018 and incorporated herein by reference.
10.42*	Agreement for Purchase and Sale of Interest in Aircraft dated as of December 31, 2018, by and between National Education Loan Network, Inc. and Union Financial Services, Inc.
10.43*	Aircraft Joint Ownership Agreement dated as of January 1, 2019, by and between National Education Loan Network, Inc. and MSD711, LLC.
10.44*	Aircraft Management Agreement, dated as of January 1, 2019, by and between Duncan Aviation, Inc. and National Education Loan Network, Inc. and MSD711, LLC.

10.45	Amended and Restated Consulting and Services Agreement made and entered into as of October 1, 2013, by and between Nelnet, Inc. and Union Bank and Trust Company, filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference.
10.46	Master Private Loan Program Agreement dated as of August 22, 2018, by and between Union Bank and Trust Company and Nelnet, Inc., filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 and incorporated herein by reference.
10.47±	Education Loan Marketing Agreement dated as of August 22, 2018, by and between Nelnet Consumer Finance, Inc. and Union Bank and Trust Company, filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 and incorporated herein by reference.
10.48±	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, filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 and incorporated herein by reference.
10.49±	Loan Participation Agreement dated as of August 22, 2018, by and between Union Bank and Trust Company and National Education Loan Network, Inc., filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 and incorporated herein by reference.
10.50	Private Loan Sale Agreement dated as of October 9, 2014, by and between Nelnet, Inc. and Union Bank and Trust Company, filed as Exhibit 10.47 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
10.51	Private Student Loan Servicing Agreement dated as of October 9, 2014, by and between Nelnet Servicing, LLC and Union Bank and Trust Company, filed as Exhibit 10.48 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
10.52	First Amendment of Loan Servicing Agreement dated as of September 27, 2013, by and between Nelnet, Inc. and Union Bank and Trust Company, filed as Exhibit 10.49 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.
10.53	Private Loan Servicing Letter Agreement dated as of February 27, 2017, by and between Nelnet Servicing, LLC and Union Bank and Trust Company , filed as Exhibit 10.54 to the registrant 's Annual Report on Form 10- K for the year ended December 31, 2017 and incorporated herein by reference.
10.54	Form of Trust/Custodial/Safekeeping Agreement by and between National Education Loan Network, Inc., as Principal, and Union Bank and Trust Company, as Trustee , filed as Exhibit 10.5 5 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
10.55	Form of Special Investment Directions by National Education Loan Network, Inc. and its affiliates, as Principal under the Form of Trust/Custodial/Safekeeping Agreement between Principal and Union Bank and Trust Company, as Trustee , filed as Ex hibit 10.56 to the registrant's Annual Rep ort on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.
10.56	Loan Participation Agreement dated as of January 1, 2018 between Union Bank and Trust Company and Union Bank and Trust Company as trustee for National Education Loan Network, Inc., filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and incorporated herein by reference.
10.57*	Amended and Restated Trust Agreement dated as of December 21, 2018 among Nelnet Private Student Loan Financing Corporation, as Depositor, Union Bank and Trust Company, as Trustee, and U.S. Bank Trust National Association, as Delaware Trustee .
21.1*	Subsidiaries of Nelnet, Inc.
23.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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

+ Indicates a management contract or compensatory plan or arrangement contemplated by Item 15(a)(3) of Form 10-K.

++ Pursuant to Item 601(b)(2) of Regulation S-K, certain schedules and similar attachments to the exhibit have been omitted. The registrant hereby agrees to furnish supplementally a copy of any omitted schedule or attachment to the U.S. Securities and Exchange Commission upon request. The exhibit is not intended to be, and should not be relied upon as, including disclosures regarding any facts and circumstances relating to the registrant or any of its subsidiaries or affiliates. The exhibit contains representations and warranties by the registrant and the other parties that were made only for purposes of the agreement set forth in the exhibit and as of specified dates. The representations, warranties, and covenants in the agreement were made solely for the benefit of the parties to the agreement, may be subject to limitations agreed upon by the contracting parties (including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing these matters as facts), and may apply contractual standards of materiality or material adverse effect that generally differ from those applicable to investors. In addition, information concerning the subject matter of the representations, warranties, and covenants may change after the date of the agreement, which subsequent information may or may not be fully reflected in the registrant's public disclosures.

± Certain portions of this exhibit have been redacted and are subject to a confidential treatment order granted by the U.S. Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

ITEM 16. FORM 10-K SUMMARY

The Company has elected not to include an optional summary of information required by Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: February 27, 2019

NELNET, INC.

By: /s/ JEFFREY R. NOORDHOEK

Name: Jeffrey R. Noordhoek

Title: Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JEFFREY R. NOORDHOEK Jeffrey R. Noordhoek	Chief Executive Officer (Principal Executive Officer)	February 27, 2019
/s/ JAMES D. KRUGER James D. Kruger	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 27, 2019
/s/ MICHAEL S. DUNLAP Michael S. Dunlap	Executive Chairman	February 27, 2019
/s/ JAMES P. ABEL James P. Abel	Director	February 27, 2019
/s/ PREETA D. BANSAL Preeta D. Bansal	Director	February 27, 2019
/s/ WILLIAM R. CINTANI William R. Cintani	Director	February 27, 2019
/s/ KATHLEEN A. FARRELL Kathleen A. Farrell	Director	February 27, 2019
/s/ DAVID S. GRAFF David S. Graff	Director	February 27, 2019
/s/ THOMAS E. HENNING Thomas E. Henning	Director	February 27, 2019
/s/ KIMBERLY K. RATH Kimberly K. Rath	Director	February 27, 2019
/s/ MICHAEL D. REARDON Michael D. Reardon	Director	February 27, 2019

NELNET, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors
Nelnet, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Nelnet, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1998.

Lincoln, Nebraska
February 27, 2019

NELNET, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

		2018	2017
		(Dollars in thousands, except share data)	
Assets:			
Loans receivable (net of allowance for loan losses of $60,388 and $54,590 respectively)	$	22,377,142	21,814,507
Cash and cash equivalents:			
Cash and cash equivalents - not held at a related party		9,472	6,982
Cash and cash equivalents - held at a related party		111,875	59,770
Total cash and cash equivalents		121,347	66,752
Investments and notes receivable		249,370	240,538
Restricted cash		701,366	688,193
Restricted cash - due to customers		369,678	187,121
Loan accrued interest receivable		679,197	430,385
Accounts receivable (net of allowance for doubtful accounts of $3,271 and $1,436, respectively)		59,531	37,863
Goodwill		156,912	138,759
Intangible assets, net		114,290	38,427
Property and equipment, net		344,784	248,051
Other assets		45,533	73,021
Fair value of derivative instruments		1,818	818
Total assets	$	25,220,968	23,964,435
Liabilities:			
Bonds and notes payable	$	22,218,740	21,356,573
Accrued interest payable		61,679	50,039
Other liabilities		256,092	198,252
Due to customers		369,678	187,121
Fair value of derivative instruments		—	7,063
Total liabilities		22,906,189	21,799,048
Commitments and contingencies			
Equity:			
Nelnet, Inc. shareholders' equity:			
Preferred stock, $0.01 par value. Authorized 50,000,000 shares; no shares issued or outstanding		—	—
Common stock:			
Class A, $0.01 par value. Authorized 600,000,000 shares; issued and outstanding 28,798,464 shares and 29,341,517 shares, respectively		288	293
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,459,641 shares and 11,468,587 shares, respectively		115	115
Additional paid-in capital		622	521
Retained earnings		2,299,556	2,143,983
Accumulated other comprehensive earnings		3,883	4,617
Total Nelnet, Inc. shareholders' equity		2,304,464	2,149,529
Noncontrolling interests		10,315	15,858
Total equity		2,314,779	2,165,387
Total liabilities and equity	$	25,220,968	23,964,435
Supplemental information - assets and liabilities of consolidated education lending variable interest entities:			
Student loans receivable	$	22,359,655	21,909,476
Restricted cash		677,611	641,994
Loan accrued interest receivable and other assets		679,735	431,934
Bonds and notes payable		(22,146,374)	(21,702,298)
Accrued interest payable and other liabilities		(163,327)	(168,637)
Net assets of consolidated education lending variable interest entities	$	1,407,300	1,112,469

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2018, 2017, and 2016

	2018	2017	2016
	(Dollars in thousands, except share data)		
Interest income:			
Loan interest	$ 897,666	757,731	751,280
Investment interest	26,600	12,695	9,466
Total interest income	924,266	770,426	760,746
Interest expense:			
Interest on bonds and notes payable	669,906	465,188	388,183
Net interest income	254,360	305,238	372,563
Less provision for loan losses	23,000	14,450	13,500
Net interest income after provision for loan losses	231,360	290,788	359,063
Other income:			
Loan servicing and systems revenue	440,027	223,000	214,846
Education technology, services, and payment processing revenue	221,962	193,188	175,682
Communications revenue	44,653	25,700	17,659
Other income	54,446	52,826	58,255
Gain from debt repurchases	359	2,902	7,981
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	71,085	(18,554)	49,795
Total other income	832,532	479,062	524,218
Cost of services:			
Cost to provide education technology, services, and payment processing services	59,566	48,678	44,316
Cost to provide communications services	16,926	9,950	6,866
Total cost of services	76,492	58,628	51,182
Operating expenses:			
Salaries and benefits	436,179	301,885	255,924
Depreciation and amortization	86,896	39,541	33,933
Loan servicing fees to third parties	12,059	22,734	25,750
Other expenses	165,972	120,378	117,678
Total operating expenses	701,106	484,538	433,285
Income before income taxes	286,294	226,684	398,814
Income tax expense	58,770	64,863	141,313
Net income	227,524	161,821	257,501
Net loss (income) attributable to noncontrolling interests	389	11,345	(750)
Net income attributable to Nelnet, Inc.	$ 227,913	173,166	256,751
Earnings per common share:			
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 5.57	4.14	6.02
Weighted average common shares outstanding - basic and diluted	40,909,022	41,791,941	42,669,070

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2018, 2017, and 2016

	2018	2017	2016
		(Dollars in thousands)	
Net income	$ 227,524	161,821	257,501
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized holding gains arising during period, net of losses	1,056	2,349	5,789
Reclassification adjustment for gains recognized in net income, net of losses	(978)	(2,528)	(1,907)
Income tax effect	(69)	66	(1,436)
Total other comprehensive income (loss)	9	(113)	2,446
Comprehensive income	227,533	161,708	259,947
Comprehensive loss (income) attributable to noncontrolling interests	389	11,345	(750)
Comprehensive income attributable to Nelnet, Inc.	$ 227,922	173,053	259,197

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2018, 2017, and 2016

	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 earnings	Noncontrolling interests	Total equity
		Class A	Class B								
	(Dollars in thousands, except share data)										
Balance as of December 31, 2015	—	32,476,528	11,476,932	$ —	325	115	—	1,881,708	2,284	7,726	1,892,158
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	1,366	1,366
Net income	—	—	—	—	—	—	—	256,751	—	750	257,501
Other comprehensive income	—	—	—	—	—	—	—	—	2,446	—	2,446
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(572)	(572)
Cash dividends on Class A and Class B common stock - $0.50 per share	—	—	—	—	—	—	—	(21,188)	—	—	(21,188)
Issuance of common stock, net of forfeitures	—	189,952	—	—	1	—	4,218	—	—	—	4,219
Compensation expense for stock based awards	—	—	—	—	—	—	4,086	—	—	—	4,086
Repurchase of common stock	—	(2,038,368)	—	—	(20)	—	(7,884)	(61,187)	—	—	(69,091)
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	—	—	—	—	—	—	—	—	—	19,578	19,578
Net income (loss)	—	—	—	—	—	—	—	173,166	—	(11,345)	161,821
Other comprehensive loss	—	—	—	—	—	—	—	—	(113)	—	(113)
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(1,645)	(1,645)
Cash dividends on Class A and Class B common stock - $0.58 per share	—	—	—	—	—	—	—	(24,097)	—	—	(24,097)
Issuance of common stock, net of forfeitures	—	178,114	—	—	2	—	3,619	—	—	—	3,621
Compensation expense for stock based awards	—	—	—	—	—	—	4,193	—	—	—	4,193
Repurchase of common stock	—	(1,473,054)	—	—	(15)	—	(7,711)	(61,170)	—	—	(68,896)
Conversion of common stock	—	8,345	(8,345)	—	—	—	—	—	—	—	—
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	—	—	—	—	—	—	—	—	—	1,023	1,023
Net income (loss)	—	—	—	—	—	—	—	227,913	—	(389)	227,524
Other comprehensive income	—	—	—	—	—	—	—	—	9	—	9
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(525)	(525)
Cash dividends on Class A and Class B common stock - $0.66 per share	—	—	—	—	—	—	—	(26,839)	—	—	(26,839)
Issuance of common stock, net of forfeitures	—	316,148	—	—	3	—	5,171	—	—	—	5,174
Compensation expense for stock based awards	—	—	—	—	—	—	6,194	—	—	—	6,194
Repurchase of common stock	—	(868,147)	—	—	(8)	—	(11,264)	(34,059)	—	—	(45,331)
Impact of adoption of new accounting standards	—	—	—	—	—	—	—	2,007	(743)	—	1,264
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	(13,449)	—	(5,652)	(19,101)
Conversion of common stock	—	8,946	(8,946)	—	—	—	—	—	—	—	—
Balance as of December 31, 2018	—	28,798,464	11,459,641	$ —	288	115	622	2,299,556	3,883	10,315	2,314,779

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018, 2017, and 2016

	2018	2017	2016
		(Dollars in thousands)	
Net income attributable to Nelnet, Inc.	$ 227,913	173,166	256,751
Net (loss) income attributable to noncontrolling interests	(389)	(11,345)	750
Net income	227,524	161,821	257,501
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	184,682	137,823	122,547
Loan discount accretion	(40,800)	(44,812)	(40,617)
Provision for loan losses	23,000	14,450	13,500
Derivative market value adjustment	(1,014)	(26,379)	(59,895)
Unrealized foreign currency transaction adjustment	—	45,600	(11,849)
Proceeds (payments) from termination of derivative instruments, net	10,283	(30,382)	3,999
Payments to enter into derivative instruments	(4,770)	(929)	—
Proceeds from clearinghouse - initial and variation margin, net	40,382	76,325	—
Gain from debt repurchases	(359)	(2,902)	(7,981)
(Gain) loss from investments and notes receivable, net	(8,139)	2,108	979
Deferred income tax expense (benefit)	10,981	(1,544)	27,005
Non-cash compensation expense	6,539	4,416	4,348
Impairment expense	11,721	3,626	—
Other	2,219	(687)	1,329
Increase in loan accrued interest receivable	(248,869)	(39,203)	(7,439)
Decrease (increase) in accounts receivable	3,059	(4,234)	10,667
Increase in other assets	(4,069)	(42,270)	(5,416)
Increase in accrued interest payable	11,640	4,362	14,170
(Decrease) increase in other liabilities	(12,506)	(2,341)	2,409
Increase (decrease) in due to customers	59,388	67,419	(25,069)
Net cash provided by operating activities	270,892	322,267	300,188
Cash flows from investing activities, net of acquisitions:			
Purchases of loans	(3,847,553)	(312,293)	(319,511)
Purchases of loans from a related party	(74,698)	(13,183)	(29,633)
Net proceeds from loan repayments, claims, capitalized interest, and other	3,322,783	3,363,526	3,735,772
Proceeds from sale of loans	23,712	53,203	44,760
Purchases of available-for-sale securities	(46,424)	(128,523)	(94,673)
Proceeds from sales of available-for-sale securities	71,415	156,540	144,252
Purchases of investments and issuance of notes receivable	(67,040)	(29,339)	(21,511)
Proceeds from investments and notes receivable	23,039	11,545	15,898
Purchases of property and equipment	(125,023)	(156,005)	(67,602)
Business acquisition, net of cash and restricted cash acquired	(12,562)	—	—
Proceeds from sale of business, net	—	4,511	—
Net cash (used in) provided by investing activities	(732,351)	2,949,982	3,407,752
Cash flows from financing activities:			
Payments on bonds and notes payable	(3,113,503)	(5,403,224)	(4,134,890)
Proceeds from issuance of bonds and notes payable	3,922,962	1,984,558	650,909
Payments of debt issuance costs	(13,808)	(6,497)	(5,845)
Payment of contingent consideration	—	(850)	—
Dividends paid	(26,839)	(24,097)	(21,188)
Repurchases of common stock	(45,331)	(68,896)	(69,091)
Proceeds from issuance of common stock	1,359	678	889
Acquisition of noncontrolling interest	(13,449)	—	—
Issuance of noncontrolling interests	918	19,473	1,241
Distribution to noncontrolling interests	(525)	(1,645)	(572)
Net cash provided by (used in) financing activities	711,784	(3,500,500)	(3,578,547)

Net increase (decrease) in cash, cash equivalents and restricted cash	250,325	(228,251)	129,393
Cash, cash equivalents, and restricted cash, beginning of year	942,066	1,170,317	1,040,924
Cash, cash equivalents, and restricted cash, end of year	$ 1,192,391	942,066	1,170,317

NELNET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

(unaudited)

	Year ended December 31,		
	2018	**2017**	**2016**
Supplemental disclosures of cash flow information:			
Cash disbursements made for interest	$ 591,394	390,278	301,118
Cash disbursements made for income taxes, net of refunds and credits (a)	$ 473	96,721	115,415

(a) For 2018, the Company utilized $14.7 million of federal and state tax credits, related primarily to renewable energy.

Supplemental disclosures of noncash operating and investing activities regarding the Company's business acquisitions during 2018 are contained in note 7, "Business Combinations."

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 December 31, 2018	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015
Total cash and cash equivalents	$ 121,347	66,752	69,654	63,529
Restricted cash	701,366	688,193	980,961	832,624
Restricted cash - due to customers	369,678	187,121	119,702	144,771
Cash, cash equivalents, and restricted cash	$ 1,192,391	942,066	1,170,317	1,040,924

See accompanying notes to consolidated financial statements.

1. Description of Business

Nelnet, Inc. and its subsidiaries ("Nelnet" or 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 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 early-stage and emerging growth companies. Substantially all revenue from external customers is earned, and all long-lived assets are located, in the United States.

The Company was formed as a Nebraska corporation in 1978 to service federal student loans for two local banks. The Company built on this initial foundation as a servicer to become a leading originator, holder, and servicer of federal student loans, principally consisting of loans originated under the Federal Family Education Loan Program ("FFELP" or "FFEL Program") of the U.S. Department of Education (the "Department").

The Health Care and Education Reconciliation Act of 2010 (the "Reconciliation Act of 2010") discontinued new loan originations under the FFEL Program, effective July 1, 2010, and requires that all new federal student loan originations be made directly by the Department through the Federal Direct Loan Program. This law does not alter or affect the terms and conditions of existing FFELP loans. As a result of this law, the Company no longer originates new FFELP loans. To reduce its reliance on interest income on student loans, the Company has expanded its services and products. This expansion has been accomplished through internal growth and innovation as well as business acquisitions.

The Company has four reportable operating segments. The Company's reportable operating segments include:

- Loan Servicing and Systems ("LSS")
- Education Technology, Services, and Payment Processing ("ETS&PP")
- Communications
- Asset Generation and Management ("AGM")

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.

A description of each reportable operating segment is included below. See note 14 for additional information on the Company's segment reporting.

Loan Servicing and Systems

The primary service offerings of the Loan Servicing and Systems operating segment include:

- Servicing federally-owned student loans for the Department of Education
- Servicing FFELP loans
- Originating and servicing private education and consumer loans
- Providing student loan servicing software and other information technology products and services
- Providing outsourced services including call center, processing, and marketing services

LSS provides for the servicing of the Company's student loan portfolio and the portfolios of third parties. The loan servicing activities include loan conversion activities, application processing, borrower updates, customer service, payment processing, due diligence procedures, funds management reconciliations, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating external fee revenue when performed for third-party clients.

On February 7, 2018, the Company acquired Great Lakes Educational Loan Services, Inc. ("Great Lakes"). See note 7 for additional information related to this acquisition. Nelnet Servicing, LLC, ("Nelnet Servicing"), a subsidiary of the Company, and Great Lakes are two of four private sector companies (referred to as Title IV Additional Servicers, or "TIVAS") awarded a student loan servicing contract by the Department to provide additional servicing capacity for loans owned by the Department.

This operating segment also provides student loan servicing software, which is used internally by the Company and licensed to third-party student loan holders and servicers. These software systems have been adapted so that they can be offered as hosted servicing software solutions usable by third parties to service various types of student loans, including Federal Direct Loan Program and FFEL Program loans.

This segment also provides business process outsourcing specializing in contact center management. The contact center solutions and services include taking inbound calls, helping with outreach campaigns and sales, and interacting with customers through multi-channels.

Education Technology, Services, and Payment Processing

ETS&PP provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools automate administrative processes and collect and process commerce data.

In the K-12 market, the Company (known as FACTS Management) offers (i) actively managed tuition payment plans and billing services; (ii) assistance with financial needs assessment and donor management; (iii) school information system software that helps schools automate administrative processes such as admissions, enrollment, scheduling, student billing, attendance, and grade book management; (iv) professional development and educational instruction services; and (v) innovative technology products that aid in teacher and student evaluations. In the higher education market (known as Nelnet Campus Commerce) the Company offers two principal products: actively managed tuition payment plans, and education technologies and payment processing.

Outside of the education market, the Company also offers technology and payments services including electronic transfer and credit card processing, reporting, billing and invoicing, mobile and virtual terminal solutions, and specialized integrations to business software. In addition, this operating segment offers mobile first technology focused on increasing engagement, online giving, and communication for church and not-for-profit customers.

Communications

ALLO Communications LLC (“ALLO”) provides pure fiber optic service to homes and businesses for internet, television, and telephone services. The acquisition of ALLO in 2015 provides additional diversification of the Company's revenues and cash flows outside of education. In addition, the acquisition leverages the Company's existing infrastructure, customer service capabilities and call centers, and financial strength and liquidity for continued growth.

ALLO derives its revenue primarily from the sale of communication services to residential and business customers in Nebraska and Colorado. Internet and television services include revenue from residential and business customers for subscriptions to ALLO's data and video products. ALLO data services provide high-speed internet access over ALLO's all-fiber network at various symmetrical speeds of up to 1 gigabit per second for residential customers and is capable of providing symmetrical speeds of over 1 gigabit per second for business customers. Telephone services include local and long distance telephone service, hostedPBX services, and other basic services.

Asset Generation and Management

The Company's Asset Generation and Management operating segment includes the acquisition, management, and ownership of the Company's loan assets. Substantially all loan assets included in this segment are student loans originated under the FFEL Program, including the Stafford Loan Program, the PLUS Loan program, and loans that reflect the consolidation into a single loan of certain previously separate borrower obligations (“Consolidation” loans). The Company also acquires private education and consumer loans. The Company generates a substantial portion of its earnings from the spread, referred to as the Company's loan spread, between the yield it receives on its loan portfolio and the associated costs to finance such portfolio. The student loan assets are held in a series of education lending subsidiaries and associated securitization trusts designed specifically for this purpose. In addition to the loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance, are included in this segment.

Corporate and Other Activities

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities. Corporate and Other Activities include the following items:

- The operating results of Whitetail Rock Capital Management, LLC ("WRCM"), the Company's SEC-registered investment advisor subsidiary
- Income earned on certain investment activities, including real estate
- Interest expense incurred on unsecured debt transactions
- Other product and service offerings that are not considered reportable operating segments

Corporate and Other Activities also include certain corporate activities and overhead functions related to executive management, internal audit, human resources, accounting, legal, enterprise risk management, information technology, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services.

2. Summary of Significant Accounting Policies and Practices

Consolidation

The consolidated financial statements include the accounts of Nelnet, Inc. and its consolidated subsidiaries. In addition, the accounts of all variable interest entities (“VIEs”) of which the Company has determined that it is the primary beneficiary are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

Variable Interest Entities

The following entities are VIEs of which the Company has determined that it is the primary beneficiary. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE.

The Company's education lending subsidiaries are engaged in the securitization of education finance assets. These education lending subsidiaries hold beneficial interests in eligible loans, subject to creditors with specific interests. The liabilities of the Company's education lending subsidiaries are not the direct obligations of Nelnet, Inc. or any of its other subsidiaries. Each education lending subsidiary is structured to be bankruptcy remote, meaning that it should not be consolidated in the event of bankruptcy of the parent company or any other subsidiary. The Company is generally the administrator and master servicer of the securitized assets held in its education lending subsidiaries and owns the residual interest of the securitization trusts. As a result, for accounting purposes, the transfers of student loans to the securitization trusts do not qualify as sales. Accordingly, all the financial activities and related assets and liabilities, including debt, of the securitizations are reflected in the Company's consolidated financial statements and are summarized as supplemental information on the balance sheet.

As of December 31, 2018, the Company owned 98.8 percent of the economic rights of ALLO Communications LLC and has a disproportional 80 percent of the voting rights related to all operating decisions for ALLO's business. See note 1, “Description of Business,” for a description of ALLO, including the primary services offered. In addition to the Company’s original equity investment, Nelnet, Inc. (the parent) issued a line of credit to ALLO. On January 1, 2018, Nelnet, Inc. contributed more equity with an associated guaranteed payment and ALLO used the proceeds to retire the outstanding balance on the line of credit. On October 1, 2018, the guaranteed payment accrual was replaced with a yield-based preferred return of future earnings due on the newly contributed equity. The Company will continue to increase its ownership interests as it makes cash contributions to fund ALLO's operating losses and capital expenditures. In addition, ALLO's management, as current minority members, has the opportunity to earn ownership interests based on the financial performance of ALLO. Nelnet, Inc.’s maximum exposure to loss as a result of its involvement with ALLO is equal to its ownership interests investment. All of ALLO’s financial activities and related assets and liabilities are reflected in the Company’s consolidated financial statements. See note 14, “Segment Reporting,” for disclosure of ALLO’s total assets and results of operations (included in the "Communications" operating segment), note 9, "Goodwill," for disclosure of ALLO's goodwill, and note 10, “Property and Equipment,” for disclosure of ALLO’s fixed assets. ALLO's goodwill and property and equipment comprise the majority of its assets. The assets recognized as a result of consolidating ALLO are the property of ALLO and are not available for any other purpose.

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 ," and reclassifying non-customer receivables 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 activities.

- 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."

- Re classifying "enrollment services revenue" and "cost to provide enrollment services" in 2016 to "other income" and "other expenses," respectively.

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 the "Revenue Recognition" section of this note.

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:

	Year ended December 31, 2017		
	As previously reported	Impact of adoption	As restated
Education technology, services, and payment processing revenue	$ 145,751	47,437	193,188
Cost to provide education technology, services, and payment processing services	—	47,437	47,437 (a)

	Year ended December 31, 2016		
	As previously reported	Impact of adoption	As restated
Education technology, services, and payment processing revenue	$ 132,730	42,952	175,682
Cost to provide education technology, services, and payment processing services	—	42,952	42,952 (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. 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.

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 all 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:

	Year ended December 31, 2017		
	As previously reported	Impact of adoption	As restated
Increase in due to customers	$ —	67,419	67,419
Proceeds from clearinghouse - initial and variation margin, net	48,985	27,340	76,325
Net cash provided by operating activities	227,508	94,759	322,267
Decrease in restricted cash, net	320,108	(320,108)	—
Net cash provided by investing activities	3,270,090	(320,108)	2,949,982

	Year ended December 31, 2016		
	As previously reported	Impact of adoption	As restated
Decrease in due to customers	$ —	(25,069)	(25,069)
Net cash provided by operating activities	325,257	(25,069)	300,188
Increase in restricted cash, net	(147,487)	147,487	—
Purchases of investments and issuance of notes receivable	(22,361)	850	(21,511)
Net cash provided by investing activities	3,259,415	148,337	3,407,752

Noncontrolling Interests

Amounts for noncontrolling interests reflect the proportionate share of membership interest (equity) and net income attributable to the holders of minority membership interests in the following entities:

- Whitetail Rock Capital Management, LLC - WRCM is the Company's SEC-registered investment advisor subsidiary. WRCM issued 10 percent minority membership interests on January 1, 2012.
- ALLO Communications LLC - On December 31, 2015, the Company purchased 92.5 percent of the ownership interests in ALLO. On January 1, 2016, the Company sold a 1.0 percent ownership interest in ALLO to a non-related third-party. During 2018, the Company contributed additional equity to increase its ownership interest in ALLO to 98.8 percent. Per ALLO's operating agreement, currently all operating results of ALLO are allocated to the Company.
- 401 Building, LLC ("401 Building") - 401 Building is an entity established in October 2015 for the sole purpose of acquiring, developing, and operating a commercial building. The Company owns 50 percent of 401 Building.
- TDP Phase Three, LLC ("TDP") and TDP Phase Three-NMTC ("TDP-NMTC") - TDP and TDP-NMTC are entities that were established in October 2015 for the sole purpose of developing and operating the new headquarters of Hudl , a related party. The Company owns 25 percent of each TDP and TDP-NMTC.
- 330-333 Building, LLC ("330-333 Building") - 330-333 Building is an entity established in January 2016 for the sole purpose of acquiring, developing, and operating a commercial building. The Company owns 50 percent of 330-333 Building.

The Company is a tenant in the 401 Building, the headquarters of Hudl, and the 330-333 Building. Because the Company, as lessee, was involved in the asset construction, 401 Building, TDP, TDP-NMTC, and 330-333 Building are included in the Company's consolidated financial statements.

- GreatNet Solutions, LLC ("GreatNet") - GreatNet was a joint venture created in 2017 to respond to an initiative by the Department for the procurement of a contract for federal student loan servicing. Nelnet Servicing and Great Lakes each owned 50 percent of the ownership interests in GreatNet. For financial reporting purposes, the balance sheet and operating results of GreatNet were included in the Company's consolidated financial statements and presented in the Company's Loan Servicing and Systems operating segment. On February 7, 2018, the Company purchased 100 percent of the outstanding stock of Great Lakes. See note 7, “Business Combinations” for additional information on this business acquisition.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses, and other disclosures. Actual results may differ from those estimates.

Loans Receivable

Loans consist of federally insured student loans, private education loans, and consumer loans. If the Company has the ability and intent to hold loans for the foreseeable future, such loans are held for investment and carried at amortized cost. Amortized cost includes the unamortized premium or discount and capitalized origination costs and fees, all of which are amortized to interest income. Loans which are held-for-investment also have an allowance for loan loss as needed. Any loans the Company has the ability and intent to sell are classified as held for sale and are carried at the lower of cost or fair value. Loans which are held for sale do not have the associated premium or discount and origination costs and fees amortized into interest income and there is also no related allowance for loan losses. There were no loans classified as held for sale as of December 31, 2018 and 2017.

Federally insured loans were originated under the FFEL Program by certain eligible lenders as defined by the Higher Education Act of 1965, as amended (the “Higher Education Act”). These loans, including related accrued interest, are guaranteed at their maximum level permitted under the Higher Education Act by an authorized guaranty agency, which has a contract of reinsurance with the Department. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest. Generally, Stafford and PLUS loans have repayment periods between five and ten years. Consolidation loans have repayment periods of twelve to thirty years. FFELP loans do not require repayment while the borrower is in-school, and during the grace period immediately upon leaving school. The borrower may also be granted a deferment or forbearance for a period of time based on need, during which time the borrower is not considered to be in repayment. Interest continues to accrue on loans in the in-school, deferment, and forbearance program periods. In addition, eligible borrowers may qualify for income-driven repayment plans offered by the Department. These plans determine the borrower's payment amount based on their discretionary income and may extend their repayment period. Interest rates on federally insured student loans may be fixed or variable, dependent upon the type of loan, terms of the loan agreements, and date of origination.

Substantially all FFELP loan principal and related accrued interest is guaranteed as provided by the Higher Education Act. These guarantees are subject to the performance of certain loan servicing due diligence procedures stipulated by applicable Department regulations. If these due diligence requirements are not met, affected student loans may not be covered by the guarantees in the event of borrower default. Such student loans are subject to “cure” procedures and reinstatement of the guarantee under certain circumstances.

Loans also include private education and consumer loans. Private education loans are loans to students or their families that are non-federal loans and loans not insured or guaranteed under the FFEL Program. These loans are used primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans, or borrowers' personal resources. The terms of the private education loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over a period of up to 30 years. The private education loans are not covered by a guarantee or collateral in the event of borrower default. Consumer loans are unsecured loans to an individual for personal, family, or household purposes. The terms of the consumer loans, which vary on an individual basis, generally provide for repayment in weekly or monthly installments of principal and interest over a period of up to 6 years.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses on loans. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that the Company's management believes is appropriate to cover probable losses inherent in the loan portfolio. The Company evaluates the adequacy of the allowance for loan losses separately on each of its federally insured, private education, and consumer loan portfolios. These evaluation processes are subject to numerous judgments and uncertainties.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company's loan portfolios considering loans in repayment versus those in a nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government guarantees 97 of the principal of and the interest on federally insured student loans disbursed on and after July 1, 2006 (and 98 for those loans disbursed on and after October 1, 1993 and prior to July 1, 2006), which limits the Company's loss exposure on the outstanding balance of the Company's federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured.

In determining the appropriate allowance for loan losses on the private education and consumer loans, the Company considers several factors, including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. The Company places private education and consumer loans on nonaccrual status when the collection of principal and interest is 90 days past due, and charges off the loan when the collection of principal and interest is 120 days or 180 days past due, depending on type of loan program. Collections, if any, are reflected as a recovery through the allowance for loan losses.

Management has determined that each of the federally insured loan portfolio, private education loan portfolio, and consumer loan portfolio meets the definition of a portfolio segment, which is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Accordingly, the portfolio segment disclosures are presented on this basis in note 3 for each of these portfolios. The Company does not disaggregate its portfolio segment loan portfolios into classes of financing receivables. The Company collectively evaluates loans for impairment and as of December 31, 2018 and 2017, the Company did not have any impaired loans as defined in the Receivables Topic of the FASB Accounting Standards Codification.

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.

Cash and Cash Equivalents and Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Company considers all investments with original maturities of three months or less to be cash equivalents.

Accrued interest on loans purchased and sold is included in cash flows from operating activities in the respective period. Net purchased loan accrued interest was $181.0 million in 2018. Net purchased loan accrued interest in 2017 and 2016 was insignificant.

Investments

The Company classifies its debt securities, primarily student loan and other asset-backed securities, as available-for-sale. These securities are carried at fair value, with the temporary changes in fair value, net of taxes, carried as a separate component of shareholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts, which are amortized using the effective interest rate method. Other-than-temporary impairment is evaluated by considering several factors, including the length of time and extent to which the fair value has been less than the amortized cost basis, the financial condition and near-term prospects of the issuer of the security (considering factors such as adverse conditions specific to the security and ratings agency actions), and the intent and ability of the Company to retain the investment to allow for any anticipated recovery in fair value. The entire fair value loss on a security that has experienced an other-than-temporary impairment is recorded in earnings if the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the security before the expected recovery of the loss. However, if the impairment

is other-than-temporary, and either of those two conditions does not exist, the portion of the impairment related to credit losses is recorded in earnings and the impairment related to other factors is recorded in other comprehensive income. When an investment is sold, the cost basis is determined through specific identification of the security sold.

Equity investments with readily determinable fair values are 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).

For equity investments without readily determinable fair value, the Company uses 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. The Company uses qualitative factors to identify impairment on these investments.

The Company accounts for equity investments over which it has significant influence but not a controlling financial interest using the equity method of accounting. Equity method investments are recorded at cost and subsequently increased or decreased by the amount of the Company's proportionate share of the net earnings or losses and other comprehensive income of the investee. Equity method investments are evaluated for other-than-temporary impairment using certain impairment indicators such as a series of operating losses of an investee or other factors. These factors may indicate that a decrease in value of the investment has occurred that is other-than-temporary and shall be recognized.

For periods prior to January 1, 2018, equity securities with readily determinable fair values were primarily classified as available-for-sale and stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax. Equity securities without readily determinable fair values were recorded at cost less impairment, if any.

Restricted Cash

Restricted cash primarily includes amounts for student loan securitizations and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the student loans held as trust assets and when principal and interest is paid on the trust's asset-backed debt securities. Restricted cash also includes collateral deposits with derivative counterparties and third-party clearinghouses.

Restricted Cash - Due to Customers

As a servicer of student loans, the Company collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. In addition, as part of the Company's Education Technology, Services, and Payment Processing operating segment, the Company collects tuition payments and subsequently remits these payments to the appropriate schools. Cash collected for customers and the related liability are included in the accompanying consolidated balance sheets.

Accounts Receivable

Accounts receivable are presented at their net realizable values, which include allowances for doubtful accounts. Allowance estimates are based upon individual customer experience, as well as the age of receivables and likelihood of collection.

Business Combinations

The Company uses the acquisition method in accounting for acquired businesses. Under the acquisition method, the financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. All contingent consideration is measured at fair value on the acquisition date and included in the consideration transferred in the acquisition. Contingent consideration classified as a liability is remeasured to fair value at each reporting date until the contingency is resolved, and changes in fair value are recognized in earnings.

Goodwill

The Company reviews goodwill for impairment annually (in the fourth quarter) and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. Goodwill is tested for impairment using a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics.

The Company tests goodwill for impairment in accordance with applicable accounting guidance. The guidance provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform a quantitative impairment test (described below), otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test.

If the Company elects to not perform a qualitative assessment or if the Company determines it is more likely than not that the fair value of a reporting unit is less than the carrying amount, then the Company performs a quantitative impairment test on goodwill. In the quantitative test, the Company compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company would record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. Actual future results may differ from those estimates.

See note 9, "Goodwill," for information regarding the Company's annual goodwill impairment review.

Intangible Assets

The Company uses estimates to determine the fair value of acquired assets to allocate the purchase price to acquired intangible assets. Such estimates are generally based on estimated future cash flows or cost savings associated with particular assets and are discounted to present value using an appropriate discount rate. The estimates of future cash flows associated with intangible assets are generally prepared using a cost savings method, a lost income method, or an excess return method, as appropriate. In utilizing such methods, management must make certain assumptions about the amount and timing of estimated future cash flows and other economic benefits from the assets, the remaining economic useful life of the assets, and general economic factors concerning the selection of an appropriate discount rate. The Company may also use replacement cost or market comparison approaches to estimating fair value if such methods are determined to be more appropriate.

Intangible assets with finite lives are amortized over their estimated lives. Such assets are amortized using a method of amortization that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, the Company uses a straight-line amortization method.

The Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation. Maintenance and repairs are charged to expense as incurred, and major improvements, including leasehold improvements, are capitalized. Gains and losses from the sale of property and equipment are included in determining net income. The Company uses the straight-line method for recording depreciation and amortization. Leasehold improvements are amortized straight-line over the shorter of the lease term or estimated useful life of the asset.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, such as property and equipment and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assumptions and estimates about future cash flows generated by, remaining useful lives of, and fair values of the Company's intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy and internal forecasts. Although the Company believes the historical assumptions and estimates used are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

Fair Value Measurements

The Company uses estimates of fair value in applying various accounting standards for its financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company's policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value, such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates, and credit spreads, relying first on observable data from active markets. Depending on current market conditions, additional adjustments to fair value may be based on factors such as liquidity, credit, and bid/offer spreads. In some cases fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates of current or future values.

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring assets and liabilities at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels include:

- Level 1: Quoted prices for *identical* instruments in active markets. The types of financial instruments included in Level 1 are highly liquid instruments with quoted prices.
- Level 2: Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose primary value drivers are observable.
- Level 3: Instruments whose primary value drivers are *unobservable* . Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy at the end of the reporting period.

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. 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.

Additional information related to the Company's revenue recognition of specific items is provided below.

Loan interest income - Loan interest on federally insured student loans is paid by the Department or the borrower, depending on the status of the loan at the time of the accrual. In addition, the Department makes quarterly interest subsidy payments on certain qualified FFELP loans until the student is required under the provisions of the Higher Education Act to begin repayment. Borrower repayment of FFELP loans normally begins within six months after completion of the borrower's course of study, leaving school, or ceasing to carry at least one-half the normal full-time academic load, as determined by the educational institution. Borrower repayment of PLUS and Consolidation loans normally begins within 60 days from the date of loan disbursement. Borrower repayment of private education loans typically begins six months following the borrower's graduation from a qualified institution, and the interest is either paid by the borrower or capitalized annually or at repayment. Repayment of consumer loans typically starts upon origination of the loan.

The Department provides a special allowance to lenders participating in the FFEL Program. The special allowance is accrued based upon the fiscal quarter average rate of 13-week Treasury Bill auctions (for loans originated prior to January 1, 2000), the fiscal quarter average rate of the daily three-month financial commercial paper rates (for loans originated on and after January 1, 2000), or the fiscal quarter average rate of daily one-month LIBOR rates (for loans originated on and after January 1, 2000, and for lenders which elected to change the special allowance index to one-month LIBOR effective April 1, 2012) relative to the yield of the student loan.

The Company recognizes loan interest income as earned, net of amortization of loan premiums and deferred origination costs and the accretion of loan discounts. Loan interest income is recognized based upon the expected yield of the loan after giving effect to interest rate reductions resulting from borrower utilization of incentives such as timely payments ("borrower benefits") and other yield adjustments. Loan premiums or discounts, deferred origination costs, and borrower benefits are amortized/accreted over the estimated life of the loans, which includes an estimate of forecasted payments in excess of contractually required payments (the constant prepayment rate). The constant prepayment rate used by the Company to amortize/accrete loan premiums/discounts is 5 percent for Stafford loans and 3 percent for Consolidation loans. The Company periodically evaluates the assumptions used to estimate the life of the loans and prepayment rates. In instances where there are changes to the assumptions, amortization/accretion is adjusted on a cumulative basis to reflect the change since the acquisition of the loan.

The Company also pays the Department an annual 105 basis point rebate fee on Consolidation loans. These rebate fees are netted against loan interest income.

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:

	Year ended December 31,		
	2018	**2017**	**2016**
Government servicing - Nelnet	$ 157,091	155,829	151,728
Government servicing - Great Lakes	168,298	—	—
FFELP servicing	31,542	15,542	15,948
Private education and consumer loan servicing	41,474	28,060	15,600
Software services	32,929	17,782	18,132
Outsourced services and other	8,693	5,787	3,878
FFELP guarantee collection and servicing (a)	—	—	9,560
Loan servicing and systems revenue	$ 440,027	223,000	214,846

(a) Guarantee collection and servicing revenue in 2016 was earned from one customer that exited the FFELP guaranty business on June 30, 2016.

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. The electronic transfer and credit card processing consideration is recognized as revenue on a gross basis as the Company is the principal in the delivery of the payment processing. The Company has concluded it is the principal as it controls the services before delivery to the educational institution or business, it is primarily responsible for the delivery of the services, and it has discretion in setting prices charged to its customers. In addition, the Company has the unilateral ability to accept or reject a transaction based on criteria established by the Company. The Company is liable for the costs of processing the transactions and records such costs within "cost to provide education technology, services, and payment processing services."

- *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:

	Year ended December 31,		
	2018	**2017**	**2016**
Tuition payment plan services	$ 85,381	76,753	72,405
Payment processing	84,289	71,652	64,100
Education technology and services	51,155	44,539	38,308
Other	1,137	244	869
Education technology, services, and payment processing revenue	$ 221,962	193,188	175,682

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:

	Year ended December 31,		
	2018	**2017**	**2016**
Internet	$ 24,068	11,976	7,028
Television	12,949	8,018	5,774
Telephone	7,546	5,603	4,768
Other	89	103	88
Communications revenue	$ 44,653	25,700	17,659
Residential revenue	$ 33,434	17,696	11,088
Business revenue	10,976	7,744	6,235
Other	243	260	336
Communications revenue	$ 44,653	25,700	17,659

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:

	Year ended December 31,		
	2018	2017	2016
Borrower late fee income	$ 12,302	11,604	12,838
Gain on investments and notes receivable, net of losses	9,579	939	4,549
Management fee revenue	6,497	—	—
Investment advisory fees	6,009	12,723	6,129
Peterson's revenue	—	12,572	14,254
Enrollment services revenue (a)	—	—	4,326
Other	20,059	14,988	16,159
Other income	$ 54,446	52,826	58,255

(a) On February 1, 2016, the Company sold Sparkroom LLC. After this sale, the Company no longer earns enrollment services revenue.

- *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.
- *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.
- *Investment advisory fees* - Investment advisory services are provided by WRCM, the Company's 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.
- *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 for the retrospective comparative period which allowed the Company not 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 December 31,	
	2018	2017
Deferred revenue, which is included in "other liabilities" on the consolidated balance sheets	$ 39,122	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:

	Year ended December 31,		
	2018	2017	2016
Balance, beginning of period	$ 32,276	33,141	31,068
Deferral of revenue	113,292	94,789	89,580
Recognition of revenue	(109,742)	(93,670)	(86,627)
Other	3,296	(1,984)	(880)
Balance, end of period	$ 39,122	32,276	33,141

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.

Interest Expense

Interest expense is based upon contractual interest rates, adjusted for the amortization of debt issuance costs and the accretion of discounts. The amortization of debt issuance costs and accretion of discounts are recognized using the effective interest method.

Transfer of Financial Assets and Extinguishments of Liabilities

The Company accounts for loan sales and debt repurchases in accordance with applicable accounting guidance. If a transfer of loans qualifies as a sale, the Company derecognizes the loan and recognizes a gain or loss as the difference between the carrying basis of the loan sold and the consideration received. The Company from time to time repurchases its outstanding debt and records a gain or loss on the early extinguishment of debt based upon the difference between the carrying amount of the debt and the amount paid to the third party. The Company recognizes the results of a transfer of loans and the extinguishment of debt based upon the settlement date of the transaction.

Derivative Accounting

Effective June 10, 2013, all over-the-counter derivative contracts executed by the Company are cleared post-execution at the Chicago Mercantile Exchange (“CME”), a regulated clearinghouse. Clearing is a process by which a third-party, the clearinghouse, steps in between the original counterparties and guarantees the performance of both, by requiring that each post liquid collateral on an initial (initial margin) and mark-to-market (variation margin) basis to cover the clearinghouse’s potential future exposure in the event of default.

Effective January 3, 2017, the CME amended its rulebooks to legally characterize variation margin payments for over-the-counter derivatives they clear as settlements of the derivatives’ exposure rather than collateral against the exposure. Based on these rulebook changes, for accounting and presentation purposes, the Company considers variation margin and the corresponding derivative instrument as a single unit of account. As such, effective January 3, 2017, the variation margin received or paid is no longer accounted for separately as a liability or asset ("collateralized-to-market"). Instead, these payments are considered in determining the fair value of the centrally cleared derivative portfolio ("settled-to-market"). The Company records settled-to-market derivative contracts on its balance sheet with a fair value of zero and no collateral posted due to the payment or receipt of variation margin between the Company and the CME settling the outstanding mark-to-market exposure on such derivatives to a balance of zero on a daily basis, and records the underlying daily changes in the market value of such derivative contracts that result in such receipts or payments on its income statement as realized derivative market value adjustments in "Derivative market value and foreign currency transaction adjustments and derivative settlements, net."

The Company records derivative instruments that are not required to be cleared at a clearinghouse (non-centrally cleared derivatives) in the consolidated balance sheets on a gross basis as either an asset or liability measured at its fair value. Certain

non-centrally cleared derivatives are subject to right of offset provisions with counterparties. For these derivatives, the Company does not offset fair value amounts executed with the same counterparty under a master netting arrangement. In addition, the Company does not offset fair value amounts recognized for derivative instruments with respect to the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable).

The Company determines the fair value for its derivative instruments using either (i) pricing models that consider current market conditions and the contractual terms of the derivative instrument or (ii) counterparty valuations. The factors that impact the fair value of the Company's derivatives include interest rates, time value, forward interest rate curve, and volatility factors. Pricing models and their underlying assumptions impact the amount and timing of realized and unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. 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. Changes or shifts in the forward yield curve can significantly impact the valuation of the Company’s derivatives, and therefore impact the financial position and results of operations of the Company. Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date, or to amend the terms of an existing derivative, are included in the Company's consolidated statements of income and are accounted for as a change in fair value of such derivative. The changes in fair value of derivative instruments, as well as the settlement payments made on such derivatives, are included in “derivative market value and foreign currency adjustments and derivative settlements, net” on the consolidated statements of income.

Foreign Currency

During 2006, the Company issued Euro-denominated bonds, which were included in “bonds and notes payable” on the consolidated balance sheets. Transaction gains and losses resulting from exchange rate changes when re-measuring these bonds to U.S. dollars at the balance sheet date were included in “derivative market value and foreign currency adjustments and derivative settlements, net” on the consolidated statements of income. On October 25, 2017, the Company completed a remarketing of its Euro notes which reset the principal amount outstanding on the notes to U.S. dollars.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company uses the deferred method of accounting for its investment tax credits related to state tax incentives.

Income tax expense includes deferred tax expense, which represents the net change in the deferred tax asset or liability balance during the year, plus any change made in the valuation allowance, and current tax expense, which represents the amount of tax currently payable to or receivable from a tax authority plus amounts for expected tax deficiencies.

Compensation Expense for Stock Based Awards

The Company has a restricted stock plan that is intended to provide incentives to attract, retain, and motivate employees in order to achieve long term growth and profitability objectives. The restricted stock plan provides for the grant to eligible employees of awards of restricted shares of Class A common stock. The fair value of restricted stock awards is determined on the grant date based on the Company's stock price and is amortized to compensation cost over the related vesting periods, which range up to ten years. For those awards with only service conditions that have graded vesting schedules, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award, as if the award was, in substance, multiple awards. Holders of restricted stock are entitled to receive dividends from the date of grant whether or not vested. The Company accounts for forfeitures as they occur.

The Company also has a directors stock compensation plan pursuant to which non-employee directors can elect to receive their annual retainer fees in the form of fully vested shares of Class A common stock, and also elect to defer receipt of such shares until the termination of their service on the board of directors. The fair value of grants under this plan is determined on the grant date based on the Company's stock price, and is expensed over the board member's annual service period.

3. Loans Receivable and Allowance for Loan Losses

Loans receivable consisted of the following:

	As of December 31,	
	2018	2017
Federally insured student loans:		
Stafford and other	$ 4,969,667	4,418,881
Consolidation	17,186,229	17,302,725
Total	22,155,896	21,721,606
Private education loans	225,975	212,160
Consumer loans	138,627	62,111
	22,520,498	21,995,877
Loan discount, net of unamortized loan premiums and deferred origination costs	(53,572)	(113,695)
Non-accretable discount (a)	(29,396)	(13,085)
Allowance for loan losses:		
Federally insured loans	(42,310)	(38,706)
Private education loans	(10,838)	(12,629)
Consumer loans	(7,240)	(3,255)
	$ 22,377,142	21,814,507

(a) At December 31, 2018 and 2017, the non-accretable discount related to purchased loan portfolios of $5.7 billion and $5.8 billion, respectively.

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.

	Balance at beginning of period	Provision for loan losses	Charge-offs	Recoveries	Other	Balance at end of period
	Year ended December 31, 2018					
Federally insured loans	$ 38,706	14,000	(11,396)	—	1,000	42,310
Private education loans	12,629	—	(2,415)	624	—	10,838
Consumer loans	3,255	9,000	(5,056)	41	—	7,240
	$ 54,590	23,000	(18,867)	665	1,000	60,388
	Year ended December 31, 2017					
Federally insured loans	$ 37,268	13,000	(11,562)	—	—	38,706
Private education loans	14,574	(2,000)	(1,313)	768	600	12,629
Consumer loans	—	3,450	(195)	—	—	3,255
	$ 51,842	14,450	(13,070)	768	600	54,590
	Year ended December 31, 2016					
Federally insured loans	$ 35,490	14,000	(12,292)	—	70	37,268
Private education loans	15,008	(500)	(1,728)	954	840	14,574
Consumer loans	—	—	—	—	—	—
	$ 50,498	13,500	(14,020)	954	910	51,842

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.

	As of December 31,					
	2018		2017		2016	
Federally insured loans:						
Loans in-school/grace/deferment (a)	$ 1,298,493		$ 1,260,394		$ 1,606,468	
Loans in forbearance (b)	1,430,291		1,774,405		2,295,367	
Loans in repayment status:						
Loans current	16,882,252	86.9 %	16,477,004	88.2 %	18,125,768	86.6 %
Loans delinquent 31-60 days (c)	683,084	3.5	682,586	3.7	818,976	3.9
Loans delinquent 61-90 days (c)	427,764	2.2	374,534	2.0	487,647	2.3
Loans delinquent 91-120 days (c)	283,831	1.5	287,922	1.5	335,291	1.6
Loans delinquent 121-270 days (c)	806,692	4.2	629,480	3.4	854,432	4.1
Loans delinquent 271 days or greater (c)(d)	343,489	1.7	235,281	1.2	306,035	1.5
Total loans in repayment	19,427,112	100.0 %	18,686,807	100.0 %	20,928,149	100.0 %
Total federally insured loans	$ 22,155,896		$ 21,721,606		$ 24,829,984	
Private education loans:						
Loans in-school/grace/deferment (a)	$ 4,320		$ 6,053		$ 35,146	
Loans in forbearance (b)	1,494		2,237		3,448	
Loans in repayment status:						
Loans current	208,977	95.0 %	196,720	96.5 %	228,612	97.2 %
Loans delinquent 31-60 days (c)	3,626	1.6	1,867	0.9	1,677	0.7
Loans delinquent 61-90 days (c)	1,560	0.7	1,052	0.5	1,110	0.5
Loans delinquent 91 days or greater (c)	5,998	2.7	4,231	2.1	3,666	1.6
Total loans in repayment	220,161	100.0 %	203,870	100.0 %	235,065	100.0 %
Total private education loans	$ 225,975		$ 212,160		$ 273,659	
Consumer loans:						
Loans in repayment status:						
Loans current	$ 136,130	98.2 %	61,344	98.7 %		
Loans delinquent 31-60 days (c)	1,012	0.7	289	0.5		
Loans delinquent 61-90 days (c)	832	0.6	198	0.3		
Loans delinquent 91 days or greater (c)	653	0.5	280	0.5		
Total loans in repayment	138,627	100.0 %	62,111	100.0 %		
Total consumer loans	$ 138,627		$ 62,111			

(a) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, *e.g.* , residency periods for medical students or a grace period for bar exam preparation for law students.

(b) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, according to a schedule approved by the servicer consistent with the established loan program servicing procedures and policies.

(c) The period of delinquency is based on the number of days scheduled payments are contractually past due and relate to repayment loans, that is, receivables not charged off, and not in school, grace, deferment, or forbearance.

(d) A portion of loans included in loans delinquent 271 days or greater includes loans in claim status, which are loans that have gone into default and have been submitted to the guaranty agency.

4. Bonds and Notes Payable

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

	As of December 31, 2018		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in FFELP loan asset-backed securitizations:			
Bonds and notes based on indices	$ 20,192,123	2.59% - 4.52%	11/25/24 - 2/25/67
Bonds and notes based on auction	793,476	2.84% - 3.55%	3/22/32 - 11/26/46
Total FFELP variable-rate bonds and notes	20,985,599		
FFELP warehouse facilities	986,886	2.65% / 2.71%	5/20/20 / 5/31/21
Variable-rate bonds and notes issued in private education loan asset-backed securitization	50,720	4.26%	12/26/40
Fixed-rate bonds and notes issued in private education loan asset-backed securitization	63,171	3.60% / 5.35%	12/26/40 / 12/28/43
Unsecured line of credit	310,000	3.92% - 4.01%	6/22/23
Unsecured debt - Junior Subordinated Hybrid Securities	20,381	6.17%	9/15/61
Other borrowings	120,342	3.05% - 5.22%	1/3/19 - 12/15/45
	22,537,099		
Discount on bonds and notes payable and debt issuance costs	(318,359)		
Total	$ 22,218,740		

	As of December 31, 2017		
	Carrying amount	Interest rate range	Final maturity
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)		
Total	$ 21,356,573		

Secured Financing Transactions

The Company has historically relied upon secured financing vehicles as its most significant source of funding for loans. The net cash flow the Company receives from the securitized loans generally represents the excess amounts, if any, generated by the underlying loans over the amounts required to be paid to the bondholders, after deducting servicing fees and any other expenses relating to the securitizations. The Company's rights to cash flow from securitized loans are subordinate to bondholder interests, and the securitized loans may fail to generate any cash flow beyond what is due to bondholders. The Company's secured financing vehicles during the periods presented include loan warehouse facilities and asset-backed securitizations.

The majority of the bonds and notes payable are primarily secured by the loans receivable, related accrued interest, and by the amounts on deposit in the accounts established under the respective bond resolutions or financing agreements.

FFELP warehouse facilities

The Company funds the majority 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 December 31, 2018, the Company had two FFELP warehouse facilities as summarized below.

	NFSLW-I	NHELP-II	Total
Maximum financing amount	$ 700,000	500,000	1,200,000
Amount outstanding	620,671	366,215	986,886
Amount available	$ 79,329	133,785	213,114
Expiration of liquidity provisions	May 20, 2019	May 31, 2019	
Final maturity date	May 20, 2020	May 31, 2021	
Advanced as equity support	$ 30,550	26,423	56,973

The FFELP warehouse facilities are supported by liquidity provisions, which are subject to the respective expiration date shown in the above table. In the event the Company is unable to renew the liquidity provisions by such date, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by the facility's final maturity date. The NFSLW-I warehouse facility has a static advance rate 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. The NHELP-II warehouse facility has a static advance rate that requires initial equity for loan funding and does not require increased equity based on market movements.

The FFELP warehouse facilities contain financial covenants relating to levels of the Company's consolidated net worth, ratio of recourse indebtedness to adjusted EBITDA, and unencumbered cash. Any noncompliance with these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facilities.

Asset-backed securitizations

The following tables summarize the asset-backed securitization transactions completed in 2018 and 2017.

	Securitizations completed during the year ended December 31, 2018												
	2018-1			2018-2	2018-3				2018-4			2018-5	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	12/13/18	
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	511,500	$ 2,992,650
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	498,000	2,950,850
Cost of funds (1-month LIBOR plus:)	0.32%	0.76%		0.65%	0.30%	0.44%	0.75%		0.26%	0.70%		0.68%	
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		2/25/67	
Class B subordinated notes:													
Total original principal amount								$ 15,000			13,300	13,500	41,800
Bond discount								(229)			—	—	(229)
Issue price								$ 14,771			13,300	13,500	41,571
Cost of funds (1-month LIBOR plus:)								1.20%			1.40%	1.45%	
Final maturity date								9/27/66			10/25/66	2/25/67	

	Securitizations completed during the year ended December 31, 2017			
	2017-1	2017-2	2017-3	Total
Date securities issued	5/24/17	7/26/17	12/14/17	
Total original principal amount	$ 535,000	399,390	539,400	1,473,790
Bond discount	—	(2,002)	—	(2,002)
Issue price	$ 535,000	397,388	539,400	1,471,788
Cost of funds (1-month LIBOR plus:)	0.78%	0.77%	0.85%	
Final maturity date	6/25/65	9/25/65	2/25/66	

Auction Rate Securities

The interest rates on certain of the Company's FFELP asset-backed securities are set and periodically reset via a "dutch auction" ("Auction Rate Securities"). As of December 31, 2018, the Company is currently the sponsor on $793.5 million of 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.

Unsecured Line of Credit

The Company has an unsecured line of credit that has a maturity date of June 22, 2023. On December 14, 2018, the Company increased the aggregate amount it can borrow under this facility from $350.0 million to $382.5 million. As of December 31, 2018, $310.0 million was outstanding on the line of credit and $72.5 million was available for future use. Interest on amounts borrowed under the line of credit is payable, at the Company's election, at an alternate base rate or a Eurodollar rate, plus a variable rate (LIBOR), in each case as defined in the credit agreement. The initial margin applicable to Eurodollar borrowings is 150 basis points and may vary from 100 to 200 basis points depending on the Company's credit rating.

The line of credit agreement contains certain financial covenants that, if not met, lead to an event of default under the agreement. The covenants include maintaining:

- A minimum consolidated net worth
- A minimum adjusted EBITDA to corporate debt interest (over the last four rolling quarters)
- A limitation on recourse indebtedness
- A limitation on the amount of unsecuritized private education and consumer loans in the Company’s portfolio
- A limitation on permitted invest ments, including business acquisitions that are not in one of the Company's existing lines of business

As of December 31, 2018, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company's other lending facilities, including its warehouse facilities.

The Company's operating line of credit does not have any covenants related to unsecured debt ratings. However, changes in the Company's ratings have modest implications on the pricing level at which the Company obtains funds

A default on the Company's warehouse facilities would result in an event of default on the Company's unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Junior Subordinated Hybrid Securities

On September 27, 2006, the Company issued $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities ("Hybrid Securities"). The Hybrid Securities are unsecured obligations of the Company. The interest rate on the Hybrid Securities through September 29, 2036 ("the scheduled maturity date") is equal to three-month LIBOR plus 3.375%, payable quarterly, which was 6.17% at December 31, 2018. The principal amount of the Hybrid Securities will become due on the scheduled maturity date only to the extent that prior to such date the Company has received proceeds from the sale of certain qualifying capital securities (as defined in the Hybrid Securities' indenture). If any amount is not paid on the scheduled maturity date, it will remain outstanding and bear interest at a floating rate as defined in the indenture, payable monthly. On September 15, 2061, the Company must pay any remaining principal and interest on the Hybrid Securities in full whether or not the Company has sold qualifying capital securities. At the Company's option, the Hybrid Securities are redeemable in whole or in part at their principal amount plus accrued and unpaid interest.

Other Borrowings

During 2017, the Company entered into a repurchase agreement, the proceeds of which are collateralized by FFELP asset-backed security investments. Included in "other borrowings" as of December 31, 2018 and 2017, was $41.4 million and $50.4 million, respectively, subject to this repurchase agreement.

During 2018, the Company entered into a repurchase agreement, the proceeds of which are collateralized by private education loans. Included in "other borrowings" as of December 31, 2018 was $45.0 million subject to this repurchase agreement.

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. A summary of the notes outstanding related to these real estate entities as of December 31, 2018 is summarized below:

Issue date	Issuer	Debt outstanding	Amount recourse to the Company	Maturity date	Interest rate
December 30, 2015	TDP	$ 12,000	$ 3,000	March 31, 2023	3.38% - fixed
December 30, 2015	TDP	6,355	1,589	December 15, 2045	5.22% - fixed
October 1, 2017	TDP	1,685	421	March 31, 2023	5.22% - fixed
February 4, 2018	401 Building	504	504	March 7, 2019	1-month LIBOR plus 1.50%
February 7, 2018	401 Building	8,473	2,220	March 1, 2028	1-month LIBOR plus 1.50%
May 25, 2018	330-333 Building	2,804	—	May 25, 2033	3.99% - fixed
May 25, 2018	330-333 Building	2,113	—	March 25, 2034	3.99% - fixed
		$ 33,934	$ 7,734		

Debt Covenants

Certain bond resolutions and related credit agreements contain, among other requirements, covenants relating to restrictions on additional indebtedness, limits as to direct and indirect administrative expenses, and maintaining certain financial ratios. Management believes the Company is in compliance with all covenants of the bond indentures and related credit agreements as of December 31, 2018.

Maturity Schedule

Bonds and notes outstanding as of December 31, 2018 are due in varying amounts as shown below.

2019	$ 86,408
2020	620,671
2021	366,215
2022	—
2023	323,685
2024 and thereafter	21,140,120
	$ 22,537,099

Generally, the Company's secured financing instruments can be redeemed on any interest payment date at par plus accrued interest. Subject to certain provisions, all bonds and notes are subject to redemption prior to maturity at the option of certain education lending subsidiaries.

Debt Repurchases

The following table summarizes the Company's repurchases of its own debt. Gains (losses) 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 (loss)	Par value	Purchase price	Gain (loss)	Par value	Purchase price	Gain (loss)
	Year ended December 31,								
	2018			2017			2016		
Unsecured debt - Hybrid Securities	$ —	—	—	29,803	25,357	4,446	7,000	4,865	2,135
Asset-backed securities	12,905	12,546	359	154,407	155,951	(1,544)	78,412	72,566	5,846
	$ 12,905	12,546	359	184,210	181,308	2,902	85,412	77,431	7,981

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.

Interest Rate Risk

The Company is 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 Company periodically reviews the mismatch related to the interest rate characteristics of its assets and liabilities together with the Company's outlook as to current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy. Derivative instruments used as part of the Company's interest rate risk management strategy currently include basis swaps and interest rate swaps.

Basis Swaps

Interest earned on the majority of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. Meanwhile, the Company funds a portion of its FFELP loan assets with three-month LIBOR indexed floating rate securities. The differing interest rate characteristics of the Company's loan assets versus the liabilities funding these assets results in basis risk, which impacts the Company's excess spread earned on its loans.

The Company also faces repricing risk due to the timing of the interest rate resets on its liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on its assets, which generally occur daily.

As of December 31, 2018, the Company had $20.6 billion, $1.0 billion, and $0.6 billion of FFELP loans indexed to the one-month LIBOR rate, three-month commercial paper rate, and the three-month treasury bill rate, respectively, the indices for which reset daily, and $9.9 billion of debt indexed to three-month LIBOR, the indices for which reset quarterly, and $10.3 billion of debt indexed to one-month LIBOR, the indices for which reset monthly.

The Company has used derivative instruments to hedge its basis risk and repricing risk. The Company has entered into 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).

The following table summarizes the Company's 1:3 Basis Swaps outstanding:

	As of December 31,	
	2018	2017
Maturity	Notional amount	Notional amount
2018	$ —	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
	$ 10,000,000	11,250,000

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

Interest rate swaps – floor income hedges

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 Payments ("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 certain declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, these 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 these loans to the Department.

Absent the use of derivative instruments, a rise in interest rates may reduce the amount of floor income received and this may have 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.

As of December 31, 2018 and 2017, the Company had $2.6 billion and $4.8 billion, respectively, of FFELP student loan assets that were earning fixed rate floor income, of which the weighted average estimated variable conversion rate for these loans, which is the estimated short-term interest rate at which loans would convert to a variable rate, was 4.24% and 3.17%, respectively.

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

	As of December 31, 2018		As of December 31, 2017	
Maturity	**Notional amount**	**Weighted average fixed rate paid by the Company (a)**	**Notional amount**	**Weighted average fixed rate paid by the Company (a)**
2018	$ —	— %	$ 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
2021	100,000	2.95	—	—
2023	400,000	2.24	750,000	2.28
2024	300,000	2.28	300,000	2.28
2025	—	—	100,000	2.32
2027	25,000	2.35	50,000	2.32
	$ 5,575,000	1.18 %	$ 7,300,000	1.21 %

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

In addition, during 2014 and 2018, the Company paid $9.1 million and $4.6 million, respectively for interest rate swap options to economically hedge loans earning fixed rate floor income. The interest rate swap options give the Company the right, but not the obligation, to enter into interest rate swaps in which the Company would pay a fixed amount and receive discrete one-month LIBOR. The following table summarizes these derivative instruments as of December 31, 2018.

If exercised effective date	Notional amount	Weighted average fixed rate paid by the Company	If exercised maturity date
August 21, 2019	$ 750,000	3.28 %	August 21, 2024
September 25, 2019	250,000	3.00	September 25, 2024
	$ 1,000,000	3.21 %	

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 its student loan portfolio earning a fixed rate.

Interest rate swaps – unsecured debt hedges

As of both December 31, 2018 and 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. As of December 31, 2017, the Company had the following derivatives outstanding that were used to effectively convert the variable interest rate on a designated notional amount with respect to the Hybrid Securities to a fixed rate of 7.655%. These derivatives were terminated during the fourth quarter of 2018.

As of December 31, 2017		
Maturity	**Notional amount**	**Weighted average fixed rate paid by the Company (a)**
2036	$ 25,000	4.28 %

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

Foreign Currency Exchange Risk

In 2006, the Company issued €352.7 million of student loan asset-backed Euro Notes (the "Euro Notes") with an interest rate based on a spread to the EURIBOR index. On October 25, 2017, the Company completed a remarketing of the Euro Notes which reset principal amount outstanding on the Euro Notes to $450.0 million U.S. dollars with an interest rate based on the three-month LIBOR index. As a result of the Euro Notes, the Company was exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes were re-measured 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. Changes in the principal and accrued interest amounts as a result of foreign currency exchange rate fluctuations were included in the Company's consolidated statements of income.

The Company entered into a cross-currency interest rate swap in connection with the issuance of the Euro Notes. On October 25, 2017, the Company terminated the cross-currency swap when the Euro Notes were remarketed. Under the terms of the cross-currency interest rate swap, the Company received from the counterparty a spread to the EURIBOR index based on a notional amount of €352.7 million and paid a spread to the LIBOR index based on a notional amount of $450.0 million.

The following table shows the income statement impact as a result of the re-measurement of the Euro Notes and the change in the fair value of the related derivative instrument.

	2017	2016
Re-measurement of Euro Notes	$ (45,600)	11,849
Change in fair value of cross currency interest rate swap	34,208	(1,954)
Total impact to consolidated statements of income - (expense) income (a)	$ (11,392)	9,895

(a) The financial statement impact of the above items is included in "Derivative market value and foreign currency transaction adjustments and derivative settlements, net" in the Company's consolidated statements of income.

Management structured the cross-currency interest rate swap to economically hedge the Euro Notes to effectively convert the Euro Notes to U.S. dollars and pay a spread on these notes based on the LIBOR index. However, the cross-currency interest rate swap did not qualify for hedge accounting. The re-measurement of the Euro-denominated bonds generally correlated with the change in the fair value of the corresponding cross-currency interest rate swap. However, the Company experienced unrealized gains and losses between these financial instruments due to the principal and accrued interest on the Euro Notes being re-measured to U.S. dollars at each reporting date based on the foreign currency exchange rate on that date, while the cross-currency interest rate swap was measured at fair value at each reporting date with the change in fair value recognized in the current period earnings.

Consolidated Financial Statement Impact Related to Derivatives

Balance Sheet

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

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of December 31, 2018	As of December 31, 2017	As of December 31, 2018	As of December 31, 2017
Interest rate swap options - floor income hedge	$ 1,465	543	—	—
Interest rate caps	353	275	—	—
Interest rate swaps - hybrid debt hedges	—	—	—	7,063
Total	$ 1,818	818	—	7,063

During the year ended December 31, 2018, the Company terminated certain derivatives for net proceeds of $10.3 million, including proceeds of $14.2 million on the termination of floor income hedges, and payments of $3.9 million on the termination of hybrid debt hedges. During the year ended December 31, 2017, the Company terminated certain derivatives for net payments of $30.4 million, including proceeds of $2.1 million and $0.9 million on the termination of 1:3 basis swaps and interest rate caps, respectively, and payments of $33.4 million on the termination of its cross-currency interest rate swap.

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:

		Gross amounts not offset in the consolidated balance sheets		
Derivative assets	Gross amounts of recognized assets presented in the consolidated balance sheets	Derivatives subject to enforceable master netting arrangement	Cash collateral received	Net asset
Balance as of December 31, 2018	$ 1,818	—	—	1,818
Balance as of December 31, 2017	818	—	—	818

		Gross amounts not offset in the consolidated balance sheets		
Derivative liabilities	Gross amounts of recognized liabilities presented in the consolidated balance sheets	Derivatives subject to enforceable master netting arrangement	Cash collateral pledged	Net asset (liability)
Balance as of December 31, 2018	$ —	—	—	—
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.

	Year ended December 31,		
	2018	2017	2016
Settlements:			
1:3 basis swaps	$ 5,577	(3,069)	1,493
Interest rate swaps - floor income hedges	64,901	10,838	(17,643)
Interest rate swaps - hybrid debt hedges	(407)	(781)	(915)
Cross-currency interest rate swap	—	(6,321)	(4,884)
Total settlements - income (expense)	70,071	667	(21,949)
Change in fair value:			
1:3 basis swaps	12,573	(8,224)	(2,938)
Interest rate swaps - floor income hedges	(10,962)	3,585	64,111
Interest rate swap options - floor income hedge	(3,848)	(2,433)	(281)
Interest rate caps	78	(893)	(419)
Interest rate swaps - hybrid debt hedges	3,173	279	304
Cross-currency interest rate swap	—	34,208	(1,954)
Other	—	(143)	1,072
Total change in fair value - income (expense)	1,014	26,379	59,895
Re-measurement of Euro Notes (foreign currency transaction adjustment) - (expense) income	—	(45,600)	11,849
Derivative market value and foreign currency transaction adjustments and derivative settlements, net - income (expense)	$ 71,085	(18,554)	49,795

Derivative Instruments - Credit and Market Risk

New clearing requirements reduce counterparty risk associated with over-the-counter derivatives executed by the Company after June 10, 2013. For non-centrally cleared derivatives, the Company is exposed to credit risk.

When the fair value of a non-centrally cleared derivative is positive (an asset in the Company's consolidated balance sheet), this generally indicates that the counterparty would owe the Company if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by the Company. If the Company was unable to collect from a counterparty, it would have a loss equal to the amount the derivative is recorded in the consolidated balance sheet.

The Company considers counterparties' credit risk when determining the fair value of derivative positions on its exposure net of collateral. However, the Company does not use the collateral to offset fair value amounts recognized for derivative instruments in the financial statements.

When the fair value of a non-centrally cleared derivative is negative (a liability in the Company's consolidated balance sheet), the Company would owe the counterparty if the derivative was settled and, therefore, has no immediate credit risk. If the negative fair value of derivatives with a counterparty exceeds a specified threshold, the Company may have to make a collateral deposit with the counterparty. The threshold at which the Company may be required to post collateral is dependent upon the Company's unsecured credit rating. The Company believes any downgrades from its current unsecured credit rating (Standard & Poor's: BBB- (stable outlook), Moody's: Ba1 (stable outlook), and DBRS: BBB (low) (stable outlook)), would not result in additional collateral requirements of a material nature. In addition, no counterparty has the right to terminate its contracts in the event of downgrades from the current ratings.

Interest rate movements have an impact on the amount of collateral the Company is required to deposit with its derivative instrument counterparties and variation margin payments to its third-party clearinghouse. The Company attempts to manage market risk associated with interest rates by establishing and monitoring limits as to the types and degree of risk that may be

undertaken. The Company's derivative portfolio and hedging strategy is reviewed periodically by its internal risk committee and board of directors' Risk and Finance Committee. With the Company's current derivative portfolio, the Company does not currently anticipate any movement in interest rates having a material impact on its liquidity or capital resources, nor expects future movements in interest rates to have a material impact on its ability to meet potential collateral deposits with its counterparties and variation margin payments to its third-party clearinghouse. Due to the existing low interest rate environment, the Company's exposure to downward movements in interest rates on its interest rate swaps is limited. In addition, the historical high correlation between one-month and three-month LIBOR limits the Company's exposure to interest rate movements on the 1:3 Basis Swaps.

6. Investments and Notes Receivable

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

	As of December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments (at fair value):				
Student loan asset-backed and other debt securities - available-for-sale (a)	$ 47,931	5,109	—	53,040
Equity securities	12,909	5,145	(407)	17,647
Total investments (at fair value)	$ 60,840	10,254	(407)	70,687
Other Investments and Notes Receivable (not measured at fair value):				
Venture capital and funds:				
Measurement alternative (b)				70,939
Equity method				19,230
Other				3,900
Total venture capital and funds				94,069
Real estate:				
Equity method				29,168
Other				31,211
Total real estate				60,379
Notes receivable				16,373
Tax liens and affordable housing				7,862
Total investments and notes receivable (not measured at fair value)				178,683
Total investments and notes receivable				$ 249,370

	As of December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments (at fair value):				
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	$ 73,573	7,354	(25)	80,902
Other Investments and Notes Receivable (not measured at fair value):				
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				$ 240,538

(a) As of December 31, 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 all 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 2018, the Company recorded upward adjustments of $7.2 million on these investments which 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 also recorded $0.8 million in impairments in 2018 on these investments.

7. Business Combinations

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 Department of Education, 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, a joint venture formed prior to the acquisition between 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. 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	$	136,551

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 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 year ended December 31, 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.

	Year ended December 31,	
	2018	**2017**
Loan servicing and systems revenue	$ 460,074	452,760
Net income attributable to Nelnet, Inc.	$ 229,409	185,369
Net income per share - basic and diluted	$ 5.61	4.44

Tuition Management Systems, LLC ("TMS")

On November 20, 2018, the Company acquired 100 percent of the membership interests of TMS for total cash consideration of $27.0 million. TMS provides tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added both K-12 and higher education schools to the Company's existing customer base, further enhancing the Company's market share leading position with private faith based K-12 schools and advancing to a market leading position in higher education. The operating results of TMS are included in the Education Technology, Services, and Payment Processing operating segment from the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

Cash and cash equivalents	$ 438
Restricted cash - due to customers	123,169
Accounts receivable	1,019
Other assets	381
Intangible assets	26,390
Excess cost over fair value of net assets acquired (goodwill)	3,110
Other liabilities	(4,321)
Due to customers	(123,169)
Net assets acquired	$ 27,017

The $26.4 million of acquired intangible assets on the date of acquisition had a weighted-average useful life of approximately 10 years. The intangible assets that made up this amount include customer relationships of $25.4 million (10-year useful life) and computer software of $1.0 million (2-year useful life).

The $3.1 million of goodwill was assigned to the Education Technology, Services, and Payment Processing operating segment and is expected to be deductible for tax purposes. The amount allocated to goodwill was primarily attributed to the synergies and economies of scale expected from combining the operations of the Company and TMS.

The pro forma impacts of the TMS acquisition on the Company's historical results prior to the acquisition were not material.

8. Intangible Assets

Intangible assets consist of the following:

	Weighted average remaining useful life as of December 31, 2018 (months)	As of December 31, 2018	As of December 31, 2017
Amortizable intangible assets, net:			
Customer relationships (net of accumulated amortization of $33,968 and $12,715, respectively)	84	$ 98,484	24,168
Trade names (net of accumulated amortization of $5,825 and $2,498, respectively)	87	10,868	9,074
Computer software (net of accumulated amortization of $15,420 and $10,013, respectively)	22	4,938	4,958
Covenants not to compete (net of accumulated amortization of $127)	—	—	227
Total - amortizable intangible assets, net	81	$ 114,290	38,427

The Company recorded amortization expense on its intangible assets of $30.2 million, $9.4 million, and $11.6 million during the years ended December 31, 2018, 2017, and 2016, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of December 31, 2018, the Company estimates it will record amortization expense as follows:

2019	$ 32,757
2020	29,515
2021	18,761
2022	7,172
2023	6,925
2024 and thereafter	19,160
	$ 114,290

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 (a)	Corporate and Other Activities	Total
Balance as of December 31, 2016	$ 8,596	67,168	21,112	41,883	8,553	147,312
Impairment expense	—	—	—	—	(3,626)	(3,626)
Sale of Peterson's	—	—	—	—	(4,927)	(4,927)
Balance as of December 31, 2017	8,596	67,168	21,112	41,883	—	138,759
Goodwill acquired	15,043	3,110	—	—	—	18,153
Balance as of December 31, 2018	$ 23,639	70,278	21,112	41,883	—	156,912

(a) As a result of the Reconciliation Act of 2010, the Company no longer originates new FFELP loans, and net interest income from the Company's existing FFELP loan portfolio will decline over time as the Company's portfolio pays down. As a result, as this revenue stream winds down, goodwill impairment will be triggered for the Asset Generation and Management reporting unit due to the passage of time and depletion of projected cash flows stemming from its FFELP student loan portfolio. Management believes the elimination of new FFELP loan originations will not have an adverse impact on the fair value of the Company's other reporting units.

The Company reviews goodwill for impairment annually. This annual review is completed by the Company as of November 30 of each year and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. On November 30, 2017, due to the anticipated sale of Peterson's, the Company recognized an impairment expense of $3.6 million related to goodwill initially recorded upon the acquisition of Peterson's. On December 31, 2017, the Company sold Peterson's for $5.0 million in cash. The impairment expense recognized by the Company is included in "other expenses" in the consolidated statements of income.

For the 2018 annual review of goodwill, the Company assessed qualitative factors and concluded it was not more likely than not that the fair value of its reporting units were less than their carrying amount. As such, the Company was not required to perform further impairment testing and concluded there was no impairment of goodwill.

10. Property and Equipment

Property and equipment consisted of the following:

		As of December 31,	
	Useful life	**2018**	**2017**
Non-communications:			
Computer equipment and software	1-5 years	$ 137,705	124,708
Building and building improvements	5-48 years	50,138	24,003
Office furniture and equipment	1-10 years	22,796	15,210
Leasehold improvements	1-15 years	9,327	7,759
Transportation equipment	4-10 years	5,123	3,813
Land	—	3,328	2,628
Construction in progress	—	3,578	4,127
		231,995	182,248
Accumulated depreciation - non-communications		(123,003)	(105,017)
Non-communications, net property and equipment		108,992	77,231
Communications:			
Network plant and fiber	5-15 years	215,787	138,122
Customer located property	5-10 years	21,234	13,767
Central office	5-15 years	15,688	10,754
Transportation equipment	4-10 years	6,580	5,759
Computer equipment and software	1-5 years	4,943	3,790
Other	1-39 years	3,219	2,516
Land	—	70	70
Construction in progress	—	6,344	11,620
		273,865	186,398
Accumulated depreciation - communications		(38,073)	(15,578)
Communications, net property and equipment		235,792	170,820
Total property and equipment, net		$ 344,784	248,051

The Company recorded depreciation expense on its property and equipment of $56.7 million, $30.2 million, and $22.4 million during the years ended December 31, 2018, 2017, and 2016, respectively.

Impairment charges

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, in 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.

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, in 2018, the Company recorded an impairment charge of $7.8 million. The charge primarily represents computer equipment and external software development costs related to the payment processing platform. The decision does not impact the Company's existing payment processing revenue or customers.

The above impairment charges are included in "other expenses" in the consolidated statements of income.

11. Shareholders' Equity

Classes of Common Stock

The Company's common stock is divided into two classes. The Class B common stock has ten votes per share and the Class A common stock has one vote per share on all matters to be voted on by the Company's shareholders. Each Class B share is convertible at any time at the holder's option into one Class A share. With the exception of the voting rights and the conversion feature, the Class A and Class B shares are identical in terms of other rights, including dividend and liquidation rights.

Stock Repurchases

The Company has a stock repurchase program that expires on May 25, 2019 in which it can repurchase up to five million shares of its Class A common stock on the open market, through private transactions, or otherwise. As of December 31, 2018, 2.3 million shares may still be purchased under the Company's stock repurchase program. Shares repurchased by the Company during 2018, 2017, and 2016 are shown in the table below. In accordance with the corporate laws of the state in which the Company is incorporated, all shares repurchased by the Company are legally retired upon acquisition by the Company.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Year ended December 31, 2018	868,147	$ 45,331	$ 52.22
Year ended December 31, 2017	1,473,054	68,896	46.77
Year ended December 31, 2016	2,038,368	69,091	33.90

12. 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.

	Year ended December 31,								
	2018			2017			2016		
	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total	Common shareholders	Unvested restricted stock shareholders	Total
Numerator:									
Net income attributable to Nelnet, Inc.	$ 225,170	2,743	227,913	171,442	1,724	173,166	254,063	2,688	256,751
Denominator:									
Weighted-average common shares outstanding - basic and diluted	40,416,719	492,303	40,909,022	41,375,964	415,977	41,791,941	42,222,335	446,735	42,669,070
Earnings per share - basic and diluted	$ 5.57	5.57	5.57	4.14	4.14	4.14	6.02	6.02	6.02

Unvested restricted stock awards are the Company's only potential common shares and, accordingly, there were no awards that were antidilutive and not included in average shares outstanding for the diluted earnings per share calculation.

As of December 31, 2018, a cumulative amount of 182,199 shares have been deferred by non-employee directors under the Directors Stock Compensation Plan and will become issuable upon the termination of service by the respective non-employee director on the board of directors. These shares are included in the Company's weighted average shares outstanding calculation.

13. Income Taxes

The Company is subject to income taxes in the United States, Canada, and Australia. Significant judgment is required in evaluating the Company's tax positions and determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain.

As required by the Income Taxes Topic of the FASB Accounting Standards Codification ("ASC Topic 740"), the Company recognizes in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the period of such change.

As of December 31, 2018, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $23.4 million, which is included in “other liabilities” on the consolidated balance sheet. Of this total, $18.5 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods. The Company currently anticipates uncertain tax positions will decrease by $5.2 million prior to December 31, 2019 as a result of a lapse of applicable statutes of limitations, settlements, correspondence with examining authorities, and recognition or measurement considerations with federal and state jurisdictions; however, actual developments in this area could differ from those currently expected. Of the anticipated $5.2 million decrease, $4.1 million, if recognized, would favorably affect the Company's effective tax rate. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits follows:

	Year ended December 31,	
	2018	**2017**
Gross balance - beginning of year	$ 28,421	28,004
Additions based on tax positions of prior years	1,405	145
Additions based on tax positions related to the current year	2,044	2,903
Settlements with taxing authorities	(915)	—
Reductions for tax positions of prior years	(5,109)	(356)
Reductions due to lapse of applicable statutes of limitations	(2,401)	(2,275)
Gross balance - end of year	$ 23,445	28,421

All the reductions shown in the table above that are due to prior year tax positions, settlements, and the lapse of statutes of limitations impacted the effective tax rate.

The Company's policy is to recognize interest and penalties accrued on uncertain tax positions as part of interest expense and other expense, respectively. As of December 31, 2018 and 2017, $4.9 million and $4.5 million in accrued interest and penalties, respectively, were included in “other liabilities” on the consolidated balance sheets. The Company recognized interest expense of $0.4 million, $0.8 million, and $0.3 million related to uncertain tax positions for the years ended December 31, 2018, 2017, and 2016, respectively. The impact to the consolidated statements of income related to penalties for uncertain tax positions was not significant for the years 2018, 2017, and 2016. The impact of timing differences and tax attributes are considered when calculating interest and penalty accruals associated with the unrecognized tax benefits.

The Company and its subsidiaries file a consolidated federal income tax return in the U.S. and the Company or one of its subsidiaries files income tax returns in various state, local, and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2015. The Company is no longer subject to U.S. state and local income tax examinations by tax authorities prior to 2010. As of December 31, 2018, the Company has tax uncertainties that remain unsettled in the jurisdictions of California (2010 through 2015) and Maine (2011 through 2016).

The provision for income taxes consists of the following components:

	Year ended December 31,		
	2018	2017	2016
Current:			
Federal	$ 45,822	65,196	111,302
State	1,969	1,246	3,019
Foreign	(2)	(35)	(13)
Total current provision	47,789	66,407	114,308
Deferred:			
Federal	11,783	(8,270)	25,423
State	(883)	6,618	1,976
Foreign	81	108	(394)
Total deferred provision	10,981	(1,544)	27,005
Provision for income tax expense	$ 58,770	64,863	141,313

The differences between the income tax provision computed at the statutory federal corporate tax rate and the financial statement provision for income taxes are shown below:

	Year ended December 31,		
	2018	2017	2016
Tax expense at federal rate	21.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
State tax, net of federal income tax benefit	2.4	1.6	1.1
Tax credits	(1.9)	(1.3)	(0.6)
Provision for uncertain federal and state tax matters	(1.0)	—	—
Reduction of statutory federal rate (a)	—	(8.0)	—
Effective tax rate	20.5 %	27.3 %	35.5 %

(a) The Tax Cuts and Jobs Act (the "Tax Act"), signed into law on December 22, 2017, changes existing United States tax law and includes numerous provisions that affect businesses, including the Company. The Tax Act, for instance, introduces changes that impact U.S. corporate tax rates, business-related exclusions, and deductions and credits.

The Company accounted for the change in tax laws in accordance with ASC Topic 740 that provides guidance that a change in tax law or rates be recognized in the financial reporting period that includes the enactment date, which is the date the changes were signed into law. The income tax accounting effect of a change in tax laws or tax rates includes, for example, adjusting (or re-measuring) deferred tax liabilities and deferred tax assets, as well as evaluating whether a valuation allowance is needed for deferred tax assets. The Company re-measured its deferred tax liabilities and deferred tax assets as of December 22, 2017 resulting in a decrease to income tax expense of $19.3 million. The Company determined no valuation allowance was needed for any deferred tax assets as a result of the Act.

The tax effect of temporary differences that give rise to deferred tax assets and liabilities include the following:

	As of December 31,	
	2018	**2017**
Deferred tax assets:		
Deferred revenue	$ 16,633	3,246
Student loans	15,054	13,532
Accrued expenses	3,254	2,246
Stock compensation	2,041	1,744
Securitizations	2,014	2,970
Intangible assets	—	2,899
Total gross deferred tax assets	38,996	26,637
Less valuation allowance	(527)	(254)
Net deferred tax assets	38,469	26,383
Deferred tax liabilities:		
Partnership basis	47,488	21,474
Basis in certain derivative contracts	22,042	23,051
Intangible assets	9,903	—
Depreciation	9,469	4,958
Loan origination services	6,243	8,001
Debt and equity investments	1,363	1,767
Debt repurchases	—	3,856
Other	644	823
Total gross deferred tax liabilities	97,152	63,930
Net deferred tax asset (liability)	$ (58,683)	(37,547)

The Company has performed an evaluation of the recoverability of deferred tax assets. In assessing the realizability of the Company's deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected taxable income, carry back opportunities, and tax planning strategies in making the assessment of the amount of the valuation allowance. With the exception of a portion of the Company's state net operating loss, it is management's opinion that it is more likely than not that the deferred tax assets will be realized and should not be reduced by a valuation allowance. The amount of deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

As of December 31, 2018 and 2017, the Company had a current income tax receivable of $6.4 million and $42.4 million, respectively, that is included in "other assets" on the consolidated balance sheets.

14. Segment Reporting

The Company has four reportable operating segments. The Company's reportable operating segments include:

- Loan Servicing and Systems
- Education Technology, Services, and Payment Processing
- Communications
- Asset Generation and Management

The Company earns fee-based revenue through its Loan Servicing and Systems, Education Technology, Services, and Payment Processing, and Communications operating segments. In addition, the Company earns interest income on its loan portfolio in its Asset Generation and Management operating segment.

The Company's operating segments are defined by the products and services they offer and the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. See note 1, "Description of Business," for a description of each operating segment, including the primary products and services offered.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company, as well as the methodology used by management to evaluate performance and allocate resources. Executive management (the "chief operating decision maker") evaluates the performance of the Company's operating segments based on their financial results prepared in conformity with U.S. GAAP.

The accounting policies of the Company's operating segments are the same as those described in the summary of significant accounting policies. Intersegment revenues are charged by a segment that provides a product or service to another segment. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. 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. Prior to January 1, 2018, income taxes were allocated based on 38% of income before taxes for each individual operating segment. The difference between the consolidated income tax expense and the sum of taxes calculated for each operating segment is included in income taxes in Corporate and Other Activities.

Corporate and Other Activities

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities. Corporate and Other Activities includes the following items:

- Income earned on certain investment activities , including real estate
- Interest expense incurred on unsecured debt transactions
- Other product and service offerings that are not considered reportable operating segments including, but not limited to, WRCM, the SEC-registered investment advisor subsidiary

Corporate and Other Activities also includes certain corporate activities and overhead functions related to executive management, internal audit, human resources, accounting, legal, enterprise risk management, information technology, occupancy, and marketing. These costs are allocated to each operating segment based on estimated use of such activities and services.

Segment Results

The following tables include the results of each of the Company's reportable operating segments reconciled to the consolidated financial statements.

	Year ended December 31, 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	$ 1,351	4,453	4	911,502	19,944	(12,989)	924,266
Interest expense	—	9	9,987	662,360	10,540	(12,989)	669,906
Net interest income	1,351	4,444	(9,983)	249,142	9,404	—	254,360
Less provision for loan losses	—	—	—	23,000	—	—	23,000
Net interest income (loss) after provision for loan losses	1,351	4,444	(9,983)	226,142	9,404	—	231,360
Other income:							
Loan servicing and systems revenue	440,027	—	—	—	—	—	440,027
Intersegment servicing revenue	47,082	—	—	—	—	(47,082)	—
Education technology, services, and payment processing revenue	—	221,962	—	—	—	—	221,962
Communications revenue	—	—	44,653	—	—	—	44,653
Other income	7,284	—	1,075	12,364	33,724	—	54,446
Gain from debt repurchases	—	—	—	359	—	—	359
Derivative settlements, net	—	—	—	70,478	(407)	—	70,071
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(2,159)	3,173	—	1,014
Total other income	494,393	221,962	45,728	81,042	36,490	(47,082)	832,532
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	59,566	—	—	—	—	59,566
Cost to provide communications services	—	—	16,926	—	—	—	16,926
Total cost of services	—	59,566	16,926	—	—	—	76,492
Operating expenses:							
Salaries and benefits	267,458	81,080	18,779	1,526	67,336	—	436,179
Depreciation and amortization	32,074	13,484	23,377	—	17,960	—	86,896
Loan servicing fees to third parties	—	—	—	12,059	—	—	12,059
Other expenses	67,336	28,137	11,900	3,902	54,697	—	165,972
Intersegment expenses, net	59,042	10,681	2,578	47,870	(73,088)	(47,082)	—
Total operating expenses	425,910	133,382	56,634	65,357	66,905	(47,082)	701,106
Income (loss) before income taxes	69,834	33,458	(37,815)	241,827	(21,011)	—	286,294
Income tax (expense) benefit	(16,954)	(8,030)	9,075	(58,038)	15,177	—	(58,770)
Net income (loss)	52,880	25,428	(28,740)	183,789	(5,834)	—	227,524
Net loss (income) attributable to noncontrolling interests	808	—	—	—	(419)	—	389
Net income (loss) attributable to Nelnet, Inc.	$ 53,688	25,428	(28,740)	183,789	(6,253)	—	227,913
Total assets as of December 31, 2018	$ 226,445	471,719	286,816	23,806,321	563,841	(134,174)	25,220,968

	Year ended December 31, 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	$ 513	17	3	764,225	13,643	(7,976)	770,426
Interest expense	3	—	5,427	464,256	3,477	(7,976)	465,188
Net interest income	510	17	(5,424)	299,969	10,166	—	305,238
Less provision for loan losses	—	—	—	14,450	—	—	14,450
Net interest income (loss) after provision for loan losses	510	17	(5,424)	285,519	10,166	—	290,788
Other income:							
Loan servicing and systems revenue	223,000	—	—	—	—	—	223,000
Intersegment servicing revenue	41,674	—	—	—	—	(41,674)	—
Education technology, services, and payment processing revenue	—	193,188	—	—	—	—	193,188
Communications revenue	—	—	25,700	—	—	—	25,700
Other income	—	—	—	13,424	39,402	—	52,826
Gain (loss) from debt repurchases	—	—	—	(1,567)	4,469	—	2,902
Derivative settlements, net	—	—	—	1,448	(781)	—	667
Derivative market value and foreign currency transaction adjustments, net	—	—	—	(19,357)	136	—	(19,221)
Total other income	264,674	193,188	25,700	(6,052)	43,226	(41,674)	479,062
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	48,678	—	—	—	—	48,678
Cost to provide communications revenue	—	—	9,950	—	—	—	9,950
Total cost of services	—	48,678	9,950	—	—	—	58,628
Operating expenses:							
Salaries and benefits	156,256	69,500	14,947	1,548	59,633	—	301,885
Depreciation and amortization	2,864	9,424	11,835	—	15,418	—	39,541
Loan servicing fees to third parties	—	—	—	22,734	—	—	22,734
Other expenses	39,126	17,897	8,074	3,900	51,381	—	120,378
Intersegment expenses, net	31,871	9,079	2,101	42,830	(44,208)	(41,674)	—
Total operating expenses	230,117	105,900	36,957	71,012	82,224	(41,674)	484,538
Income (loss) before income taxes	35,067	38,627	(26,631)	208,455	(28,832)	—	226,684
Income tax (expense) benefit	(18,128)	(14,678)	10,120	(79,213)	37,036	—	(64,863)
Net income (loss)	16,939	23,949	(16,511)	129,242	8,204	—	161,821
Net loss (income) attributable to noncontrolling interests	12,640	—	—	—	(1,295)	—	11,345
Net income (loss) attributable to Nelnet, Inc.	$ 29,579	23,949	(16,511)	129,242	6,909	—	173,166
Total assets as of December 31, 2017	$ 122,330	250,351	214,336	22,910,974	877,859	(411,415)	23,964,435

	Year ended December 31, 2016						
	Loan Servicing and Systems	Education Technology, Services, and Payment Processing	Communications	Asset Generation and Management	Corporate and Other Activities	Eliminations	Total
Total interest income	$ 111	9	1	754,788	10,913	(5,076)	760,746
Interest expense	—	—	1,271	385,913	6,076	(5,076)	388,183
Net interest income	111	9	(1,270)	368,875	4,837	—	372,563
Less provision for loan losses	—	—	—	13,500	—	—	13,500
Net interest income (loss) after provision for loan losses	111	9	(1,270)	355,375	4,837	—	359,063
Other income:							
Loan servicing and systems revenue	214,846	—	—	—	—	—	214,846
Intersegment servicing revenue	45,381	—	—	—	—	(45,381)	—
Education technology, services, and payment processing revenue	—	175,682	—	—	—	—	175,682
Communications revenue	—	—	17,659	—	—	—	17,659
Other income	—	—	—	15,709	42,547	—	58,255
Gain from debt repurchases	—	—	—	5,846	2,135	—	7,981
Derivative settlements, net	—	—	—	(21,034)	(915)	—	(21,949)
Derivative market value and foreign currency transaction adjustments, net	—	—	—	70,368	1,376	—	71,744
Total other income	260,227	175,682	17,659	70,889	45,143	(45,381)	524,218
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	44,316	—	—	—	—	44,316
Cost to provide communications services	—	—	6,866	—	—	—	6,866
Total cost of services	—	44,316	6,866	—	—	—	51,182
Operating expenses:							
Salaries and benefits	132,072	62,329	7,649	1,985	51,889	—	255,924
Depreciation and amortization	1,980	10,595	6,060	—	15,298	—	33,933
Loan servicing fees to third parties	—	—	—	25,750	—	—	25,750
Other expenses	40,715	17,122	4,370	6,005	49,466	—	117,678
Intersegment expenses, net	24,204	6,615	958	46,494	(32,889)	(45,381)	—
Total operating expenses	198,971	96,661	19,037	80,234	83,764	(45,381)	433,285
Income (loss) before income taxes	61,367	34,714	(9,514)	346,030	(33,784)	—	398,814
Income tax (expense) benefit	(23,319)	(13,191)	3,615	(131,492)	23,074	—	(141,313)
Net income (loss)	38,048	21,523	(5,899)	214,538	(10,710)	—	257,501
Net loss (income) attributable to noncontrolling interests	—	—	—	—	(750)	—	(750)
Net income (loss) attributable to Nelnet, Inc.	$ 38,048	21,523	(5,899)	214,538	(11,460)	—	256,751
Total assets as of December 31, 2016	$ 55,469	230,283	103,104	26,378,467	682,459	(256,687)	27,193,095

15. 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 $157.1 million, $155.8 million, and $151.7 million for the years ended December 31, 2018, 2017, and 2016, 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 $168.3 million for the period from February 7, 2018 to December 31, 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. On August 24, August 27, and September 24, 2018, FSA made announcements that included canceling certain components of the original NextGen process and issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled.

On January 15, 2019, FSA released an amendment canceling all components of NextGen except the Enterprise-Wide Digital and Customer Care Platforms and Services component and issued new solicitations for three new NextGen components:

- NextGen Enhanced Processing Solution
- NextGen Business Proces s Operations
- NextGen Optimal Processing Solution

On February 20, 2019, FSA awarded the Enterprise-Wide Digital and Customer Care Platforms and Services component to Accenture Federal Services. The Company is part of teams that currently intend to respond to the solicitations for each of the three ongoing NextGen components. The Company cannot predict the timing, nature, or outcome of these solicitations.

16. Leases

The Company leases certain office space and equipment under operating leases. As operating leases expire, it is expected that they will be replaced with similar leases. Future minimum lease payments under these leases are shown below:

2019	$	9,181
2020		8,261
2021		5,776
2022		3,745
2023		2,904
2024 and thereafter		5,479
Total minimum lease payments	$	35,346

Total rental expense incurred by the Company for the years ended December 31, 2018, 2017, and 2016 was $8.4 million, $5.7 million, and $6.0 million, respectively.

17. Defined Contribution Benefit Plan

The Company has a 401(k) savings plan that covers substantially all of its employees. Employees may contribute up to 100 of their pre-tax salary, subject to IRS limitations. The Company matches up to 100 percent on the first 3 percent of contributions and 50 percent on the next 2 percent. The Company made contributions to the plan of $9.8 million, $6.2 million, and $5.1 million during the years ended December 31, 2018, 2017, and 2016, respectively.

18. Stock Based Compensation Plans

Restricted Stock Plan

The following table summarizes restricted stock activity:

	Year ended December 31,		
	2018	**2017**	**2016**
Non-vested shares at beginning of year	398,210	447,380	471,597
Granted	279,441	107,237	123,181
Vested	(100,035)	(131,988)	(113,507)
Canceled	(45,280)	(24,419)	(33,891)
Non-vested shares at end of year	532,336	398,210	447,380

As of December 31, 2018, there was $15.7 million of unrecognized compensation cost included in equity on the consolidated balance sheet related to restricted stock, which is expected to be recognized as compensation expense in future periods as shown in the table below.

2019	$	5,749
2020		3,418
2021		2,282
2022		1,539
2023		1,040
2024 and thereafter		1,710
	$	15,738

For the years ended December 31, 2018, 2017, and 2016, the Company recognized compensation expense of $6.2 million, $4.2 million, and $4.1 million, respectively, related to shares issued under the restricted stock plan, which is included in "salaries and benefits" on the consolidated statements of income.

Employee Share Purchase Plan

The Company has an employee share purchase plan pursuant to which employees are entitled to purchase Class A common stock from payroll deductions at a 15 percent discount from market value. During the years ended December 31, 2018, 2017, and 2016, the Company recognized compensation expense of $0.3 million, $0.2 million, and $0.3 million respectively, in connection with issuing 28,744 shares, 16,989 shares, and 25,551 shares, respectively, under this plan, which is included in "salaries and benefits" on the consolidated statements of income.

Non-employee Directors Compensation Plan

The Company has a compensation plan for non-employee directors pursuant to which non-employee directors can elect to receive their annual retainer fees in the form of cash or Class A common stock. If a non-employee director elects to receive Class A common stock, the number of shares of Class A common stock that are awarded is equal to the amount of the annual retainer fee otherwise payable in cash divided by 85 percent of the fair market value of a share of Class A common stock on the date the fee is payable. Non-employee directors who choose to receive Class A common stock may also elect to defer receipt of the Class A common stock until termination of their service on the board of directors.

For the years ended December 31, 2018, 2017, and 2016, the Company recognized $1.0 million, $0.9 million, and $0.9 million, respectively, of expense related to this plan, which is included in "other expenses" on the consolidated statements of income. The following table provides the number of shares awarded under this plan for the years ended December 31, 2018, 2017, and 2016.

	Shares issued - not deferred	Shares- deferred	Total
Year ended December 31, 2018	8,029	10,680	18,709
Year ended December 31, 2017	6,855	10,974	17,829
Year ended December 31, 2016	10,799	13,644	24,443

As of December 31, 2018, a cumulative amount of 182,199 shares have been deferred by directors and will be issued upon the termination of their service on the board of directors. These shares are included in the Company's weighted average shares outstanding calculation.

19. Related Parties (dollar amounts in this note are not in thousands)

Transactions with Union Bank and Trust Company

Union Bank and Trust Company ("Union Bank") is controlled by Farmers & Merchants Investment Inc. (“F&M”), which owns a majority of Union Bank's common stock and a minority share of Union Bank's non-voting preferred stock. Michael S. Dunlap, Executive Chairman and a member of the board of directors and a significant shareholder of the Company, along with his spouse and children, owns or controls a significant portion of the stock of F&M, and Mr. Dunlap's sister, Angela L. Muhleisen, along with her spouse and children, also owns or controls a significant portion of F&M stock. Mr. Dunlap serves as a Director and Chairman of F&M. Ms. Muhleisen serves as a Director and Chief Executive Officer of F&M and as a Director, Chairperson, President, and Chief Executive Officer of Union Bank. Union Bank is deemed to have beneficial ownership of a significant number of shares of the Company because it serves in a capacity of trustee or account manager for various trusts and accounts holding shares of the Company, and may share voting and/or investment power with respect to such shares. Mr. Dunlap and Ms. Muhleisen beneficially own a significant percent of the voting rights of the Company's outstanding common stock.

The Company has entered into certain contractual arrangements with Union Bank. These transactions are summarized below.

Loan Purchases

The Company purchased $74.7 million (par value), $13.2 million (par value), and $29.6 million (par value) of private education and consumer loans from Union Bank in 2018, 2017, and 2016, respectively.

On August 22, 2018, the Company entered into agreements with 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 December 31, 2018, $1.5 million (par value) of private education loans has been originated by the Company under these agreements and are currently owned by Union Bank. Union Bank paid approximately $26,000 in marketing and origination fees to the Company in 2018 under these agreements.

Loan Servicing

The Company serviced $405.5 million, $462.3 million, and $483.8 million of FFELP and private education loans for Union Bank as of December 31, 2018, 2017, and 2016, respectively. Servicing revenue earned by the Company from servicing loans for Union Bank was $0.5 million, $0.5 million, and $0.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Funding - Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company uses this facility as a source to fund FFELP student loans. As of December 31, 2018 and 2017, $664.3 million and $552.6 million, respectively, 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 on a short-term basis. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 million or an amount in excess of $750 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.

Operating Cash Accounts

The majority of the Company's cash operating accounts are maintained at Union Bank. The Company also invests amounts in the Short term Federal Investment Trust ("STFIT") of the Student Loan Trust Division of Union Bank, which are included in "cash and cash equivalents - held at a related party" and "restricted cash - due to customers" on the accompanying consolidated balance sheets. As of December 31, 2018 and 2017, the Company had $147.2 million and $115.8 million, respectively, invested in the STFIT or deposited at Union Bank in operating accounts, of which $35.3 million and $56.0 million as of December 31, 2018 and 2017, respectively, represented cash collected for customers. Interest income earned by the Company on the amounts invested in the STFIT and in cash operating accounts for the years ended December 31, 2018, 2017, and 2016, was $1.0 million, $0.9 million, and $0.4 million, respectively.

529 Plan Administration Services

The Company provides certain 529 Plan administration services to certain college savings plans (the "College Savings Plans") through a contract with Union Bank, as the program manager. Union Bank is entitled to a fee as program manager pursuant to its program management agreement with the College Savings Plans. For the years ended December 31, 2018, 2017, and 2016, the Company has received fees of $3.2 million, $2.0 million, and $1.6 million, respectively, from Union Bank related to the administration services provided to the College Savings Plans.

Lease Arrangements

Union Bank leases approximately 4,000 square feet in the Company's corporate headquarters building. Union Bank paid the Company approximately $76,000, $74,000, and $73,000 for commercial rent and storage income during 2018, 2017, and 2016, respectively. The lease agreement expires on June 30, 2023.

Trustee Services

On December 21, 2018, the Company entered into an agreement with Union Bank in which Union Bank will serve as trustee for the Company's private education loan repurchase agreement. The Company paid no fees to Union Bank in 2018 under this agreement.

Other Fees Paid to Union Bank

During the years ended December 31, 2018, 2017, and 2016, the Company paid Union Bank approximately $128,000, $127,000, and $126,000, respectively, in cash management fees. During the year ended December 31, 2016, the Company paid Union Bank approximately $13,000 in commissions.

Other Fees Received from Union Bank

During the years ended December 31, 2018, 2017, and 2016, Union Bank paid the Company approximately $219,000, $219,000, and $209,000, respectively, under an employee sharing arrangement. During the year ended December 31, 2018 and 2017, Union Bank paid the Company approximately $4,000 and $11,000 in payment processing fees (net of merchant fees of approximately $13,000 and $1,000), respectively. In addition, during the year ended December 31, 2016, Union Bank paid the Company approximately $10,000 for health and productivity services.

401(k) Plan Administration

Union Bank administers the Company's 401(k) defined contribution plan. Fees paid to Union Bank to administer the plan are paid by the plan participants and were approximately $313,000, $241,000, and $280,000 during the years ended December 31, 2018, 2017, and 2016, respectively.

Investment Services

Union Bank has established various trusts whereby Union Bank serves as trustee for the purpose of purchasing, holding, managing, and selling investments in student loan asset-backed securities. On May 9, 2011, WRCM, an SEC-registered investment advisor and a subsidiary of the Company, entered into a management agreement with Union Bank, effective as of May 1, 2011, under which WRCM performs various advisory and management services on behalf of Union Bank with respect to investments in securities by the trusts, including identifying securities for purchase or sale by the trusts. The agreement provides that Union Bank will pay to WRCM annual fees of 25 basis points on the outstanding balance of the investments in the trusts. As of December 31, 2018, the outstanding balance of investments in the trusts was $699.7 million. In addition, Union Bank will pay additional fees to WRCM of up to 50 percent of the gains from the sale of securities from the trusts or securities being called prior to the full contractual maturity. For the years ended December 31, 2018, 2017, and 2016, the Company earned $4.5 million, $9.2 million, and $4.5 million, respectively, of fees under this agreement.

In January 2012 and October 2015, WRCM entered into management agreements with Union Bank under which it was designated to serve as investment advisor with respect to the assets within several trusts established by Mr. Dunlap and his spouse. In January 2016, WRCM entered into a similar management agreement with Union Bank with respect to several trusts established in December 2015 by Stephen F. Butterfield, former Vice Chairman and former member of the board of directors of the Company, and his spouse. Union Bank serves as trustee for the trusts. Per the terms of the agreements, Union Bank pays WRCM five basis points of the aggregate value of the assets of the trusts as of the last day of each calendar quarter. Mr. Dunlap and his spouse contributed a total of 3,375,000 and 3,000,000 shares of the Company's Class B common stock to the trusts upon the establishment of the trusts in 2011 and 2015, respectively, and Mr. Butterfield and his spouse contributed a total of 1,200,000 shares of the Company's Class B common stock upon the establishment of the trusts in 2016. For the years ended December 31, 2018, 2017, and 2016, the Company earned approximately $172,000, $161,000, and $142,000, respectively, of fees under these agreements.

WRCM has established private investment funds for the primary purpose of purchasing, selling, investing, and trading, directly or indirectly, in student loan asset-backed securities, and to engage in financial transactions related thereto. Mr. Dunlap, Jeffrey R. Noordhoek (an executive officer of the Company), Ms. Muhleisen and her spouse, and WRCM have invested in certain of these funds. Based upon the current level of holdings by non-affiliated limited partners, the management agreements provide non-affiliated limited partners the ability to remove WRCM as manager without cause. WRCM earns 50 basis points (annually) on the outstanding balance of the investments in these funds, of which WRCM pays approximately 50 percent of such amount to Union Bank as custodian. As of December 31, 2018, the outstanding balance of investments in these funds was $153.1 million. For the years ended December 31, 2018, 2017, and 2016, the Company paid Union Bank $0.3 million, $0.3 million, and $0.4 million, respectively, as custodian.

Transactions with Union Financial Services

Union Financial Services, Inc. (“UFS”) is a corporation which is owned 50 percent by Michael S. Dunlap, a significant shareholder, Executive Chairman, and a member of the Board of Directors of the Company, and 50 percent by the estate of Stephen F. Butterfield, former significant shareholder, Vice Chairman, and member of the Board of Directors of the Company.

Historically, the Company owned a 65 percent interest in an aircraft due to the frequent business travel needs of the Company's executives and the limited availability of commercial flights in Lincoln, Nebraska, where the Company's headquarters are located. UFS owned the remaining interest in the same aircraft. On December 31, 2018, UFS sold 17.5 percent of its interest in such aircraft to the Company for $717,500. As a result of this transaction, the Company's ownership in the aircraft increased to 82.5 percent.

Transactions with Agile Sports Technologies, Inc. (doing business as "Hudl")

David Graff, who has served on the Company's Board of Directors since 2014, is CEO, co-founder, and a director of Hudl. On July 7, 2017, the Company made a $10.4 million preferred stock investment in Hudl. Prior to this investment, the Company and Mr. Dunlap made separate equity investments in Hudl. The Company and Mr. Dunlap, along with his children, currently hold combined direct and indirect equity ownership interests in Hudl of 19.7% and 3.5%, respectively. The Company's and Mr. Dunlap's direct and indirect equity ownership interests in Hudl consist of preferred stock with certain liquidation preferences that are considered substantive. Accordingly, for accounting purposes, the Company's and Mr. Dunlap's equity ownership interests are not considered in-substance common stock and the Company is accounting for its equity investment in Hudl using the measurement alternative method. The Company's investment in Hudl is included in "investments and notes receivable" in the Company's consolidated balance sheet.

The Company makes investments to further diversify the Company both within and outside of its historical core education-related businesses, including investments in real estate. Recent real estate investments have been focused on the development of commercial properties in the Midwest, and particularly in Lincoln, Nebraska, where the Company's headquarters are located. One investment includes the development of a building in Lincoln's Haymarket District that is the new headquarters of Hudl, in which Hudl is the primary tenant in this building.

Transaction with Assurity Life Insurance Company ("Assurity")

Thomas Henning, who has served on the Company's Board of Directors since 2003, is the President and Chief Executive Officer of Assurity. During the years ended December 31, 2018 and 2017, Nelnet Business Solutions, a subsidiary of the Company, paid $1.7 million and $1.5 million, respectively, to Assurity for insurance premiums for insurance on certain tuition payment plans. As part of providing the tuition payment plan insurance to Nelnet Business Solutions, Assurity entered into a reinsurance agreement with the Company's insurance subsidiary, under which Assurity paid the Company's insurance subsidiary reinsurance premiums of $1.3 million and $1.4 million in 2018 and 2017, respectively, and the Company's insurance subsidiary paid claims on such reinsurance to Assurity of $0.9 million and $0.7 million in 2018 and 2017, respectively. In addition, Assurity pays Nelnet Business Solutions a partial refund annually based on claim experience, which was approximately $84,000 and $10,000 for the years ended December 31, 2018 and 2017, respectively.

20. 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 year ended December 31, 2018.

	As of December 31, 2018		
	Level 1	Level 2	Total
Assets:			
Investments (a):			
Student loan asset-backed securities - available-for-sale	$ —	52,936	52,936
Equity securities	2,722	—	2,722
Equity securities measured at net asset value (b)			14,925
Debt securities - available-for-sale	104	—	104
Total investments	2,826	52,936	70,687
Derivative instruments (c)	—	1,818	1,818
Total assets	$ 2,826	54,754	72,505

	As of December 31, 2017		
	Level 1	Level 2	Total
Assets:			
Investments (available-for-sale) (a):			
Student loan 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 (c)	—	818	818
Total assets	$ 4,036	77,684	81,720
Liabilities:			
Derivative instruments (c):	$ —	7,063	7,063
Total liabilities	$ —	7,063	7,063

(a) Investments represent investments recorded at fair value on a recurring basis. Level 1 investments are measured based upon quoted prices and include investments traded on an active exchange, such as the New York Stock Exchange, and corporate bonds, mortgage-backed securities, U.S. government bonds, and U.S. Treasury securities that trade in active markets. Level 2 investments include student loan asset-backed securities. The fair value for the student loan asset-backed securities is determined using indicative quotes from broker-dealers or an income approach valuation technique (present value using the discount rate adjustment technique) that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms issued by companies with comparable credit risk.

(b) 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.

(c) All derivatives are accounted for at fair value on a recurring basis. The fair value of derivative financial instruments is determined using a market approach in which derivative pricing models use the stated terms of the contracts, observable yield curves, and volatilities from active markets. When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty.

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

	As of December 31, 2018				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Loans receivable	$ 23,521,171	22,377,142	—	—	23,521,171
Cash and cash equivalents	121,347	121,347	121,347	—	—
Investments (at fair value)	70,687	70,687	2,826	52,936	—
Notes receivable	16,373	16,373	—	16,373	—
Restricted cash	701,366	701,366	701,366	—	—
Restricted cash – due to customers	369,678	369,678	369,678	—	—
Loan accrued interest receivable	679,197	679,197	—	679,197	—
Derivative instruments	1,818	1,818	—	1,818	—
Financial liabilities:					
Bonds and notes payable	22,270,462	22,218,740	—	22,270,462	—
Accrued interest payable	61,679	61,679	—	61,679	—
Due to customers	369,678	369,678	369,678	—	—

	As of December 31, 2017				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
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	—
Financial liabilities:					
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 that are measured at fair value on a recurring basis are previously discussed. The remaining financial assets and liabilities were estimated using the following methods and assumptions:

Loans Receivable

Fair values for loans receivable were determined by modeling loan cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value, and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, required return on equity, and future interest rate and index relationships. A number of significant inputs into the models are internally derived and not observable to market participants.

Notes Receivable

Fair values for notes receivable were determined by using model-derived valuations with observable inputs, including current market rates.

Cash and Cash Equivalents, Restricted Cash, Restricted Cash – Due to Customers, Loan Accrued Interest Receivable, Accrued Interest Payable, and Due to Customers

The carrying amount approximates fair value due to the variable rate of interest and/or the short maturities of these instruments.

Bonds and Notes Payable

The fair value of bonds and notes payable was determined from quotes from broker-dealers or through standard bond pricing models using the stated terms of the borrowings, observable yield curves, market credit spreads, and weighted average life of underlying collateral. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades.

Limitations

The fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Therefore, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. Changes in assumptions could significantly affect the estimates.

21. Legal Proceedings

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters frequently involve claims by student loan borrowers disputing the manner in which their student loans have been serviced or the accuracy of reports to credit bureaus, claims by student loan borrowers or other consumers alleging that state or Federal consumer protection laws have been violated in the process of collecting loans or conducting other business activities, and disputes with other business entities. In addition, from time to time the Company receives information and document requests from state or federal regulators concerning its business practices. The Company cooperates with these inquiries and responds to the requests. While the Company cannot predict the ultimate outcome of any regulatory examination, inquiry, or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department thereunder, and the Department's guidance regarding those rules and regulations. On the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company's management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company's business, financial position, or results of operations.

22. Quarterly Financial Information (Unaudited)

	2018			
	First quarter	Second quarter	Third quarter	Fourth quarter
Net interest income	$ 67,307	57,739	59,773	69,539
Less provision for loan losses	4,000	3,500	10,500	5,000
Net interest income after provision for loan losses	63,307	54,239	49,273	64,539
Loan servicing and systems revenue	100,141	114,545	112,579	112,761
Education technology, services, and payment processing revenue	60,221	48,742	58,409	54,589
Communications revenue	9,189	10,320	11,818	13,326
Other income	18,198	9,580	16,673	9,998
Gain from debt repurchases	359	—	—	—
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	66,799	17,031	17,098	(29,843)
Cost to provide education technology, services, and payment processing services	(13,683)	(11,317)	(19,087)	(15,479)
Cost to provide communications services	(3,717)	(3,865)	(4,310)	(5,033)
Salaries and benefits	(96,643)	(111,118)	(114,172)	(114,247)
Depreciation and amortization	(18,457)	(21,494)	(22,992)	(23,953)
Loan servicing fees to third parties	(3,136)	(3,204)	(3,087)	(2,631)
Other operating expenses	(33,417)	(40,409)	(45,194)	(46,952)
Income tax (expense) benefit	(35,976)	(13,511)	(13,882)	4,599
Net income	113,185	49,539	43,126	21,674
Net loss (income) attributable to noncontrolling interests	740	(104)	(199)	(48)
Net income attributable to Nelnet, Inc.	$ 113,925	49,435	42,927	21,626
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 2.78	1.21	1.05	0.53

	2017			
	First quarter	**Second quarter**	**Third quarter**	**Fourth quarter**
Net interest income	$ 76,925	79,842	75,237	73,235
Less provision for loan losses	1,000	3,000	6,700	3,750
Net interest income after provision for loan losses	75,925	76,842	68,537	69,485
Loan servicing and systems revenue	54,229	56,899	55,950	55,921
Education technology, services, and payment processing revenue	56,024	43,480	50,358	43,326
Communications revenue	5,106	5,719	6,751	8,122
Other income	12,632	12,485	19,756	7,952
Gain (loss) from debt repurchases	4,980	442	116	(2,635)
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	(4,830)	(27,910)	7,173	7,014
Cost to provide education technology, services, and payment processing services	(12,790)	(9,515)	(15,151)	(11,223)
Cost to provide communications services	(1,954)	(2,203)	(2,632)	(3,160)
Salaries and benefits	(71,863)	(74,628)	(74,193)	(81,201)
Depreciation and amortization	(8,598)	(9,038)	(10,051)	(11,854)
Loan servicing fees to third parties	(6,025)	(5,628)	(8,017)	(3,064)
Other operating expenses	(26,161)	(26,262)	(29,500)	(38,455)
Income tax (expense) benefit	(28,755)	(16,032)	(25,562)	5,486
Net income	47,920	24,651	43,535	45,714
Net loss attributable to noncontrolling interests	2,106	4,086	2,768	2,386
Net income attributable to Nelnet, Inc.	$ 50,026	28,737	46,303	48,100
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 1.18	0.68	1.11	1.17

23. Condensed Parent Company Financial Statements

The following represents the condensed balance sheets as of December 31, 2018 and 2017 and condensed statements of income, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2018 for Nelnet, Inc.

The Company is limited in the amount of funds that can be transferred to it by its subsidiaries through intercompany loans, advances, or cash dividends. These limitations relate to the restrictions by trust indentures under the education lending subsidiaries debt financing arrangements. The amounts of cash and investments restricted in the respective reserve accounts of the education lending subsidiaries are shown on the consolidated balance sheets as restricted cash.

Balance Sheets
(Parent Company Only)
As of December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	$ 36,890	21,001
Investments and notes receivable	140,582	149,236
Investment in subsidiary debt	13,818	75,659
Restricted cash	16,217	44,149
Investment in subsidiaries	2,448,540	1,681,690
Notes receivable from subsidiaries	56,973	212,077
Other assets	57,555	131,790
Fair value of derivative instruments	1,818	818
Total assets	$ 2,772,393	2,316,420
Liabilities:		
Notes payable	$ 369,725	79,120
Other liabilities	94,016	76,638
Fair value of derivative instruments	—	7,063
Total liabilities	463,741	162,821
Equity:		
Nelnet, Inc. shareholders' equity:		
Common stock	403	408
Additional paid-in capital	622	521
Retained earnings	2,299,556	2,143,983
Accumulated other comprehensive earnings	3,883	4,617
Total Nelnet, Inc. shareholders' equity	2,304,464	2,149,529
Noncontrolling interest	4,188	4,070
Total equity	2,308,652	2,153,599
Total liabilities and shareholders' equity	$ 2,772,393	2,316,420

Statements of Income

(Parent Company Only)

Years ended December 31, 2018, 2017, and 2016

	2018	2017	2016
Investment interest income	$ 17,707	13,060	9,794
Interest expense on bonds and notes payable	9,270	3,315	6,049
Net interest income	8,437	9,745	3,745
Other income:			
Other income	13,944	3,483	7,037
Gain from debt repurchases	359	2,964	8,083
Equity in subsidiaries income	158,364	170,897	239,405
Derivative market value adjustments and derivative settlements, net	71,085	(603)	45,203
Total other income	243,752	176,741	299,728
Operating expenses	4,795	6,117	8,183
Income before income taxes	247,394	180,369	295,290
Income tax expense	19,481	7,491	38,642
Net income	227,913	172,878	256,648
Net loss attributable to noncontrolling interest	—	288	103
Net income attributable to Nelnet, Inc.	$ 227,913	173,166	256,751

Statements of Comprehensive Income

(Parent Company Only)

Years ended December 31, 2018, 2017, and 2016

	2018	2017	2016
Net income	$ 227,913	172,878	256,648
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized holding gains arising during period, net of losses	1,056	2,349	5,789
Reclassification adjustment for gains recognized in net income, net of losses	(978)	(2,528)	(1,907)
Income tax effect	(69)	66	(1,436)
Total other comprehensive income (loss)	9	(113)	2,446
Comprehensive income	227,922	172,765	259,094
Comprehensive loss attributable to noncontrolling interest	—	288	103
Comprehensive income attributable to Nelnet, Inc.	$ 227,922	173,053	259,197

Statements of Cash Flows

(Parent Company Only)

Years ended December 31, 2018, 2017, and 2016

	2018	2017	2016
Net income attributable to Nelnet, Inc.	$ 227,913	173,166	256,751
Net loss attributable to noncontrolling interest	—	(288)	(103)
Net income	227,913	172,878	256,648
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	442	420	391
Derivative market value adjustment	(1,014)	7,591	(62,268)
Proceeds from termination of derivative instruments, net of payments	10,283	2,100	3,999
Payments to enter into derivative instruments	(4,770)	(929)	—
Proceeds from clearinghouse - initial and variation margin, net	40,382	76,325	—
Equity in earnings of subsidiaries	(158,364)	(170,897)	(239,405)
Gain from debt repurchases	(359)	(2,964)	(8,083)
Gain from investments and notes receivable, net of losses	(11,177)	(294)	(1,522)
Deferred income tax expense (benefit)	21,814	(8,056)	20,071
Non-cash compensation expense	6,539	4,416	4,348
Other	—	733	732
Decrease in other assets	25,252	4,171	32,262
(Decrease) increase in other liabilities	(9,621)	10,104	(594)
Net cash provided by operating activities	147,320	95,598	6,579
Cash flows from investing activities:			
Purchases of available-for-sale securities	(46,382)	(127,567)	(94,920)
Proceeds from sales of available-for-sale securities	75,605	156,727	139,427
Capital contributions/distributions to/from subsidiaries, net	(334,280)	29,426	223,386
(Increase) decrease in notes receivable from subsidiaries	(31,325)	(50,793)	8,561
Increase in guaranteed payment from subsidiary	(70,270)	—	—
Proceeds from investments and notes receivable	7,783	4,823	9,952
Proceeds from (purchases of) subsidiary debt, net	61,841	(3,844)	(13,800)
Purchases of investments and issuances of notes receivable	(28,610)	(18,023)	(4,365)
Net cash (used in) provided by investing activities	(365,638)	(9,251)	268,241
Cash flows from financing activities:			
Payments on notes payable	(8,651)	(27,480)	(412,000)
Proceeds from issuance of notes payable	300,000	61,059	230,000
Payments of debt issuance costs	(827)	—	(613)
Dividends paid	(26,839)	(24,097)	(21,188)
Repurchases of common stock	(45,331)	(68,896)	(69,091)
Proceeds from issuance of common stock	1,359	678	889
Acquisition of noncontrolling interest	(13,449)	—	—
Issuance of noncontrolling interest	13	—	501
Net cash provided by (used in) financing activities	206,275	(58,736)	(271,502)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(12,043)	27,611	3,318
Cash, cash equivalents, and restricted cash, beginning of period	65,150	37,539	34,221
Cash, cash equivalents, and restricted cash, end of period	$ 53,107	65,150	37,539
Cash disbursements made for:			
Interest	$ 8,628	2,882	5,533
Income taxes, net of refunds and credits	$ 473	96,721	115,415
Noncash investing and financing activities:			
Recapitalization of accrued interest payable to accrued guaranteed payment	$ 6,674	—	—
Recapitalization of note payable to guaranteed payment	$ 186,429	—	—
Recapitalization of guaranteed payment to investment in subsidiary	$ 273,360	—	—
Contributions to subsidiaries	$ —	2,092	1,884

APPENDIX A

Description of
The Federal Family Education Loan Program

The Federal Family Education Loan Program

The Higher Education Act provided for a program of federal insurance for student loans as well as reinsurance of student loans guaranteed or insured by state agencies or private non-profit corporations.

The Higher Education Act authorized certain student loans to be insured and reinsured under the Federal Family Education Loan Program ("FFELP"). The Student Aid and Fiscal Responsibility Act, enacted into law on March 30, 2010, as part of the Health Care and Education Reconciliation Act of 2010, terminated the authority to make FFELP loans. As of July 1, 2010, no new FFELP loans have been made.

Generally, a student was eligible for loans made under the Federal Family Education Loan Program only if he or she:

- Had been accepted for enrollment or was enrolled in good standing at an eligible institution of higher education;
- Was carrying or planning to carry at least one-half the normal full-time workload, as determined by the institution, for the course of study the student was pursuing;
- Was not in default on any federal education loans;
- Had not committed a crime involving fraud in obtaining funds under the Higher Education Act which funds had not been fully repaid; and
- Met other applicable eligibility requirements.

Eligible institutions included higher educational institutions and vocational schools that complied with specific federal regulations. Each loan is evidenced by an unsecured note.

The Higher Education Act also establishes maximum interest rates for each of the various types of loans. These rates vary not only among loan types, but also within loan types depending upon when the loan was made or when the borrower first obtained a loan under the Federal Family Education Loan Program. The Higher Education Act allows lesser rates of interest to be charged.

Types of loans

Four types of loans were available under the Federal Family Education Loan Program:

- Subsidized Stafford Loans
- Unsubsidized Stafford Loans
- PLUS Loans
- Consolidation Loans

These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits, eligibility for interest subsidies, and special allowance payments. Some of these loan types have had other names in the past. References to these various loan types include, where appropriate, their predecessors.

The primary loan under the Federal Family Education Loan Program is the Subsidized Stafford Loan. Students who were not eligible for Subsidized Stafford Loans based on their economic circumstances might have obtained Unsubsidized Stafford Loans. Graduate or professional students and parents of dependent undergraduate students might have obtained PLUS Loans. Consolidation Loans were available to borrowers with existing loans made under the Federal Family Education Loan Program and other federal programs to consolidate repayment of the borrower's existing loans. Prior to July 1, 1994, the Federal Family Education Loan Program also offered Supplemental Loans for Students ("SLS Loans") to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students, to supplement their Stafford Loans.

Subsidized Stafford Loans

General. Subsidized Stafford Loans were eligible for insurance and reinsurance under the Higher Education Act if the eligible student to whom the loan was made was accepted or was enrolled in good standing at an eligible institution of higher education or vocational school and carried at least one-half the normal full-time workload at that institution. Subsidized Stafford Loans had limits as to the maximum amount which could be borrowed for an academic year and in the aggregate for both undergraduate and graduate or professional study. Both annual and aggregate limitations excluded loans made under the PLUS Loan Program. The Secretary of Education had discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subsidized Stafford Loans were made only to student borrowers who met the needs tests provided in the Higher Education Act. Provisions addressing the implementation of needs analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan Program funding have been the subject of frequent and extensive amendments.

Interest rates for Subsidized Stafford Loans. For Stafford Loans first disbursed to a "new" borrower (a "new" borrower is defined for purposes of this section as one who had no outstanding balance on a FFELP loan on the date the new promissory note was signed) for a period of enrollment beginning before January 1, 1981, the applicable interest rate is fixed at 7%.

For Stafford Loans first disbursed to a "new" borrower, for a period of enrollment beginning on or after January 1, 1981, but before September 13, 1983, the applicable interest rate is fixed at 9%.

For Stafford Loans first disbursed to a "new" borrower, for a period of enrollment beginning on or after September 13, 1983, but before July 1, 1988, the applicable interest rate is fixed at 8%.

For Stafford Loans first disbursed to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not on a Stafford Loan, where the new loan is intended for a period of enrollment beginning before July 1, 1988, the applicable interest rate is fixed at 8%.

For Stafford Loans first disbursed before October 1, 1992, to a "new" borrower or to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not a Stafford Loan, where the new loan is intended for a period of enrollment beginning on or after July 1, 1988, the applicable interest rate is as follows:

- Original fixed interest rate of 8% for the first 48 months of repayment. Beginning on the first day of the 49 th month of repayment, the interest rate increased to a fixed rate of 10% thereafter. Loans in this category were subject to excess interest rebates and have been converted to a variable interest rate based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.25%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for loans in this category is 10%.

For Stafford Loans first disbursed on or after July 23, 1992, but before July 1, 1994, to a borrower with an outstanding Stafford Loan made with a 7%, 8%, 9%, or 8%/10% fixed interest rate, the original, applicable interest rate is the same as the rate provided on the borrower's previous Stafford Loan (i.e., a fixed rate of 7%, 8%, 9%, or 8%/10%). Loans in this category were subject to excess interest rebates and have been converted to a variable interest rate based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is equal to the loan's previous fixed rate (i.e., 7%, 8%, 9%, or 10%).

For Stafford Loans first disbursed on or after October 1, 1992, but before December 20, 1993, to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not on a Stafford Loan, the original, applicable interest rate is fixed at 8%. Loans in this category were subject to excess interest rebates and have been converted to a variable interest rate based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 8%.

For Stafford Loans first disbursed on or after October 1, 1992, but before July 1, 1994, to a "new" borrower, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 9%.

For Stafford Loans first disbursed on or after December 20, 1993, but before July 1, 1994, to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not on a Stafford Loan, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 9%.

For Stafford Loans first disbursed on or after July 1, 1994, but before July 1, 1995, where the loan is intended for a period of enrollment that includes or begins on or after July 1, 1994, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 8.25%.

For Stafford Loans first disbursed on or after July 1, 1995, but before July 1, 1998, the applicable interest rate is as follows:

- When the borrower is in school, in grace, or in an authorized period of deferment, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 2.5%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

- When the borrower is in repayment or in a period of forbearance, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

For Stafford Loans first disbursed on or after July 1, 1998, but before July 1, 2006, the applicable interest rate is as follows:

- When the borrower is in school, in grace, or in an authorized period of deferment, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 1.7%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

- When the borrower is in repayment or in a period of forbearance, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 2.3%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

For Stafford Loans first disbursed on or after July 1, 2006, the applicable interest rate is fixed at 6.80%. However, for Stafford Loans for undergraduates, the applicable interest rate was reduced in phases for which the first disbursement was made on or after:

- July 1, 2008 and before July 1, 2009, the applicable interest rate is fixed at 6.00%,

- July 1, 2009 and before July 1, 2010, the applicable interest rate is fixed at 5.60%.

Unsubsidized Stafford Loans

General. The Unsubsidized Stafford Loan program was created by Congress in 1992 for students who did not qualify for Subsidized Stafford Loans due to parental and/or student income and assets in excess of permitted amounts. These students were entitled to borrow the difference between the Stafford Loan maximum for their status (dependent or independent) and their Subsidized Stafford Loan eligibility through the Unsubsidized Stafford Loan Program. The general requirements for Unsubsidized Stafford Loans, including special allowance payments, are essentially the same as those for Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the federal government will not make interest subsidy payments and the loan limitations were determined without respect to the expected family contribution. The borrower is required to either pay interest from the time the loan is disbursed or the accruing interest is capitalized when repayment begins at the end of a deferment or forbearance, when the borrower is determined to no longer have a partial financial hardship under the Income-Based Repayment plan or when the borrower leaves the plan. Unsubsidized Stafford Loans were not available before October 1, 1992. A student meeting the general eligibility requirements for a loan under the Federal Family Education Loan Program was eligible for an Unsubsidized Stafford Loan without regard to need.

Interest rates for Unsubsidized Stafford Loans. Unsubsidized Stafford Loans are subject to the same interest rate provisions as Subsidized Stafford Loans, with the exception of Unsubsidized Stafford Loans first disbursed on or after July 1, 2008, which retain a fixed interest rate of 6.80%.

PLUS Loans

General. PLUS Loans were made to parents, and under certain circumstances spouses of remarried parents, of dependent undergraduate students. Effective July 1, 2006, graduate and professional students were eligible borrowers under the PLUS Loan program. For PLUS Loans made on or after July 1, 1993, the borrower could not have an adverse credit history as determined by criteria established by the Secretary of Education. The basic provisions applicable to PLUS Loans are similar to those of Stafford Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal insurance and reinsurance on the loans. However, PLUS Loans differ significantly, particularly from the Subsidized Stafford Loans, in that federal interest subsidy payments are not available under the PLUS Loan Program and special allowance payments are more restricted.

Interest rates for PLUS Loans. For PLUS Loans first disbursed on or after January 1, 1981, but before October 1, 1981, the applicable interest rate is fixed at 9%.

For PLUS Loans first disbursed on or after October 1, 1981, but before November 1, 1982, the applicable interest rate is fixed at 14%.

For PLUS Loans first disbursed on or after November 1, 1982, but before July 1, 1987, the applicable interest rate is fixed at 12%.

Beginning July 1, 2001, for PLUS Loans first disbursed on or after July 1, 1987, but before October 1, 1992, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury bill yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.25%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 12%. Prior to July 1, 2001, PLUS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.25%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 12%. PLUS Loans originally made at a fixed interest rate, which have been refinanced for purposes of securing a variable interest rate, are subject to the variable interest rate calculation described in this paragraph.

Beginning July 1, 2001, for PLUS Loans first disbursed on or after October 1, 1992, but before July 1, 1994, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 10%. Prior to July 1, 2001, PLUS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.1%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 10%.

Beginning July 1, 2001, for PLUS Loans first disbursed on or after July 1, 1994, but before July 1, 1998, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 9%. Prior to July 1, 2001, PLUS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.1%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 9%.

For PLUS Loans first disbursed on or after July 1, 1998, but before July 1, 2006, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 9%.

For PLUS Loans first disbursed on or after July 1, 2006, the applicable interest rate is fixed at 8.5%.

SLS Loans

General. SLS Loans were limited to graduate or professional students, independent undergraduate students, and dependent undergraduate students, if the students' parents were unable to obtain a PLUS Loan. Except for dependent undergraduate students, eligibility for SLS Loans was determined without regard to need. SLS Loans were similar to Stafford Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal insurance and reinsurance on the loans. However, SLS Loans differed significantly, particularly from Subsidized Stafford Loans, because federal interest subsidy payments were not available under the SLS Loan Program and special allowance payments were more restricted. The SLS Loan Program was discontinued on July 1, 1994.

Interest rates for SLS Loans. The applicable interest rates on SLS Loans made before October 1, 1992, and on SLS Loans originally made at a fixed interest rate, which have been refinanced for purposes of securing a variable interest rate, are identical to the applicable interest rates described for PLUS Loans made before October 1, 1992.

For SLS Loans first disbursed on or after October 1, 1992, but before July 1, 1994, the applicable interest rate is as follows:

- Beginning July 1, 2001, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 11%. Prior to July 1, 2001, SLS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.1%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 11%.

Consolidation Loans

General. The Higher Education Act authorized a program under which certain borrowers could consolidate their various federally insured education loans into a single loan insured and reinsured on a basis similar to Stafford Loans. Consolidation Loans could be obtained in an amount sufficient to pay outstanding principal, unpaid interest, late charges, and collection costs on federally insured or reinsured student loans incurred under the Federal Family Education Loan and Direct Loan Programs, including PLUS Loans made to the consolidating borrower, as well as loans made under the Perkins Loan (formally National Direct Student Loan Program), Federally Insured Student Loan (FISL), Nursing Student Loan (NSL), Health Education Assistance Loan (HEAL), and Health Professions Student Loan (HPSL) Programs. To be eligible for a FFELP Consolidation Loan, a borrower had to:

- Have outstanding indebtedness on student loans made under the Federal Family Education Loan Program and/or certain other federal student loan programs; and
- Be in repayment status or in a grace period on loans to be consolidated.

Borrowers who were in default on loans to be consolidated had to first make satisfactory arrangements to repay the loans to the respective holder(s) or had to agree to repay the consolidating lender under an income-based repayment arrangement in order to include the defaulted loans in the Consolidation Loan. For applications received on or after January 1, 1993, borrowers could add additional loans to a Consolidation Loan during the 180-day period following the origination of the Consolidation Loan.

A married couple who agreed to be jointly liable on a Consolidation Loan for which the application was received on or after January 1, 1993, but before July 1, 2006, was treated as an individual for purposes of obtaining a Consolidation Loan.

Interest rates for Consolidation Loans. For Consolidation Loans disbursed before July 1, 1994, the applicable interest rate is fixed at the greater of:

- 9%, or
- The weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent.

For Consolidation Loans disbursed on or after July 1, 1994, based on applications received by the lender before November 13, 1997, the applicable interest rate is fixed and is based on the weighted average of the interest rates on the loans consolidated, rounded up to the nearest whole percent.

For Consolidation Loans on which the application was received by the lender between November 13, 1997, and September 30, 1998, inclusive, the applicable interest rate is variable according to the following:

- For the portion of the Consolidation Loan which is comprised of FFELP, Direct, FISL, Perkins, HPSL, or NSL loans, the variable interest rate is based on the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate for this portion of the Consolidation Loan is adjusted annually on July 1. The maximum interest rate for this portion of the Consolidation Loan is 8.25%.
- For the portion of the Consolidation Loan which is attributable to HEAL Loans (if applicable), the variable interest rate is based on the average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. The variable interest rate for this portion of the Consolidation Loan is adjusted annually on July 1. There is no maximum interest rate for the portion of a Consolidation Loan that is represented by HEAL Loans.

For Consolidation Loans on which the application was received by the lender on or after October 1, 1998, the applicable interest rate is determined according to the following:

- For the portion of the Consolidation Loan which is comprised of FFELP, Direct, FISL, Perkins, HPSL, or NSL loans, the applicable interest rate is fixed and is based on the weighted average of the interest rates on the non-HEAL loans being consolidated, rounded up to the nearest one-eighth of one percent. The maximum interest rate for this portion of the Consolidation Loan is 8.25%.

- For the portion of the Consolidation Loan which is attributable to HEAL Loans (if applicable), the applicable interest rate is variable and is based on the average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. The variable interest rate for this portion of the Consolidation Loan is adjusted annually on July 1. There is no maximum interest rate for the portion of the Consolidation Loan that is represented by HEAL Loans.

For a discussion of required payments that reduce the return on Consolidation Loans, see “Fees - Rebate fee on Consolidation Loans” in this Appendix.

Interest rate during active duty

The Higher Education Opportunity Act of 2008 revised the Servicemembers Civil Relief Act to include FFEL Program loans. Interest charges on FFEL Program loans are capped at 6% during a period of time on or after August 14, 2008, in which a borrower has served or is serving on active duty in the Armed Forces, National Oceanic and Atmospheric Administration, Public Health Services, or National Guard. The interest charge cap includes the interest rate in addition to any fees, service charges, and other charges related to the loan. The cap is applicable to loans made prior to the date the borrower was called to active duty.

Maximum loan amounts

Each type of loan was subject to certain limits on the maximum principal amount, with respect to a given academic year and in the aggregate. Consolidation Loans were limited only by the amount of eligible loans to be consolidated. PLUS Loans were limited to the difference between the cost of attendance and the other aid available to the student. Stafford Loans, subsidized and unsubsidized, were subject to both annual and aggregate limits according to the provisions of the Higher Education Act.

Loan limits for Subsidized Stafford and Unsubsidized Stafford Loans. Dependent and independent undergraduate students were subject to the same annual loan limits on Subsidized Stafford Loans; independent students were allowed greater annual loan limits on Unsubsidized Stafford Loans. A student who had not successfully completed the first year of a program of undergraduate education could borrow up to $3,500 in Subsidized Stafford Loans in an academic year. A student who had successfully completed the first year, but who had not successfully completed the second year, could borrow up to $4,500 in Subsidized Stafford Loans per academic year. An undergraduate student who had successfully completed the first and second years, but who had not successfully completed the remainder of a program of undergraduate education, could borrow up to $5,500 in Subsidized Stafford Loans per academic year.

Dependent students could borrow an additional $2,000 in Unsubsidized Stafford Loans for each year of undergraduate study. Independent students could borrow an additional $6,000 of Unsubsidized Stafford Loans for each of the first two years and an additional $7,000 for the third, fourth, and fifth years of undergraduate study. For students enrolled in programs of less than an academic year in length, the limits were generally reduced in proportion to the amount by which the programs were less than one year in length. A graduate or professional student could borrow up to $20,500 in an academic year where no more than $8,500 was representative of Subsidized Stafford Loan amounts.

The maximum aggregate amount of Subsidized Stafford and Unsubsidized Stafford Loans, including that portion of a Consolidation Loan used to repay such loans, which a dependent undergraduate student may have outstanding is $31,000 (of which only $23,000 may be Subsidized Stafford Loans). An independent undergraduate student may have an aggregate maximum of $57,500 (of which only $23,000 may be Subsidized Stafford Loans). The maximum aggregate amount of Subsidized Stafford and Unsubsidized Stafford Loans, including the portion of a Consolidation Loan used to repay such loans, for a graduate or professional student, including loans for undergraduate education, is $138,500, of which only $65,500 may be Subsidized Stafford Loans. In some instances, schools could certify loan amounts in excess of the limits, such as for certain health profession students.

Loan limits for PLUS Loans. For PLUS Loans made on or after July 1, 1993, the annual amounts of PLUS Loans were limited only by the student's unmet need. There was no aggregate limit for PLUS Loans.

Repayment

Repayment periods. Loans made under the Federal Family Education Loan Program, other than Consolidation Loans and loans being repaid under an income-based or extended repayment schedule, must provide for repayment of principal in periodic installments over a period of not less than five, nor more than ten years. A borrower may request, with concurrence of the lender, to repay the loan in less than five years with the right to subsequently extend the minimum repayment period to five years. Since the 1998 Amendments, lenders have been required to offer extended repayment schedules to new borrowers disbursed on or after October 7, 1998 who accumulate outstanding FFELP Loans of more than $30,000, in which case the repayment period may extend up to 25 years, subject to certain minimum repayment amounts. Consolidation Loans must be repaid within maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans, but may not exceed 30 years. For Consolidation Loans for which the application was received prior to January 1, 1993, the repayment period cannot exceed 25 years. Periods of authorized deferment and forbearance are excluded from the maximum repayment period. In addition, if the repayment schedule on a loan with a variable interest rate does not provide for adjustments to the amount of the monthly installment payment, the maximum repayment period may be extended for up to three years.

Repayment of principal on a Stafford Loan does not begin until a student drops below at least a half-time course of study. For Stafford Loans for which the applicable rate of interest is fixed at 7%, the repayment period begins between nine and twelve months after the borrower ceases to pursue at least a half-time course of study, as indicated in the promissory note. For other Stafford Loans, the repayment period begins six months after the borrower ceases to pursue at least a half-time course of study. These periods during which payments of principal are not due are the “grace periods.”

In the case of SLS, PLUS, and Consolidation Loans, the repayment period begins on the date of final disbursement of the loan, except that the borrower of a SLS Loan who also has a Stafford Loan may postpone repayment of the SLS Loan to coincide with the commencement of repayment of the Stafford Loan.

During periods in which repayment of principal is required, unless the borrower is repaying under an income-based repayment schedule, payments of principal and interest must in general be made at a rate of at least $600 per year, except that a borrower and lender may agree to a lesser rate at any time before or during the repayment period. However, at a minimum, the payments must satisfy the interest that accrues during the year. Borrowers may make accelerated payments at any time without penalty.

Income-sensitive repayment schedule. Since 1993, lenders have been required to offer income-sensitive repayment schedules, in addition to standard and graduated repayment schedules, for Stafford, SLS, and Consolidation Loans. Beginning in 2000, lenders have been required to offer income-sensitive repayment schedules to PLUS borrowers as well. Use of income-sensitive repayment schedules may extend the maximum repayment period for up to five years if the payment amount established from the borrower's income will not repay the loan within the maximum applicable repayment period.

Income-based repayment schedule. Effective July 1, 2009, a borrower in the Federal Family Education Loan Program or Federal Direct Loan Program, other than a PLUS Loan made to a parent borrower or any Consolidation Loan that repaid one or more parent PLUS loans, may qualify for an income-based repayment schedule regardless of the disbursement dates of the loans if he or she has a partial financial hardship. A borrower has a financial hardship if the annual loan payment amount based on a 10-year repayment schedule exceeds 15% of the borrower's adjusted gross income, minus 150% of the poverty line for the borrower's actual family size. Interest will be paid by the Secretary of Education for subsidized loans for the first three years for any borrower whose scheduled monthly payment is not sufficient to cover the accrued interest. Interest will capitalize at the end of the partial financial hardship period, or when the borrower begins making payments under a standard repayment schedule. The Secretary of Education will cancel any outstanding balance after 25 years if a borrower who has made payments under this schedule meets certain criteria.

Deferment periods. No principal payments need be made during certain periods of deferment prescribed by the Higher Education Act. For a borrower who first obtained a Stafford or SLS loan which was disbursed before July 1, 1993, deferments are available:

- During a period not exceeding three years while the borrower is a member of the Armed Forces, an officer in the Commissioned Corps of the Public Health Service or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan for a period of enrollment beginning on or after July 1, 1987, an active duty member of the National Oceanic and Atmospheric Administration Corps;
- During a period not exceeding three years while the borrower is a volunteer under the Peace Corps Act;
- During a period not exceeding three years while the borrower is a full-time paid volunteer under the Domestic Volunteer Act of 1973;

- During a period not exceeding three years while the borrower is a full-time volunteer in service which the Secretary of Education has determined is comparable to service in the Peace Corp or under the Domestic Volunteer Act of 1970 with an organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- During a period not exceeding two years while the borrower is serving an internship necessary to receive professional recognition required to begin professional practice or service, or a qualified internship or residency program;
- During a period not exceeding three years while the borrower is temporarily totally disabled, as established by sworn affidavit of a qualified physician, or while the borrower is unable to secure employment because of caring for a dependent who is so disabled;
- During a period not exceeding two years while the borrower is seeking and unable to find full-time employment;
- During any period that the borrower is pursuing a full-time course of study at an eligible institution (or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan for a period of enrollment beginning on or after July 1, 1987, is pursuing at least a half-time course of study);
- During any period that the borrower is pursuing a course of study in a graduate fellowship program;
- During any period the borrower is receiving rehabilitation training services for qualified individuals, as defined by the Secretary of Education;
- During a period not exceeding six months per request while the borrower is on parental leave; and
- Only with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan for a period of enrollment beginning on or after July 1, 1987, during a period not exceeding three years while the borrower is a full-time teacher in a public or nonprofit private elementary or secondary school in a “teacher shortage area” (as prescribed by the Secretary of Education), and during a period not exceeding one year for mothers, with preschool age children, who are entering or re-entering the work force and who are paid at a rate of no more than $1 per hour more than the federal minimum wage.

For a borrower who first obtained a loan on or after July 1, 1993, deferments are available:

- During any period that the borrower is pursuing at least a half-time course of study at an eligible institution;
- During any period that the borrower is pursuing a course of study in a graduate fellowship program;
- During any period the borrower is receiving rehabilitation training services for qualified individuals, as defined by the Secretary of Education;
- During a period not exceeding three years while the borrower is seeking and unable to find full-time employment; and
- During a period not exceeding three years for any reason which has caused or will cause the borrower economic hardship. Economic hardship includes working full-time and earning an amount that does not exceed the greater of the federal minimum wage or 150% of the poverty line applicable to a borrower's family size and state of residence. Additional categories of economic hardship are based on the receipt of payments from a state or federal public assistance program, service in the Peace Corps, or until July 1, 2009, the relationship between a borrower's educational debt burden and his or her income.

Effective October 1, 2007, a borrower serving on active duty during a war or other military operation or national emergency, or performing qualifying National Guard duty during a war or other military operation or national emergency may obtain a military deferment for all outstanding Title IV loans in repayment. For all periods of active duty service that include October 1, 2007 or begin on or after that date, the deferment period includes the borrower's service period and 180 days following the demobilization date.

A borrower serving on or after October 1, 2007, may receive up to 13 months of active duty student deferment after the completion of military service if he or she meets the following conditions:

- Is a National Guard member, Armed Forces reserves member, or retired member of the Armed Forces;
- Is called or ordered to active duty; and
- Is enrolled at the time of, or was enrolled within six months prior to, the activation in a program at an eligible institution.

The active duty student deferment ends the earlier of when the borrower returns to an enrolled status, or at the end of 13 months.

PLUS Loans first disbursed on or after July 1, 2008, are eligible for the following deferment options:

- A parent PLUS borrower, upon request, may defer the repayment of the loan during any period during which the student for whom the loan was borrowed is enrolled at least half time. Also upon request, the borrower can defer the loan for the six-month period immediately following the date on which the student for whom the loan was borrowed ceases to be enrolled at least half time, or if the parent borrower is also a student, the date after he or she ceases to be enrolled at least half time.
- A graduate or professional student PLUS borrower may defer the loan for the six-month period immediately following the date on which he or she ceases to be enrolled at least half time. This option does not require a request and may be granted each time the borrower ceases to be enrolled at least half time.

Prior to the 1992 Amendments, only some of the deferments described above were available to PLUS and Consolidation Loan borrowers. Prior to the 1986 Amendments, PLUS Loan borrowers were not entitled to certain deferments.

Forbearance periods. The Higher Education Act also provides for periods of forbearance during which the lender, in case of a borrower's temporary financial hardship, may postpone any payments. A borrower is entitled to forbearance for a period not exceeding three years while the borrower's debt burden under Title IV of the Higher Education Act (which includes the Federal Family Education Loan Program) equals or exceeds 20% of the borrower's gross income. A borrower is also entitled to forbearance while he or she is serving in a qualifying internship or residency program, a “national service position” under the National and Community Service Trust Act of 1993, a qualifying position for loan forgiveness under the Teacher Loan Forgiveness Program, or a position that qualifies him or her for loan repayment under the Student Loan Repayment Program administered by the Department of Defense. In addition, administrative forbearances are provided in circumstances such as, but not limited to, a local or national emergency, a military mobilization, or when the geographical area in which the borrower or endorser resides has been designated a disaster area by the President of the United States or Mexico, the Prime Minister of Canada, or by the governor of a state.

Interest payments during grace, deferment, forbearance, and applicable income-based repayment ("IBR") periods. The Secretary of Education makes interest payments on behalf of the borrower for Subsidized loans while the borrower is in school, grace, deferment, and during the first 3 years of the IBR plan for any remaining interest that is not satisfied by the IBR payment amount. Interest that accrues during forbearance periods, and, if the loan is not eligible for interest subsidy payments during school, grace, deferment, and IBR periods, may be paid monthly or quarterly by the borrower. At the appropriate time, any unpaid accrued interest may be capitalized by the lender.

Fees

Guarantee fee and Federal default fee. For loans for which the date of guarantee of principal was on or after July 1, 2006, a guarantee agency was required to collect and deposit into the Federal Student Loan Reserve Fund a Federal default fee in an amount equal to 1% of the principal amount of the loan. The fee was collected either by deduction from the proceeds of the loan or by payment from other non-Federal sources. Federal default fees could not be charged to borrowers of Consolidation Loans.

Origination fee . Beginning with loans first disbursed on or after July 1, 2006, the maximum origination fee which could be charged to a Stafford Loan borrower decreased according to the following schedule:

- 1.5% with respect to loans for which the first disbursement was made on or after July 1, 2007, and before July 1, 2008;
- 1.0% with respect to loans for which the first disbursement was made on or after July 1, 2008, and before July 1, 2009; and
- 0.5% with respect to loans for which the first disbursement was made on or after July 1, 2009, and before July 1, 2010.

A lender could charge a lesser origination fee to Stafford Loan borrowers as long as the lender did so consistently with respect to all borrowers who resided in or attended school in a particular state. Regardless of whether the lender passed all or a portion of the origination fee on to the borrower, the lender had to pay the origination fee owed on each loan it made to the Secretary of Education.

An eligible lender was required to charge the borrower of a PLUS Loan an origination fee equal to 3% of the principal amount of the loan. This fee had to be deducted proportionately from each disbursement of the PLUS Loan and had to be remitted to the Secretary of Education.

Lender fee. The lender of any loan made under the Federal Family Education Loan Program was required to pay a fee to the Secretary of Education. For loans made on or after October 1, 2007, the fee was equal to 1.0% of the principal amount of such loan. This fee could not be charged to the borrower.

Rebate fee on Consolidation Loans. The holder of any Consolidation Loan made on or after October 1, 1993, was required to pay to the Secretary of Education a monthly rebate fee. For loans made on or after October 1, 1993, from applications received prior to October 1, 1998, and after January 31, 1999, the fee is equal to 0.0875% (1.05% per annum) of the principal and accrued interest on the Consolidation Loan. For loans made from applications received during the period beginning on or after October 1, 1998, through January 31, 1999, the fee is 0.0517% (0.62% per annum).

Interest subsidy payments

Interest subsidy payments are interest payments paid on the outstanding principal balance of an eligible loan before the time the loan enters repayment and during deferment periods. The Secretary of Education and the guarantee agencies enter into interest subsidy agreements whereby the Secretary of Education agrees to pay interest subsidy payments on a quarterly basis to the holders of eligible guaranteed loans for the benefit of students meeting certain requirements, subject to the holders' compliance with all requirements of the Higher Education Act. Subsidized Stafford Loans are eligible for interest payments. Consolidation Loans for which the application was received on or after January 1, 1993, are eligible for interest subsidy payments. Consolidation Loans made from applications received on or after August 10, 1993, are eligible for interest subsidy payments only if all underlying loans consolidated were Subsidized Stafford Loans. Consolidation Loans for which the application is received by an eligible lender on or after November 13, 1997, are eligible for interest subsidy payments on that portion of the Consolidation Loan that repaid subsidized FFELP Loans or similar subsidized loans made under the Direct Loan Program. The portion of the Consolidation Loan that repaid HEAL Loans is not eligible for interest subsidy, regardless of the date the Consolidation Loan was made.

Special allowance payments

The Higher Education Act provides for special allowance payments (SAP) to be made by the Secretary of Education to eligible lenders. The rates for special allowance payments are based on formulas that differ according to the type of loan, the date the loan was originally made or insured, and the type of funds used to finance the loan (taxable or tax-exempt).

Stafford Loans. The effective formulas for special allowance payment rates for Subsidized Stafford and Unsubsidized Stafford Loans are summarized in the following chart. The T-Bill Rate mentioned in the chart refers to the average of the bond equivalent yield of the 91-day Treasury bills auctioned during the preceding quarter.

Date of Loans	Annualized SAP Rate
On or after October 1, 1981	T-Bill Rate less Applicable Interest Rate + 3.5%
On or after November 16, 1986	T-Bill Rate less Applicable Interest Rate + 3.25%
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.1% (1)
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8% (2)
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34% (3) (6)
On or after October 1, 2007 and held by a Department of Education certified not-for-profit holder or Eligible Lender Trustee holding on behalf of a Department of Education certified not-for-profit entity	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.94% (4) (6)
All other loans on or after October 1, 2007	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.79% (5) (6)

(1) Substitute 2.5% in this formula while such loans are in-school, grace, or deferment status
(2) Substitute 2.2% in this formula while such loans are in-school, grace, or deferment status.
(3) Substitute 1.74% in this formula while such loans are in-school, grace, or deferment status.
(4) Substitute 1.34% in this formula while such loans are in-school, grace, or deferment status.
(5) Substitute 1.19% in this formula while such loans are in-school, grace, or deferment status.
(6) The Military Construction and Veterans Affairs and Related Agencies Appropriations Act of 2012 provides an alternate calculation method that substitutes for 3 Month Commercial Paper Rate "1 Month London Inter Bank Offered Rate (LIBOR) for United States dollars in effect for each of the days in such quarter as compiled and released by the British Banker's Association." This method has to be selected by each lender or beneficial holder before April 1, 2012 and applies to all loans held under the same lender identification number for the quarter beginning April 1, 2012 and all succeeding 3-month periods.

PLUS, SLS, and Consolidation Loans. The formula for special allowance payments on PLUS, SLS, and Consolidation Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.64% (1)
PLUS loans on or after October 1, 2007 and held by a Department of Education certified not-for-profit holder or Eligible Lender Trustee holding on behalf of a Department of Education certified not-for-profit entity	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.94% (1)
All other PLUS loans on or after October 1, 2007	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.79% (1)
Consolidation loans on or after October 1, 2007 and held by a Department of Education certified not-for-profit holder or Eligible Lender Trustee holding on behalf of a Department of Education certified not-for-profit entity	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.24% (1)
All other Consolidation loans on or after October 1, 2007	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.09% (1)

(1) The Military Construction and Veterans Affairs and Related Agencies Appropriations Act of 2012 provides an alternate calculation method that substitutes for 3 Month Commercial Paper Rate "1 Month London Inter Bank Offered Rate (LIBOR) for United States dollars in effect for each of the days in such quarter as compiled and released by the British Banker's Association." This method has to be selected by each lender or beneficial holder before April 1, 2012 and applies to all loans held under the same lender identification number for the quarter beginning April 1, 2012 and all succeeding 3-month periods.

For PLUS and SLS Loans made prior to July 1, 1994, and PLUS loans made on or after July 1, 1998, which bear interest at rates adjusted annually, special allowance payments are made only in quarters during which the interest rate ceiling on such loans operates to reduce the rate that would otherwise apply based upon the applicable formula. See "Interest Rates for PLUS Loans" and "Interest Rates for SLS Loans." Special allowance payments are available on variable rate PLUS Loans and SLS

Loans made on or after July 1, 1987, and before July 1, 1994, and on any PLUS Loans made on or after July 1, 1998, and before January 1, 2000, only if the variable rate, which is reset annually, based on the weekly average one-year constant maturity Treasury yield for loans made before July 1, 1998, and based on the 91-day or 52-week Treasury bill, as applicable for loans made on or after July 1, 1998, exceeds the applicable maximum borrower rate. The maximum borrower rate is between 9% and 12% per annum. The portion, if any, of a Consolidation Loan that repaid a HEAL Loan is ineligible for special allowance payments.

Recapture of excess interest . The Higher Education Reconciliation Act of 2005 provides that, with respect to a loan for which the first disbursement of principal was made on or after April 1, 2006, if the applicable interest rate for any three-month period exceeds the special allowance support level applicable to the loan for that period, an adjustment must be made by calculating the excess interest and crediting such amounts to the Secretary of Education not less often than annually. The amount of any adjustment of interest for any quarter will be equal to:

- The applicable interest rate minus the special allowance support level for the loan, multiplied by
- The average daily principal balance of the loan during the quarter, divided by
- Four.

Special allowance payments for loans financed by tax-exempt bonds . The effective formulas for special allowance payment rates for Stafford Loans and Unsubsidized Stafford Loans differ depending on whether loans to borrowers were acquired or originated with the proceeds of tax-exempt obligations. The formula for special allowance payments for loans financed with the proceeds of tax-exempt obligations originally issued prior to October 1, 1993 is:

$$\frac{\text{T-Bill Rate less Applicable Interest Rate} + 3.5\%}{2}$$

provided that the special allowance applicable to the loans may not be less than 9.5% less the Applicable Interest Rate. Special rules apply with respect to special allowance payments made on loans

- Originated or acquired with funds obtained from the refunding of tax-exempt obligations issued prior to October 1, 1993, or
- Originated or acquired with funds obtained from collections on other loans made or purchased with funds obtained from tax-exempt obligations initially issued prior to October 1, 1993.

Amounts derived from recoveries of principal on loans eligible to receive a minimum 9.5% special allowance payment may only be used to originate or acquire additional loans by a unit of a state or local government, or non-profit entity not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate or trustee, which entity has a total unpaid balance of principal equal to or less than $100,000,000 on loans for which special allowances were paid in the most recent quarterly payment prior to September 30, 2005. Such entities may originate or acquire additional loans with amounts derived from recoveries of principal until December 31, 2010. Loans acquired with the proceeds of tax-exempt obligations originally issued after October 1, 1993, receive special allowance payments made on other loans. Beginning October 1, 2006, in order to receive 9.5% special allowance payments, a lender must undergo an audit arranged by the Secretary of Education attesting to proper billing for 9.5% payments on only eligible “first generation” and “second generation” loans. First generation loans include those loans acquired using funds directly from the issuance of the tax-exempt obligation. Second-generation loans include only those loans acquired using funds obtained directly from first-generation loans. Furthermore, the lender must certify compliance of its 9.5% billing on such loans with each request for payment.

Adjustments to special allowance payments . Special allowance payments and interest subsidy payments are reduced by the amount which the lender is authorized or required to charge as an origination fee. In addition, the amount of the lender origination fee is collected by offset to special allowance payments and interest subsidy payments. The Higher Education Act provides that if special allowance payments or interest subsidy payments have not been made within 30 days after the Secretary of Education receives an accurate, timely, and complete request, the special allowance payable to the lender must be increased by an amount equal to the daily interest accruing on the special allowance and interest subsidy payments due the lender.

EXECUTION VERSION

INCREASE JOINDER AND WAIVER

TO

AMENDED AND RESTATED CREDIT AGREEMENT

This INCREASE JOINDER AND WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Increase Joinder") is entered into as of December 14, 2018, by and among NELNET, INC. (the "Borrower"), MUTUAL OF OMAHA BANK, as Additional Lender (the "Additional Lender"), WELLS FARGO BANK, NATIONAL ASSOCIATION (the "Increasing Lender"), U.S. BANK NATIONAL ASSOCIATION, as Administrative Agent for the Lenders (in such capacity, the "Agent") and the Lenders listed on the signature pages hereto. Capitalized terms used herein but not defined herein shall have the meaning given such terms in the Credit Agreement (as defined below).

WITNESSETH

WHEREAS, the Borrower, the Lenders party thereto and the Agent are party to that certain Amended and Restated Credit Agreement, dated as of October 30, 2015 (as amended, restated, supplemented, or otherwise modified prior to the date hereof, the "Credit Agreement");

WHEREAS, pursuant to Section 2.17 of the Credit Agreement, the Borrower has the right, subject to the terms and conditions thereof, to effectuate from time to time an increase in the aggregate amount of the Commitments under the Credit Agreement by requesting that an existing Lender and an Additional Lender provide Increased Commitments;

WHEREAS, the Borrower desires to effectuate such an increase through an existing Lender and an Additional Lender pursuant to the terms and conditions of Section 2.17 of the Credit Agreement; and

WHEREAS, Wells Fargo Bank, National Association desires to extend an incremental Commitment under the Credit Agreement in the amount of $7,500,000 and Mutual of Omaha Bank desires to become an Additional Lender willing to extend an incremental Commitment under the Credit Agreement in the amount of $25,000,000 (each an "Increased Commitment" and collectively, the "Increased Commitments"), as contemplated pursuant to Section 2.17 of the Credit Agreement; and

WHEREAS, this Increase Joinder is the agreement contemplated pursuant to Section 2.17(c) of the Credit Agreement whereby Mutual of Omaha Bank will be joined as an Additional Lender to the Credit Agreement and Wells Fargo Bank, National Association will increase its Commitments thereunder and the Commitments thereunder increased accordingly on the terms and conditions set forth herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to enter into this Increase Joinder.

SECTION 1. Additional Lender Joinder and Increased Commitments. Subject to the satisfaction of the conditions precedent set forth in Section 3 below:

(a) Pursuant to and in accordance with the terms and conditions of Section 2.17 of the Credit Agreement (except as otherwise waived pursuant to Section 2 hereof), (x) the undersigned Additional Lender agrees to be bound, from and after the Increase Joinder Effective Date (as defined below), by the provisions of the Credit Agreement as a Lender thereunder, and agrees that it shall, on the Increase Joinder Effective Date, become a Lender for all purposes of the Credit Agreement to the same extent as if originally a party thereto as a Lender, with a Commitment of $25,000,000 and (y) the undersigned Increasing Lender agrees to increase its Commitment by $7,500,000. After giving effect to this Section 1(a), the aggregate Commitments shall be $382,500,000.

(b) The undersigned Additional Lender (i) represents and warrants that (A) it has full power and authority, and has taken all action necessary, to execute and deliver this Increase Joinder and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement; (B) it satisfies the requirements, if any, specified in the Credit Agreement that are required to be satisfied by it in order to provide its Increased Commitment and become a Lender; and (C) from and after the Increase Joinder Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of its Increased Commitment (as defined herein), shall have the obligations of a Lender thereunder; (ii) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.01 thereof, as applicable, and has reviewed such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Increase Joinder independently and without reliance on the Agent or any other Lender; (iii) agrees that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents or any other instrument or document furnished pursuant hereto or thereto as are delegated to the Lenders by the terms thereof, together with such powers as are incidental thereto; and (v) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

(c) The undersigned Additional Lender's address for notices for purposes of the Credit Agreement is as follows:

Mutual of Omaha Bank
1317 Q Street, Ste 150
Lincoln, NE 68508
Attention: Roger Ludemann, Vice President
Facsimile: (402) 434-5818
Email: Roger.Ludemann@mutualofomahabank.com

(d) The Commitment Schedule to the Credit Agreement (after giving effect to Section 1(a) hereto) is hereby replaced in its entirety to be in the form of the Commitment Schedule attached as Annex I hereto.

SECTION 2. Limited Waiver. Notwithstanding the requirements set forth in Section 2.17 of the Credit Agreement, the parties hereto hereby agree, solely for purposes of the Increased Commitments contemplated pursuant to this Agreement, to waive (i)(x) written notice from the Borrower of its proposal to increase the aggregate amount of Commitments under the Credit Agreement, (y) the fifteen (15)-day requirement after receipt of the notice contemplated in clause (x) for delivery of written notice from the Increasing Lender that it is willing to increase its Commitment under the Credit Agreement, and (z) the ten (10)-day requirement after receipt of the notice contemplated in clause (y) for designation by the Borrower of the Additional Lender, and (ii) the requirements in Section 2.17(d) of the Credit Agreement in their entirety. The parties hereto agree that the foregoing does not establish a custom or course of dealing among the Administrative Agent, the Lenders, the Borrower, any other Loan Party or any other Person and shall not be deemed to be a consent to any amendment, waiver, modification or alteration of any other term, condition or covenant of the Credit Agreement or any other Loan Document, or waiver, release or limitation upon the exercise by Administrative Agent or any Lender of any of its rights thereunder.

SECTION 3. Conditions of Effectiveness. This Increase Joinder shall become effective as of the date hereof (the "Increase Joinder Effective Date") when, and only when, the Agent and Additional Lender shall have received:

(a) an executed counterpart of this Increase Joinder from the Borrower, each Required Lender, the Additional Lender and the Agent;

(b) payment by the Borrower of all fees and other amounts due and payable on or prior to the Increase Joinder Effective Date; a fully executed copy of the Consent and Reaffirmation, dated as of the date hereof, by each Guarantor in the form of Exhibit A attached hereto;

(c) a Certificate of the Secretary or an Assistant Secretary of the Borrower and each Guarantor certifying (i) that there have been no changes in the charter document of the Borrower or such Guarantor, as applicable, as attached thereto and as certified as of a recent date by the Secretary of State of the jurisdiction of its organization, since the date of the certification thereof by such governmental entity, (ii) the By-laws or other organizational document, as attached thereto, of the Borrower or such Guarantor, as applicable, as in effect on the date of such certification, (iii) resolutions of the Board of Directors or other governing body of the Borrower or such Guarantor, as applicable, authorizing the execution, delivery and performance of this Increase Joinder or the Consent and Reaffirmation, as applicable, (iv) the Good Standing Certificate (or analogous documentation if applicable) for the Borrower or such Guarantor, as applicable, from the Secretary of State of the jurisdiction of its organization and (v) the names and true signatures of the incumbent officers of the Borrower or such Guarantor, as applicable, authorized to sign the Increase Joinder or the Consent and Reaffirmation, as applicable; and

(d) a Certificate of the chief financial officer of the Borrower certifying the following: on the Increase Joinder Effective Date (1) no Default or Event of Default has occurred and is continuing and (2) the representations and warranties contained in Article III of the Credit Agreement are (x) with respect to any representations or warranties that contain a materiality qualifier, true and correct in all respects, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all respects on and as of such earlier date and (y) with respect to any representations or warranties that do not contain a materiality qualifier, true and correct in all material respects, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all material respects on and as of such earlier date.

SECTION 4. Representations and Warranties. The Borrower hereby represents and warrants as follows:

(a) This Increase Joinder and the Credit Agreement, as amended by this Increase Joinder, constitute legal, valid and binding obligations of such party enforceable against such party in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles; and

(b) As of the date hereof, and giving effect to the terms of this Increase Joinder, there exists no Default or Event of Default and the representations and warranties contained in Article III of the Credit Agreement, as amended hereby, are (x) with respect to any representations or warranties that contain a materiality qualifier, true and correct in all respects, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all respects on and as of such earlier date and (y) with respect to any representations or warranties that do not contain a materiality qualifier, true and correct in all material respects, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all material respects on and as of such earlier date.

SECTION 5. Reference to and the Effect on the Credit Agreement.

(a) On and after the Increase Joinder Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement and each reference to the Credit Agreement in any certificate delivered in connection therewith, shall mean and be a reference to the Credit Agreement as modified hereby.

(b) Each of the parties hereto hereby agrees that, except as specifically modified above, the Credit Agreement is hereby ratified and confirmed and shall continue to be in full force and effect and enforceable, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or limiting creditors' rights generally and general equitable principles.

(c) Except as specifically waived pursuant to Section 2 hereof, the execution, delivery and effectiveness of this Increase Joinder shall not operate as a waiver of any right, power or remedy of the Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments or agreements executed and/or delivered in connection therewith.

(d) This Increase Joinder shall constitute a Loan Document under the terms of the Credit Agreement.

SECTION 6. Headings. Section headings in this Increase Joinder are included herein for convenience only and shall not constitute a part of this Increase Joinder for any other purpose.

SECTION 7. Execution in Counterparts. This Increase Joinder may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart to this Increase Joinder by facsimile, electronic mail, portable document format (PDF) or similar means shall be effective as delivery of an original executed counterpart of this Increase Joinder.

SECTION 8. Expenses. The Borrower shall pay all reasonable out-of-pocket expenses incurred by the Agent (including, without limitation, the reasonable fees, charges and disbursements of counsel to the Agent) incurred in connection with the preparation, negotiation and execution of this Increase Joinder and any other document required to be furnished herewith.

SECTION 9. Severability. Any provision of this Increase Joinder held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 10. Successors. The provisions of this Increase Joinder shall be binding upon and inure to the benefit of the Borrower, the Agent and the Lenders and their respective successors and assigns.

SECTION 11. Governing Law; Jurisdiction; Consent to Service of Process; Waiver of Jury Trial. The provisions set forth in Sections 9.09 and 9.10 of the Credit Agreement are hereby incorporated, *mutatis mutandis*.

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IN WITNESS WHEREOF, the parties hereto have caused this Increase Joinder to be duly executed by their respective authorized signatories as of the date and year first above written.

NELNET, INC.

By: James D Kruger

Name: James D Kruger
Title: CFO

Signature Page to
Additional Lender Joinder No. 3 to
Nelnet, Inc.
Amended and Restated Credit Agreement

U.S. BANK NATIONAL ASSOCIATION,
as Agent and a Lender

By: _____

Name: Daniel S. Black
Title: Authorized Signatory

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Increasing Lender and a Lender

By: Bill Weber
Name: Bill Weber
Title: Vice President

MUTUAL OF OMAHA BANK,
as Additional Lender

By: _____
Name: Roger Ludemann
Title: Vice President

Signature Page to
Additional Lender Joinder to
Nelnet, Inc.
Amended and Restated Credit Agreement

CITIBANK, N.A.,
as a Lender

By: Marina Donskaya
Name: Marina Donskaya
Title: Vice President

Signature Page to
Additional Lender Joinder to
Nelnet, Inc.
Amended and Restated Credit Agreement

ROYAL BANK OF CANADA,
as a Lender

By: _____
Name: Glenn Van Allen
Title: Authorized Signatory

Signature Page to
Additional Lender Joinder to
Nelnet, Inc.
Amended and Restated Credit Agreement

BANK OF MONTREAL,
as a Lender

By: _____
Name: Karen Louie
Title: Director

Signature Page to
Additional Lender Joinder to
Nelnet, Inc.
Amended and Restated Credit Agreement

Exhibit A

CONSENT AND REAFFIRMATION

Each of the undersigned hereby acknowledges receipt of a copy of that certain Increase Joinder and Waiver to Amended and Restated Credit Agreement, dated as of December 14, 2018 (the "Increase Joinder") by and among Nelnet, Inc. (the "Borrower"), Mutual of Omaha Bank (the "Additional Lender"), Wells Fargo Bank, National Association (the "Increasing Lender"), U.S. Bank National Association, in its capacity as the Administrative Agent for the Lenders (the "Agent") and the Lenders listed on the signature pages thereto, which amends that certain Amended and Restated Credit Agreement, dated as of October 30, 2015 (as amended, restated, supplemented, or otherwise modified prior to the date hereof, the "Credit Agreement") by and among the Borrower, the Lenders party thereto and the Agent. Capitalized terms used in this Consent and Reaffirmation and not defined herein shall have the meanings given to them in the Credit Agreement. Without in any way establishing a course of dealing by the Agent or any Lender, each of the undersigned consents to the Increase Joinder and reaffirms the terms and conditions of the Guaranty executed by it and acknowledges and agrees that such agreement remains in full force and effect and is hereby reaffirmed, ratified and confirmed.

All references to the Credit Agreement contained in the above-referenced documents shall be a reference to the Credit Agreement as so modified by the Increase Joinder and as each of the same may from time to time hereafter be amended, modified or restated.

Dated: December 14, 2018

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EXECUTION VERSION

CONSENT AND REAFFIRMATION

Each of the undersigned hereby acknowledges receipt of a copy of that certain Increase Joinder and Waiver to Amended and Restated Credit Agreement, dated as of December 14, 2018 (the "Increase Joinder") by and among Nelnet, Inc. (the "Borrower"), Mutual of Omaha Bank (the "Additional Lender"), Wells Fargo Bank, National Association (the "Increasing Lender"), U.S. Bank National Association, in its capacity as the Administrative Agent for the Lenders (the "Agent") and the Lenders listed on the signature pages thereto, which amends that certain Amended and Restated Credit Agreement, dated as of October 30, 2015 (as amended, restated, supplemented, or otherwise modified prior to the date hereof, the "Credit Agreement") by and among the Borrower, the Lenders party thereto and the Agent. Capitalized terms used in this Consent and Reaffirmation and not defined herein shall have the meanings given to them in the Credit Agreement. Without in any way establishing a course of dealing by the Agent or any Lender, each of the undersigned consents to the Increase Joinder and reaffirms the terms and conditions of the Guaranty executed by it and acknowledges and agrees that such agreement remains in full force and effect and is hereby reaffirmed, ratified and confirmed.

All references to the Credit Agreement contained in the above-referenced documents shall be a reference to the Credit Agreement as so modified by the Increase Joinder and as each of the same may from time to time hereafter be amended, modified or restated.

Dated: December 14, 2018

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GUARANTORS:

NATIONAL EDUCATION LOAN NETWORK, INC.

By: James D Kg
Name:
Title:

NELNET BUSINESS SOLUTIONS, INC.

By: James D Kg
Name:
Title:

NELNET DIVERSIFIED SOLUTIONS, LLC

By: James D Kg
Name:
Title:

ALLO COMMUNICATIONS LLC

By: James D Kg
Name:
Title:

GREAT LAKES EDUCATIONAL LOAN SERVICES, INC.

By: Phil Ben
Name:
Title:

Signature Page to
Consent and Reaffirmation
Additional Lender Joinder to
Nelnet, Inc. Amended and Restated Credit Agreement

AGREEMENT FOR PURCHASE AND SALE OF INTEREST IN AIRCRAFT

This Agreement for Purchase and Sale of Interest in Aircraft, effective as of December 31, 2018 (the "Agreement") is by and between National Education Loan Network, Inc. ("Purchaser") and Union Financial Services, Inc. ("Seller").

RECITALS

WHEREAS, the Purchaser and the Seller own jointly, as tenants in common, that certain Cessna Citation XLS model aircraft, Serial No. 560-5597 U.S. Registration No. N711LV (the "Aircraft"); and

WHEREAS, the Seller wishes to sell seventeen and one-half percent (17.5%) of its ownership in the Aircraft (the "Interest") to the Purchaser, and the Purchaser wishes to purchase the Interest from the Seller, such that, subject to the terms and conditions set forth herein, upon closing of the transactions herein, the parties shall be joint registered owners of the Aircraft, as tenants in common;

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:

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

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

1.2 Interpretation

Unless the context of this 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 Agreement; and

(c) a reference to any Person shall include such Person's successors and permitted assigns under any agreement, instrument, contract or other document.

ARTICLE II

PURCHASE OF INTEREST

2.1 Purchase of Interest

Subject to the terms and conditions set forth herein, at the Closing (as defined in Section 2.2 below), the Seller agrees to sell to the Purchaser, and the Purchaser agrees to purchase from the Seller, the Interest at a price (the "Purchase Price") equal to the sum of $717,500.

2.2 Closing

The consummation of the transactions contemplated by this Agreement (the "Closing") shall be held on such date as the Purchaser and the Seller may mutually agree.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.1 Mutual Representations. Each party represents and warrants to the other party that:

(a) This Agreement has been duly executed and delivered by each party and is the legal, valid and binding obligation of the party, enforceable against the party 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 each party of the transactions contemplated by this Agreement which has not been received.

(c) Neither party has retained or involved any finder or broker in connection with the purchase of the Interest, and has incurred no obligation, contingent or otherwise, for brokerage or finder's fees or agent's commissions or other similar payment in connection with the transactions contemplated by this Agreement.

3.2 Seller's Additional Representations. The Seller further represents to the Purchaser that:

(a) it has, and on the Closing Date will have, good and marketable title to the Interest, free and clear of all Liens, equities and claims of any nature, and the Seller has full right, power and authority to sell, assign, transfer and deliver the Interest to the Purchaser; and,

(b) it has disclosed to the Purchaser all material facts relating to the Seller's ownership of the Interest. No representation or warranty contained in this Agreement and no written information provided to the Purchaser by the Seller contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements herein or therein, in the light of the circumstances under which they were made, not misleading.

ARTICLE IV

CONDITIONS PRECEDENT

All obligations of each party under this Agreement are subject to the fulfillment by the other party, on or prior to the Closing Date, of each of the following conditions, any of which may be waived by the first party in writing:

(a) Each party's representations and warranties contained in this Agreement shall be true and correct on and as of the Closing Date as if such representations and warranties were made on and as of such date; and

(b) Each party shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by such party on or prior to the Closing Date.

ARTICLE V

MISCELLANEOUS

5.1 Indemnity

(a) Each party agrees to indemnify, defend and hold harmless the other party from and against any and all losses, liabilities, damages, deficiencies, costs or expenses, including attorney fees, disbursements or other charges, based upon, arising out of, or otherwise in respect of any inaccuracy in or any breach of any representation, warranty, covenant or undertaking of the first party contained in this Agreement, provided that the liability of a party for indemnification under this Agreement shall not exceed the other party's actual damages

5.2 Entire Agreement

This 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.

5.3 No Waiver

Any term or condition of this 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 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 Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative. No failure on the part of the Seller or the Purchaser to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

5.4 Binding Agreement

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

5.5 Assignment

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

5.6 Expenses

Each party to this Agreement shall pay such party's own expenses and costs incidental to the purchase and sale of the Interest.

5.7 Notice

All notices and other communications provided for herein (including, without limitation, any modifications of, or waivers or consents under, this Agreement) shall be given or made by email delivered to the other party at the email address provided below in the section titled "Address for Notices".

5.8 Counterparts

This 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 Agreement by signing any such counterpart. Executed signature pages hereto may be delivered by fax or email transmission.

5.9 Amendment

No provision of this Agreement shall be waived, amended or modified except by an instrument in writing duly executed by the Seller and the Purchaser.

5.10 Applicable Law

This 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.

5.11 Severability

If any one or more of the provisions contained in this 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 Agreement for Sale of Interest in Aircraft as of the date first above written.

SELLER:
UNION FINANCIAL SERVICES, INC.

BY: _____ _____
Michael S. Dunlap, President

Address for Notices:

Union Financial Services, Inc.
Attn: Michael S. Dunlap
121 South 13th Street, Suite 100
Lincoln, Nebraska 68508

PURCHASER:
NATIONAL EDUCATION LOAN NETWORK, INC.

BY: _____
William J. Munn, Secretary

Address for Notices:

National Education Loan Network, Inc.
Attn: Terry J. Heimes
121 South 13th Street, Suite 100
Lincoln, Nebraska 68508

AIRCRAFT JOINT OWNERSHIP AGREEMENT
CITATION XLS s/n 560-5597

THIS AIRCRAFT JOINT OWNERSHIP AGREEMENT (the "Agreement") is made and entered into as of the 1st day of January, 2019 ("Effective Date"), by and between National Education Loan Network, Inc. ("Nelnet"), and MSD711, LLC ("MSD"), (Nelnet and MSD being referred to herein individually as a "Joint Owner" and collectively as the "Joint Owners") and Michael S. Dunlap, as Lessee and operator ("Dunlap").

A. Joint Owners are the registered joint owners, as tenants in common in the proportions provided for herein, of that certain Cessna Citation XLS model aircraft, Serial No. 560-5597, U.S. Registration No. N711LV (as such number may be amended from time to time) (the "Aircraft").

B. Joint Owners now wish to enter into an agreement pursuant to the provisions of Section 91.501 of the Federal Aviation Regulations for the use, operation and maintenance of the Aircraft and for the allocation of the costs associated therewith.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained herein, and intending to be legally bound hereby, the parties agree as follows:

1. Joint Ownership.

(a) Allocation. Notwithstanding the designation of any Joint Owner as a registered joint owner of the Aircraft on the records of the Federal Aviation Administration, the parties agree that all of their respective rights and obligations with respect to the Aircraft shall be determined solely and entirely by the terms of this Agreement. Each of the Joint Owners is the owner, as a tenant in common, of the following undivided interest in the Aircraft (such interest being referred to herein as the "Ownership Percentage"):

Nelnet	82.5%
MSD	17.5%

(b) Rights to Aircraft. Joint Owners hereby acknowledge that, the Joint Owners, to the extent of their respective undivided interests in the Aircraft ("Ownership Percentages") own the Aircraft, free and clear of any lien, security interest or encumbrance of any nature.

(c) Use and Lease of Aircraft. The parties agree that the Aircraft has been purchased solely for their private, non-commercial use, and that the Aircraft will not be used for lease-back, air taxi, or charter purposes. Nelnet acknowledges that MSD will not operate the Aircraft, and has simultaneously entered into a lease of the Aircraft to Dunlap who will be an operator of the Aircraft. Nelnet has reviewed and approves of the lease.

2. Relationship of Parties. The relationship among the parties is as tenants in common of a chattel (the Aircraft). Notwithstanding the foregoing, each Joint Owner waives any right it may have to demand the partition, or sale for partition, of the Aircraft under any law of the State of Nebraska, or any other jurisdiction, and hereby agrees that the sole means by which a Joint Owner may divest itself of its interest in the Aircraft is as provided for in Section 10 hereof. No partnership, joint venture or other relationship between the parties whereby any party may be held liable for the acts or omissions of any other party is intended or created by this Agreement or by virtue of the designation of any party as a registered joint owner of the Aircraft. Each Joint Owner shall be entitled to its pro rata share (based on its Ownership Percentage) of the depreciation, gain, loss or deduction with respect to the Aircraft and shall be severally liable for all costs and expenses chargeable to such Joint Owner under the Management Agreement (as defined herein) and incurred with respect to the Aircraft.

3. Management Agreement. Each Joint Owner agrees that it will enter into an agreement with Duncan Aviation, Inc. ("Duncan") to operate and manage the Aircraft on the Joint Owners' behalf (the "Management Agreement"). Each Joint Owner shall perform their respective obligations pursuant to the Management Agreement during the term of this Agreement. Each Joint Owner hereby acknowledges that, in order to provide each Joint Owner with sufficient use of the Aircraft, no Joint Owner shall be entitled to utilize the Aircraft in excess of such Joint Owner's Use Amount (as defined in Section 5(b) hereof) during any given year, except to the extent provided for herein or in the Management Agreement. Each Joint Owner further acknowledges that in the event any Joint Owner fails to utilize its Use Amount during any year hereunder, such Joint Owner will be deemed to have waived its rights to such hours thereafter.

4. Representations, Warranties and Covenants. Each Joint Owner represents, warrants and covenants to the other Joint Owners that the:

(a) Joint Owner is, and for so long as this Agreement remains in effect will be, a citizen of the United States as described in 49 U.S.C. § 40101, et seq., as amended;

(b) Joint Owner will not utilize the Aircraft for any illegal purposes or for purposes of providing transportation of passengers or cargo in air commerce for compensation or hire except as permitted under Section 91.501 of the Federal Aviation Regulations;

(c) Joint Owner shall not operate the Aircraft unless appropriate insurance coverage, as detailed in the Management Agreement, is in effect.

5. Scheduling. Duncan shall have the exclusive right to schedule use of the Aircraft in accordance with the following criteria:

(a) Use will be scheduled among the Joint Owners, on a "first-come, first served" basis.

(b) Each Joint Owner will be entitled to use the Aircraft in an amount consistent with their Ownership Percentages in each twelve (12) month period under this Agreement ("Use Amount"), unless otherwise agreed.

(c) Each party shall in any case be responsible for all actual expenses incurred as a result of its use of the Aircraft. Use of the Aircraft shall be deemed to commence at the time the Aircraft takes off and shall terminate when the Aircraft lands at the destination Airport. Flight Hours for one way trips shall include, as applicable, the time required to return the Aircraft from the point of destination to Lincoln, Nebraska or the time required to position the Aircraft from Lincoln, Nebraska to the point of origin.

(d) Subject to the Aircraft's availability for use by another Joint Owner for its Use Amount, a Joint Owner may make reasonable use of the Aircraft for more than the Joint Owner's Use Amount. In such situations the Joint Owners will reconcile actual use as compared to Use Amount of the Aircraft on an annual basis as contemplated by Section 6(b) below.

6. Operating Cost Allocation. The Joint Owners will share the costs of operating the Aircraft as follows:

(a) Monthly Fixed Cost Payment. The Joint Owners will each make a monthly fixed cost payment to Duncan as provided for in the Management Agreement. It is agreed and understood that the proportion of the total monthly fixed costs initially paid by each Joint Owner is based on the Joint Owner's respective Ownership Percentage. If any Joint Owner uses the Aircraft in excess of its annual Use Amount, as soon as practicable after January 1 of each year, from and after January 1, 2020, the Joint Owners will determine the percentage of each Joint Owner's actual use of the Aircraft during the 12-month period (the "Measurement Period") ending on December 31 of the prior year (the "Actual Use Percentage"). If the Actual Use Percentages are different than the Ownership Percentages, the amount of the total monthly fixed cost payments made during such Measurement Period will be adjusted among the Joint Owners on the basis of the Actual Use Percentages.

(b) Maintenance, Repair and Refurbishment Costs. Each Joint Owner will be responsible and liable for its pro-rata portion (based on the Joint Owner's Ownership Percentage) of the cost of maintaining, repairing and refurbishing the Aircraft and its components. To the extent a Joint Owner's Actual Use Percentage at the end of a Measurement Period exceeds the Joint Owner's Ownership Percentage, the Joint Owners will complete a reconciliation.

(c) Fuel and Out of Pocket Costs. Each Joint Owner will be responsible and liable to Duncan for the cost of fuel and other consumables in connection with all flight hours charged to such Joint Owner and for all out-of-pocket expenses incurred by Duncan in connection with the Joint Owner's use of the Aircraft such as, but not limited to, catering, landing fees and crew expenses.

(d) Personal Property Tax. Each Joint Owner will be responsible and liable for, and will indemnify, defend and hold the other Joint Owners harmless from liability for, personal property taxes assessed on such Joint Owner's interest in the Aircraft.

7. Insurance. Each Joint Owner shall, pursuant to the Management Agreement, cause

Duncan to provide and keep in force a policy or policies of liability insurance covering Aircraft operations with coverage limits of not less than $100,000,000 per occurrence, single limit bodily injury and property damage, including passengers. Each Joint Owner and Dunlap will be endorsed as an additional insured and loss payee under such policies. Each Joint Owner shall, pursuant to the Management Agreement, cause Duncan to obtain hull insurance coverage on the Aircraft in an amount equal to the value of the Aircraft.

8. Maintenance and Repair. Each Joint Owner shall, pursuant to the Management Agreement, cause Duncan to be responsible for maintaining the Aircraft in a serviceable and airworthy condition in accordance with applicable regulations, requirements and directives. Joint Owners shall not be entitled to any abatement of their fixed cost payment obligation by reason of the unavailability of the Aircraft due to the performance of any repair or maintenance activities.

9 Taxes. Each Joint Owner will be responsible for, and will indemnify and hold the other Joint Owners harmless from liability for, any excise, sales or similar taxes (including interest and penalties) assessed as the result of the ownership or use of the Aircraft by such Joint Owner.

10. Alienation of Ownership Interest.

(a) Each Joint Owner hereby covenants and agrees that, except as specifically authorized herein or by agreement of the Joint Owners holding a majority of the Ownership Percentages, it will not voluntarily encumber, sell, transfer, assign or otherwise convey, directly or indirectly, any portion of its interest in the Aircraft to anyone other than a current Joint Owner and that any attempt to do so will be void and of no force or effect.

(b) In the event a Joint Owner wishes to voluntarily sell or otherwise transfer all (but not less than all) of its interest in the Aircraft to someone other than a current Joint Owner, such Joint Owner (the "Selling Joint Owner") shall notify the other Joint Owner (the "Non-Selling Joint Owner") in writing of its intent. In such event, the Non-Selling Joint Owner shall have the right, but not the obligation, for a period of thirty (30) days following receipt of such notice to purchase (for cash or its equivalent) the interest of the Selling Joint Owner in the Aircraft for an amount equal to the Selling Joint Owner's pro rata portion (determined on the basis of its Ownership Percentage) of the Aircraft's then current fair market value as determined by mutual agreement. If the Non-Selling Joint Owner and the Selling Joint Owner are unable to agree on the Aircraft's fair market value within thirty (30) days, fair market value will be determined by three (3) qualified appraisers of used aircraft, one of whom shall be designated by the Selling Joint Owner, one by the Non-Selling Joint Owner and one by the two appraisers selected by the Joint Owners. In the event the Non-Selling Joint Owner does not exercise such right in connection with a proposed voluntary sale or transfer, the interest of the Selling Joint Owner may be transferred to a third party provided, however, that such purchaser or transferee, as a condition of the sale or transfer, shall execute this Agreement and the Management Agreement and become fully subject to the terms thereof.

(c) In the event of any change in the ownership of the controlling interest in a Joint Owner or in the event of an attempted involuntary sale or transfer of the interest of any Joint Owner (in either case, the "Selling Joint Owner") in the Aircraft, whether directly or indirectly,

the other Joint Owner (the "Non-Selling Joint Owner") shall have the right, but not the obligation, for a period of thirty (30) days following receipt of notice of such change in ownership or attempted involuntary sale or transfer to purchase (for cash or its equivalent) the interest of the Selling Joint Owner in the Aircraft for an amount equal to the Selling Joint Owner's pro rata portion (determined on the basis of its Ownership Percentages) of the Aircraft's then current fair market value as determined by mutual agreement. If the Non-Selling Joint Owner and the Selling Joint Owner are unable to agree on the Aircraft's fair market value within thirty (30) days, the process set forth in Section 10(b) shall be utilized to determine the Aircraft's fair market value. In the event the Non-Selling Joint Owner does not exercise such right in connection with a proposed involuntary sale, the interest of the Selling Joint Owner may be sold to a third party provided, however, that such purchaser or transferee, as a condition of the sale or transfer, shall execute this Agreement and the Management Agreement and become fully subject to the terms thereof.

11. Term and Termination. This Agreement is effective as of the date first written above and will continue in effect on a month to month basis until terminated by mutual agreement. At anytime hereunder, MSD shall have the right to require Nelnet to purchase MSD's interest in the Aircraft for an amount equal to MSD's pro rata portion (determined on the basis of its Ownership Percentage) of the Aircraft's then current fair market value as determined by mutual agreement. If the parties are unable to agree on the Aircraft's fair market value within thirty (30) days, the process set forth in Section 10(b) shall be utilized to determine the Aircraft's fair market value. If so agreed by the Joint Owners, the Joint Owners shall cause Duncan, as agent for the Joint Owners, to sell the Aircraft in a commercially reasonable manner. The net proceeds from such sale will be distributed to each Joint Owner in proportion to their Ownership Percentages. The good faith decision of Duncan regarding the terms and conditions of such sale shall be conclusive and binding on each of the Joint Owners.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

National Education Loan Network, Inc., Joint Owner

DocuSigned by:
EACB19C0133E42E...

By: _____
William J. Munn, Secretary

MSD711, LLC, Joint Owner

DocuSigned by:
39A188C704CE407...

By: _____
Michael S. Dunlap

DocuSigned by:
39A188C704CE407...

_____
Michael S. Dunlap, Lessee and Operator

AIRCRAFT MANAGEMENT AGREEMENT

THIS AIRCRAFT MANAGEMENT AGREEMENT (the "Agreement") is made and entered into as of the 1st day of January 2019, (the "Effective Date") by and among Duncan Aviation, Inc. ("Duncan") and National Education Loan Network, Inc. ("Nelnet") and MSD711, LLC ("MSD") as joint owners and Michael S. Dunlap as lessee of MSD711 and an operator of the Aircraft ("Dunlap") (Nelnet and MSD being sometimes referred to herein individually as a "Joint Owner" and collectively as the "Joint Owners") and is made with reference to the following:

A. This Agreement supersedes and replaces that certain Aircraft Management Agreement dated June 25, 2013 among Duncan, Nelnet and Union Financial Services, Inc.

B. The Joint Owners are parties to an Aircraft Joint Ownership Agreement (the "Ownership Agreement") of even date herewith;

C. The Joint Owners are the registered owners, as tenants in common in the proportions provided for in the Ownership Agreement of the following described aircraft: Manufacturer/Model: Cessna 560XL; Serial No. 560-5597; Registration No. N711LV (herein the "Aircraft") and Dunlap is lessee of MSD and an operator of the Aircraft;

D. MSD has leased its Ownership Percentage of the Aircraft to Dunlap, who will be the operator of the Aircraft with respect to such Ownership Percentage;

E. The Joint Owners and Dunlap have agreed, pursuant to the terms of the Ownership Agreement to engage the services of Duncan to manage the Aircraft; and

F. Duncan is desirous of managing the use, maintenance and all other matters pertaining to the Aircraft on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements contained herein, and intending to be legally bound hereby, the parties agree as follows:

1. The following terms as used in this Agreement (including the preamble of this Agreement) shall have the following meaning unless the context clearly indicates otherwise:

(a) "Ownership Percentages" means the undivided interest in the Aircraft.

(b) "Use Amount" means the uses of the Aircraft in an amount consistent with the Joint Owners' Ownership Percentages in each twelve (12) month period, unless otherwise agreed.

(c) "Actual Use Percentage" means the actual use of the Aircraft during the twelve (12) month period ending on December 31 of such year.

2. The Joint Owners and Dunlap hereby engage Duncan, and Duncan hereby agrees, to manage the Aircraft for the benefit of the Joint Owners and Dunlap. Duncan hereby accepts possession of the Aircraft from the Joint Owners and Dunlap for the purposes set forth herein.

3. Duncan hereby agrees to manage, maintain and operate the Aircraft for the benefit of the Joint Owners and Dunlap with all due reasonable care and in accordance with applicable insurance coverage and within the standards and guidelines established by the Federal Aviation Administration (the "FAA") and to comply with all laws, ordinances or regulations relating to the use, operation and maintenance of the Aircraft. Duncan will permit the Aircraft to be used only as contemplated by the manufacturer thereof as specified in the owner's manual and other technical materials regarding the Aircraft provided by the manufacturer.

4. Throughout the term of this Agreement, Duncan will, as directed by the Joint Owners and Dunlap, (a) inspect, maintain, service, repair, overhaul and test the Aircraft by duly competent personnel, in accordance with FAA approved maintenance and preventive repair programs therefore, as required to keep the Aircraft airworthy and in good operating condition; (b) maintain all records, logs and other materials required by the FAA to be maintained in respect of the Aircraft and make the same available for the Joint Owners' inspection; and (c) comply with all laws of every jurisdiction in which the Aircraft may be operated and with all rules of the FAA and any other governmental body exercising jurisdiction over the Aircraft, and shall maintain the Aircraft in proper condition for operation under such laws and rules including, without limitation, all manufacturer's recommended maintenance.

5. (a) Nelnet and Dunlap each agree to operate the Aircraft with professionally qualified pilots who are familiar with and licensed to operate the Aircraft and who shall meet and maintain the insurance requirements of any insurance policy covering the Aircraft. Nelnet and Dunlap will furnish to Duncan, the names of such pilots it intends to utilize in connection with the operation of the Aircraft. The names of the currently available qualified pilots which Nelnet and Dunlap intend to use shall be attached hereto from time to time as Exhibit A. Notwithstanding the employment of any pilot by Duncan, and subject to the provisions of Section 14 of this Agreement pertaining to operational control, each member of the flight crew utilized for flights by Nelnet or Dunlap shall be subject to the direction of Nelnet or Dunlap.

(b) Nelnet and Dunlap hereby direct Duncan, and Duncan hereby agrees, to make all necessary take-off, flight and landing arrangements for flights operated by Nelnet or Dunlap. Duncan will pay for and bill the party on whose behalf the flight is conducted, and such party shall be liable for and agrees to pay for, all flight operating expenses relating to such flight, including but not limited to fuel, travel and lodging expenses for the flight crew, hangar and tie-down costs, landing fees, in-flight food and beverages. Fuel purchased at a Duncan facility shall be charged at 80% of Duncan's then current standard fuel rate. The Joint Owners and Dunlap shall, at reasonable times, have

the right to inspect Duncan's records with respect to the Aircraft (including, without limitation, all maintenance records).

(c) The parties acknowledge that MSD shall not under any circumstances provide flight crew for the Aircraft, and Dunlap shall be responsible for supplying, contracting for and paying for all flight crew for any operation of the Aircraft by Dunlap.

6. At the direction of the Joint Owners and Dunlap, Duncan shall provide suitable hangar facilities for the Aircraft at the Lincoln, Nebraska Municipal Airport.

7. (a) The Joint Owners and Dunlap hereby direct, and Duncan hereby agrees to arrange for, obtain and keep in force during the term of this Agreement, the following insurance coverages with insurers of recognized reputation, responsibility and having at least an A.M. Best rating of "A-" or better:

(1) aircraft physical damage insurance with no deductible with respect to the Aircraft, against loss, theft or damage, extended coverage with respect to any engines or parts while removed from the Aircraft, for not less than the current fair market value of the Aircraft naming the Joint Owners and Dunlap as named insureds and as loss payees with losses payable as their respective interests may appear in the event of an actual or constructive total loss.

(2) passenger and third- party liability insurance for the Aircraft in an amount not less than One Hundred Million Dollars ($100,000,000.00) combined single limit liability coverage and shall cause each Joint Owner and Dunlap to be named insureds thereunder.

(b) Copies of such policies and certificates of insurance shall be furnished to the Joint Owners and Dunlap upon execution of this Agreement, and upon request thereafter. Such insurance shall be maintained by Duncan in full force and effect throughout the term hereof and the insurer shall provide each Joint Owner and Dunlap with thirty (30) days advance written notice of cancellation or material alteration.

8. At the direction of the Joint Owners or Dunlap, Duncan will provide assistance to and consult with them in all matters regarding the Aircraft including, but not limited to:

FAA and manufacturer's correspondence and directives;

Enforcement of warranty claims;

Enforcement, litigation and settlement of insurance matters; and

Parts replacement, services and maintenance arrangements.

9. As compensation for the services to be provided by Duncan hereunder, Nelnet and Dunlap hereby each jointly and severally agree to pay a monthly management fee to Duncan in the amount of $33,017.00 per month commencing on January 1, 2019 (herein the "Monthly Management Fee"). The Monthly Management Fee shall be Duncan's full compensation for the salaries, benefits and payroll taxes of the pilots of the Aircraft, the cost of providing hull and liability insurance on the Aircraft, navigation and weather services, hangar rent and for providing management and scheduling services hereunder. Nelnet's and Dunlap's pro-rata portion of the Monthly Management Fee shall be due and payable to Duncan in advance not later than the 10th day of each month during the term of this Agreement. The Monthly Management Fee is subject to adjustment by mutual agreement of the parties hereto to reflect the then current cost of providing the services covered thereby.

10. If Duncan is either unable or unwilling to provide required maintenance Joint Owners and Dunlap shall have the right to direct such required maintenance to such duly licensed and qualified maintenance facilities as they deem appropriate. When Duncan provides maintenance with respect to the Aircraft, each of Nelnet and Dunlap jointly and severally hereby agrees to pay Duncan such party's pro-rata portion of the cost of maintaining and repairing the Aircraft and its components. It is agreed and understood that the proportion of the total monthly fixed costs initially paid by each party is based on the Joint Owner's respective Ownership Percentages, provided, Dunlap shall pay an amount proportionate to MSD's Ownership Percentage. If any party uses the Aircraft in excess of its annual Use Amount, as soon as practical after each year during the term hereof, commencing January 1, 2020, the Joint Owners will determine the percentage of each Joint Owner's actual use of the Aircraft during the twelve (12) month period ending on December 31 of the prior year (the "Actual Use Percentage"). If the Actual Use Percentages are different than the Ownership Percentages, the amount of the total fixed cost payments made during such twelve (12) month period will be adjusted among the parties on the basis of Actual Use Percentages.

11. At the direction of the Joint Owners, Duncan will schedule use of the Aircraft in accordance with the following criteria:

(a) Use will be scheduled on a "first-come, first served" basis, subject, however, to the provisions of subsection (d) of this Section 11.

(b) Nelnet and Dunlap will be entitled to use the Aircraft for the following number of flight hours (the "Allocated Flight Hours") during each twelve-month period commencing with the date of this Agreement:

Nelnet - 330 hours
Dunlap – 70 hours

(c) Allocated Flight Hours not utilized during any twelve-month period may not be carried over to subsequent periods.

(d) A party's use of the Aircraft will be deemed to commence at the time the Aircraft takes off and will terminate when the Aircraft lands at the destination Airport unless the party requires the Aircraft to lay-over, in which case use of the Aircraft will terminate when the party releases the Aircraft. In addition, one-tenth (1/10) of an hour shall be added to each take-off and landing to account for taxi time. Each such hour of use of the Aircraft (including such one-tenth (1/10) hour for each take-off and landing) and rounded to the nearest one-tenth (1/10) of an hour is referred to herein as a "Flight Hour". Flight Hours for one-way trips shall include, as applicable, the time required to position the Aircraft from Lincoln, Nebraska to the point of origin or to return the Aircraft to Lincoln, Nebraska from the point of destination. Notwithstanding the foregoing, each party agrees that each day it uses the Aircraft (including lay-over days) shall be deemed to be a minimum of one and one-half (1.5) Flight Hours.

(e) Subject to the Aircraft's availability for use by another party for such party's Allocated Flight Hours, a party may make reasonable use of the Aircraft for more than the party's annual Allocated Flight Hours. For purposes of calculating the party's proportion of the Aircraft's airframe and maintenance expenses in accordance with the terms of this Agreement, each Flight Hour, or portion thereof, in excess of the party's Allocated Flight Hours during any year shall be allocated to such party.

12. This Agreement is effective as of the date first written above and will continue in effect until cancelled by Duncan or by the Joint Owners holding a majority of the Ownership Percentages upon not less than thirty (30) days prior written notice.

13. The Joint Owners and Dunlap acknowledge and agree that Duncan shall have no liability for delay or failure pursuant to this Agreement when such failure is caused by government regulation or authority, war, civil commotion, strikes or labor disputes, weather condition, Acts of God or as the result of maintenance or repair activities.

14. The Joint Owners, Dunlap and Duncan further agree that when, in the sole discretion of Nelnet, Dunlap, Duncan or the pilots of the Aircraft, safety may be compromised, each of them shall have the right to terminate a flight, refuse to commence a flight, and take other action necessitated by such safety considerations without liability for loss, injury, damage or delay.

15. The Joint Owners and Dunlap acknowledge and agree that it is their responsibility to ensure that operations of the Aircraft conducted on behalf of the Joint Owners and Dunlap are not subject to the provisions of Part 135 of the Federal Aviation Regulations. Each Joint Owner and Dunlap jointly and severally agrees that it will indemnify, defend and hold Duncan harmless from any liability, cost or expense, including cost of defense, arising out of fines, penalties or other administrative sanctions imposed on or threatened or assessed against Duncan as a result of the failure of such Joint Owner or Dunlap to comply with this obligation.

16. The initial term of this Agreement (the "Initial Term") shall be for a period of two (2) calendar years commencing the Effective Date. The Initial Term may be

changed or extended by the written mutual agreement of the parties. Notwithstanding the foregoing, Duncan and either of the Joint Owners or Dunlap may terminate this Agreement at any time, for any or no reason, by providing no less than sixty (60) days' written notice to the other parties.

17. LIMITATION OF LIABLITY: IN NO EVENT SHALL ANY PARTY BE LIABLE FOR OR HAVE ANY DUTY FOR INDEMNIFICATION OR CONTRIBUTION TO ANY OTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR PUNITIVE DAMAGES, OR FOR ANY DAMAGES CONSISTING OF DAMAGES FOR LOSS OF USE, REVENUE, PROFIT, BUSINESS OPPORTUNITIES AND THE LIKE, OR DEPRECIATION, DECLINE OR LOSS OF VALUE OF THE AIRCRAFT OR ANY OTHER PROPERTY, OR INSURANCE DEDUCTIBLE, EVEN IF THE PARTY HAD BEEN ADVISED, OR KNEW OR SHOULD HAVE KNOWN OF THE POSSIBILITY OF SUCH DAMAGES. In the event of damage to the Aircraft or other property by Duncan, any other party's sole and exclusive remedy, and Duncan's sole and exclusive liability, is limited to the repair or replacement (at Duncan's option) of the damaged portion of the Aircraft or other property.

18. LIMITED WARRANTY: Duncan warrants that the services provided hereunder will comply with applicable FAA and other applicable governmental authority regulations in effect as of the date the service is performed (as interpreted by (a) the FAA office having jurisdiction over the facility where the service is performed; (b) the designated FAA authority at the facility where the service is performed; or (c) other applicable governmental authority) and will be performed in a good and workmanlike manner free from defects in workmanship and material, including new components manufactured by Duncan, under normal use for one (1) year and for ninety (90) days on used components refurbished by Duncan from date of installation. The warranty on all other new and used components shall be limited to the warranty provided by the supplying manufacturer or vendor, if any. This warranty does not apply to (i) normal wear and tear, (ii) the consequences of accident, negligence, abuse or misuse, or of repair, removal, reinstallation or alteration other than by Duncan and (iii) to work which, at the direction, of any of the other parties was not performed in accordance with Duncan's standard operating procedures. The sole and exclusive remedy of the other parties, and Duncan's sole and exclusive liability, with respect to this warranty is limited to repair or replacement (at Duncan's option) of the nonconforming or defective services or component. THE FOREGOING WARRANTY IS IN LIEU OF, AND THE OWNER HEREBY WAIVES, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE.

19. MISCELLANEOUS.

19.1 Any notice to a party required or given hereunder shall be deemed given when placed in first class mail with the proper postage and addressed to the party at the address first appearing above, or to such other address as the party shall have previously designated in writing.

19.2 The parties agree that no representation, statement, amendment or agreement other that as set forth herein shall be binding upon either of the parties unless in writing, signed by each party and expressly modifying this Agreement.

19.3 If any provision of this Agreement is held to be invalid, the remaining portions hereof shall, insofar as possible, remain in full force and effect.

19.4 This Agreement shall be binding on and shall inure to the benefit of the parties hereto and their successors in interest.

19.5 This Agreement constitutes the complete understanding and agreement of the parties with respect to the matters covered herein and supersedes any and all prior understandings and agreements.

19.6 This Agreement may be executed in any number of counterparts, all of which shall be construed together and shall constitute one agreement.

19.7 The Joint Owners and Dunlap will be responsible for, and each jointly and severally agrees to indemnify and hold Duncan harmless from liability for, any and all excise, sales, and other taxes (except taxes based on Duncan's income), license fees and any other fees or assessments arising from their ownership or use of the Aircraft (including interest and penalties).

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

Duncan Aviation, Inc.
("Duncan")

DocuSigned by:
By: Thomas B. Fischer
4D4E8262CFA445F...

Title: Vice President & General Counsel

Address: 3701 Aviation Road
Lincoln, NE 68524

National Education Loan Network, Inc.
("Joint Owner")

DocuSigned by:
By: _____
EACB19C0133E42E...

Title: Secretary
121 S. 13th Street, Suite 100
Lincoln, NE 68508

DocuSigned by:
Mike Dunlap
30A188C794CE407...
Michael S. Dunlap, Operator
121 S. 13th Street, Suite 100
Lincoln, NE 68508

MSD711, LLC
("Joint Owner")

DocuSigned by:
By: Mike Dunlap
30A188C794CE407...
Michael S. Dunlap, Member
121 S. 13th Street, Suite 100
Lincoln, NE 68508

EXHIBIT A

QUALIFED PILOT SCHEDULE

January 1, 2019

Duncan Aviation Flight Department Pilot Staff Qualified to act as PIC and or SIC in the Citation 560XL (XLS) N711LV

Larry Bartlett
Lou Gray
Paul Higgins
Ben Hilton
Jon Kroesche
Craig Rathjen
Mark Schindler
Marc Shoemaker
Lyle Stohlmann
Paul Wiles

AMENDED AND RESTATED
TRUST AGREEMENT

among

NELNET PRIVATE STUDENT LOAN FINANCING CORPORATION,
as Depositor,

UNION BANK AND TRUST COMPANY,
as Trustee,

and

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Delaware Trustee

Dated as of December 21, 2018

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AMENDED AND RESTATED TRUST AGREEMENT

This AMENDED AND RESTATED TRUST AGREEMENT (this "Agreement") is made as of December 21, 2018 among NELNET PRIVATE STUDENT LOAN FINANCING CORPORATION, a Nebraska corporation, as depositor (in such capacity, the "Depositor"), UNION BANK AND TRUST COMPANY ("UB&T"), a Nebraska state-chartered commercial bank, acting hereunder not in its individual capacity but solely as trustee (the "Trustee"), and U.S. BANK TRUST NATIONAL ASSOCIATION, a national banking association, as Delaware trustee (in such capacity, and not in its individual capacity, the "Delaware Trustee").

W I T N E S E T H:

WHEREAS, the Depositor, the Trustee and the Delaware Trustee are parties to the Trust Agreement, dated as of December 20, 2018 (the "Short-Form Trust Agreement") pursuant to which a trust known as "Nelnet Legacy Private Loans Trust" (the "Trust") was established; and

WHEREAS, the Depositor, the Trustee and the Delaware Trustee wish to amend and restate the Short-Form Trust Agreement upon the terms and conditions set forth herein, pursuant to which the Trust will initially issue a trust certificate (the "Trust Certificate").

NOW THEREFORE, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND USAGE

Section 1.01 Definitions and Usage. Capitalized terms used but not otherwise defined herein are defined in the Master Repurchase Agreement, dated as of December 21, 2018 (as amended, restated, supplemented or otherwise modified from time to time, the "Repurchase Agreement"), among Nelnet Private Student Loan Financing Corporation, as seller (in such capacity, the "Seller"), Bank of America, N.A., as buyer (the "Buyer"), and the Trust, pursuant to which the Seller will sell the Trust Certificate to the Buyer. The principles of construction and rules of interpretation set forth in Section 1.2 of the Repurchase Agreement shall apply, mutatis mutandis, to this Agreement, with each reference to "this Agreement" in such Section being a reference to this Agreement.

"Bankruptcy Action" means to (i) commence any case, proceeding or other action or file a petition (a) under any existing or future bankruptcy, insolvency or similar statute, law or regulation that seeks (1) to adjudicate the Trust a bankrupt or insolvent or (2) to have an order for relief entered with respect to the Trust, or (b) under any existing or future statute, law or regulation that seeks the reorganization, arrangement, adjustment, wind up, liquidation, dissolution, composition or other relief with respect to the Trust or its debts, (ii) consent to the institution of bankruptcy or insolvency proceedings against the Trust, (iii) seek or consent to the appointment of a receiver, custodian, liquidator, assignee, trustee, sequestrator (or other similar official) of the Trust or all or a substantial part of its property, (iv) except as required by applicable law, admit the Trust's inability to pay its debts generally as they become due, (v) make a general assignment by the Trust for the benefit of creditors, (vi) file an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Trust in a proceeding of the type described in

clauses (i) through (v) of this definition, (vii) cause the Trust not to pay its debts as such debts become due within the meaning of the Bankruptcy Code, or (viii) authorize, take any action in furtherance of, consent to or acquiesce in any of the foregoing or any similar action or other proceedings under any federal or state bankruptcy, insolvency or similar law on behalf of, or with respect to, the Trust, or in connection with any obligations relating to the Trust Certificate, the Trust Documents, this Agreement or any other agreement to which the Trust is a party or a beneficiary.

"Certificateholder" means the Persons or Person in whose name the Trust Certificate is registered in the Trust Certificate Register on the applicable date.

"Delaware Statutory Trust Act" means Chapter 38 of Title 12, Part V of the Delaware Code, entitled "Treatment of Delaware Statutory Trusts."

"Education Loan" means private student loans originated pursuant to College Loan Corporation's private student loan program.

"Enumerated Action" means any of the following: (i) any amendment or waiver in respect of any provision of this Agreement; (ii) any dissolution, termination or liquidation of the Trust; (iii) the taking of a Bankruptcy Action in respect of any obligations relating to the Trust Certificate or this Agreement; (iv) permitting the Trust to merge or consolidate with or into another entity; (v) permitting the creation of any lien on the Trust Estate not contemplated by the Facility Documents or an express provision of this Agreement; (vi) permitting the Trust to incur any indebtedness not contemplated by the Facility Documents or an express provision of this Agreement; or (vii) the issuance of any additional Trust Certificates with respect to the Trust.

"Responsible Officer" means, with respect to the Delaware Trustee, any officer working in the corporate trust department of the Delaware Trustee having direct responsibility for the administration of this Agreement, and with respect to the Trustee, any officer working in the corporate trust department of the Trustee having direct responsibility for the administration of this Agreement.

"Treasury Regulations" means the temporary, proposed or final Income Tax Regulations promulgated by the Department of the Treasury.

"Trust Certificate" means a certificate issued by the Trust evidencing a beneficial ownership interest in the Trust as set forth thereon.

"Trust Certificate Register" means a register kept by the Trust Certificate Registrar in which, subject to such reasonable regulations as it may prescribe, the Trust Certificate Registrar shall provide for the registration of the Trust Certificate and the registration of transfers of the Trust Certificate.

"Trust Certificate Registrar" means the initial registrar appointed pursuant to Section 3.03(c) hereof.

"Unwind Rights" means the Buyer's right (in its capacity as Buyer), upon the occurrence of an Event of Default under the Repurchase Agreement that has not been waived by the Buyer,

to directly acquire or liquidate, transfer or otherwise dispose of (either directly or by instructing the Trustee) the Trust Estate.

ARTICLE II

ORGANIZATION

Section 2.01 Creation of Trust; Name. There is hereby continued a Trust located in the State of Delaware and known as "Nelnet Legacy Private Loans Trust", in which name the Trustee and the Delaware Trustee may continue to conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued on behalf of the Trust. The Trust is a statutory trust within the meaning of Section 3801(a) of the Delaware Statutory Trust Act for which the Delaware Trustee has filed a certificate of trust with the Secretary of State of the State of Delaware pursuant to Section 3810(a) of the Delaware Statutory Trust Act.

Section 2.02 Office. The Delaware office of the Trust is in care of the Delaware Trustee at its corporate trust office referred to in Section 3.02 hereof or at such other address in Delaware as the Delaware Trustee may designate by written notice to the Depositor. The general administrative office of the Trust is in care of the Trustee at its corporate trust office referred to in Section 3.02 hereof or at such other address as the Trustee may designate by written notice to the Depositor and the Certificateholder.

Section 2.03 Purposes and Powers. The purpose of the Trust is, and the Trust shall have the power and authority, to engage in the following activities:

(a) to hold, sell and dispose of Education Loans and related assets contributed by the Depositor;

(b) to grant a security interest in the Subsidiary Trust Asset Collateral to the Buyer pursuant to Section 6.1(b) of the Repurchase Agreement;

(c) to enter into and perform its obligations and exercise its rights under this Agreement, the Repurchase Agreement, the Servicing Agreement and any other Facility Document to which the Trust is a party (the "Trust Documents");

(d) to establish and maintain the Subsidiary Trust Account in accordance with the Repurchase Agreement and the Subsidiary Trust Account Control Agreement;

(e) subject to compliance with the Trust Documents, to engage in such other activities as may be required in connection with conservation of the Trust Estate and the making of deposits to the Subsidiary Trust Account and the Collection Account required by the Repurchase Agreement; and

(f) to engage in those activities, including entering into agreements, that are necessary, suitable or convenient to accomplish the foregoing or are incidental thereto or connected therewith.

The Trust shall not engage in any activity other than in connection with the foregoing or other than as required or authorized by the terms of this Agreement or the other Trust Documents. The Trust

shall not acquire any asset or derivative that may not be acquired or held by entities relying upon the loan securitization exclusion (the "Loan Securitization Exclusion"),[1] and therefore are not "covered funds" under Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and its implementing regulations (collectively, the "Volcker Rule").[2], and, until the Repurchase Agreement is terminated, the Trust is only permitted to engage transactions that facilitate of the repurchase transaction between the Depositor and the Buyer pursuant to the Repurchase Agreement described above.

The parties hereto hereby agree that, notwithstanding anything herein to the contrary, the entering into and performance by the Trust (and execution thereof by the Trustee on its behalf) of the Trust Documents in accordance with the terms and conditions hereof shall not be deemed to cause the Trust to have violated, or to have failed to comply with, any of the foregoing restrictions or covenants set forth in this Section or any other restrictions or covenants contained in this Agreement.

Section 2.04 Covenants Regarding Operations. The Trust shall comply with the following:

(a) Subject to Section 4.03 hereof, and notwithstanding any prior termination of this Agreement, to the fullest extent permitted by law, none of the Delaware Trustee, the Trustee, the Depositor or the Certificateholder shall take or authorize any Bankruptcy Action.

(b) To the fullest extent permitted by law and notwithstanding any other provision to the contrary in this Agreement or any other agreement, document or instrument executed by the Trust (except as otherwise provided in the Agreement and the Facility Documents), and so long as the Agreement is in effect, the Certificateholder and the Depositor shall cause the Trust to, and the Trust shall:

(i) do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a Delaware statutory trust in good standing and its rights (charter and statutory) under the laws of the State of Delaware, preserve and keep in full force and effect its existence, rights and franchises, obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Agreement and any agreement to which the Trust is a party, and observe all applicable procedures and provisions required by this Agreement and the laws of the State of Delaware;

(ii) except as required by law, not amend, alter, waive, change or repeal (A) its Certificate of Trust, (B) the definitions in this Agreement of the capitalized terms used in this Section or any of the definitions of the terms that form any part thereof or (C) this Section or Sections 2.03, 2.11, 4.03 or Article VIII hereof without the prior written

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1 12 C.F.R. § 248.10(c)(8).

2 12 C.F.R. Part 248. The Board of Governors of the Federal Reserve System (the "Federal Reserve Board") is one of five federal regulatory agencies which jointly adopted the final version of the Volcker Rule. With respect to the Federal Reserve Board, the Volcker Rule constitutes Federal Reserve Regulation VV.

consent of the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full);

(iii) maintain its own bank accounts and correct and complete financial and other entity records, accounts and books of account separate and distinct from those of any other Person; not commingle its records, accounts, books of account and bank accounts with the organizational or other records, accounts, books of account or bank accounts of any other Person and cause such records, accounts, books of account and bank accounts to reflect the separate existence of the Trust;

(iv) act solely in its own name and through a Responsible Officer (as defined in the Repurchase Agreement) or its agents in the conduct of its business, prepare all Trust correspondence in the Trust's name, hold itself out as a separate entity from any other Person, conduct its business so as not to mislead others as to the identity of the entity with which they are concerned, correct any misunderstanding regarding its separate identity known to the Trust, refrain from engaging in any activity that compromises the separate legal identity of the Trust, and strictly comply with all organizational and statutory formalities to maintain its separate existence;

(v) take such actions as may be necessary to authorize each of the Trust's actions as may be required by applicable law, this Agreement and any other agreement to which the Trust is a party;

(vi) at any time that the Trust is not treated as a disregarded entity or part of a consolidated group filing consolidated returns for federal income tax purposes, file or cause to be filed its own tax and information returns, if any, as may be required of the Trust under applicable federal, state and local law, and pay any taxes out of its own funds so required to be paid under applicable law from its own assets;

(vii) except for the Delaware Trustee's or the Trustee's standard practice regarding maintenance of funds and assets, not commingle its funds or assets with funds or assets of any other Person;

(viii) segregate and separately maintain (or cause to be maintained) its funds and assets as identifiable funds and assets held in its name (except with respect to holding funds or assets in its name, to the extent that such funds or assets are required under the Agreement to be held in an account in the name of a servicer, custodian or trustee with respect to any accounts established hereunder) and with its own tax identification number, if any, in such a manner that it is not costly or difficult to segregate, ascertain or identify its individual funds or assets from the funds or assets of any other Person, which funds and assets shall at all times be held by or on behalf of the Trust and used only for the business of the Trust;

(ix) prepare and maintain annual and quarterly (or more frequent) financial statements separate from any other Person, pay or bear out of its own funds the cost of preparation of its own financial statements and disclose in the annual financial statements

of the Trust the effects of its transactions in accordance with generally accepted accounting principles;

(x) Except as permitted under the Facility Documents, not permit the financial statements of the Trust, or any consolidated or combined financial statements which consolidate or combine the assets and earnings of the Certificateholder or any Affiliate of the Certificateholder with those of the Trust, to state that the assets of the Trust are or will be available to creditors of any of its Affiliates, the Certificateholder or any Affiliate of the Certificateholder;

(xi) maintain an arm's-length relationship with its Affiliates, the Depositor and the Certificateholder and their respective Affiliates, not enter into any contract or agreement or any amendment thereof with any of its Affiliates, the Depositor or the Certificateholder or their respective Affiliates unless the terms thereof are commercially reasonable, and substantially similar to those that would be available on an arm's-length basis with third-parties, and transact all business with its Affiliates, the Depositor, the Certificateholder and their respective Affiliates pursuant to enforceable agreements with material terms established at the inception that will not be amendable except with the consent of each of the parties to such agreement;

(xii) to the extent that the Trust leases premises from the Certificateholder or its Affiliates, pay appropriate, fair and reasonable compensation or rental to the lessor;

(xiii) be directly responsible for the costs of its own outside legal, auditing and other similar services and pay its taxes, liabilities and operating expenses only out of its funds and not pay from its assets any obligations or indebtedness of any other Person;

(xiv) pay from its own funds the salaries of its own employees, if any, and maintain a sufficient number of employees in light of its contemplated business operations;

(xv) pay compensation from its own funds to independent contractors for performing services or incurring expenses in connection with such services for the Trust in an amount equal to the fair value of such services and expenses;

(xvi) allocate fairly and reasonably between the Trust and any other Person pursuant to a written agreement all expenses that are shared with such Person, including any overhead, rent, or other compensation paid for shared or leased office space;

(xvii) not act as an agent of the Certificateholder, the Delaware Trustee, the Trustee or their respective Affiliates;

(xviii) not permit the Depositor, the Certificateholder or their respective Affiliates to act as an agent for the Trust, except as specifically permitted by this Agreement;

(xix) not identify itself as a department or division of any other Person in order not (A) to mislead others as to the identity of the entity with which such other party is

transacting business or (B) to suggest that the Trust is responsible for the debts of any other Person;

(xx) use stationery, invoices and checks that are separate from those of any other Person;

(xxi) not enter into leases for office space, except as necessary to maintain a principal place of business or the conduct of its operations;

(xxii) not be, become or hold itself out (or permit itself to be held out) as being liable for the debts or other obligations of any other Person, or hold out its credit (or permit its credit to be held out) as being available to satisfy the obligation of any other Person;

(xxiii) not pledge any property or assets of the Trust (except as permitted by the Facility Documents), lend or advance any moneys to (other than trade receivables in connection with the ordinary course of the Trust's business), or guarantee (directly or indirectly), endorse (other than the endorsement of negotiable instruments for collection or deposit in the ordinary course of business) or otherwise become contingently liable (directly or indirectly) for the obligations of, or acquire or assume any obligation or liability of, any other Person;

(xxiv) except for investments expressly permitted by this Agreement, not make an investment in or for the benefit of, or own or purchase any stock, obligations or securities of or any other interest in, or make any capital contribution to, any other Person;

(xxv) not form or acquire any subsidiary;

(xxvi) not incur any debt, secured or unsecured, direct or contingent (including, without limitation, guaranteeing any obligation) other than its obligations under the Facility Documents, unsecured debts and liabilities for trade payables and accrued expenses and taxes incurred in the ordinary course of its business that (A) are in amounts that are normal and reasonable under the circumstances, (B) are not evidenced by a promissory note, (C) are paid when due (unless being contested in good faith) and (D) not owed to the Certificateholder or its Affiliates;

(xxvii) maintain adequate capital for the normal obligations reasonably foreseeable in a business of the Trust's size and character and in light of its proposed business operations and liabilities (provided that this clause shall not be deemed a commitment by the Certificateholder to make contributions to the Trust);

(xxviii) not engage, directly or indirectly, in any business other than as required or permitted under Section 2.03 hereof;

(xxix) not acquire or own any material assets other than the assets and properties to be pledged under the Agreement or as otherwise are necessary to comply with its obligations under the Facility Documents;

(xxx) properly account in the Trust's books and financial records for any transactions entered into between the Trust and the Certificateholder, the Depositor or their respective Affiliates;

(xxxi) not enter into any contract, except such contracts as necessary to enable the Trust to achieve its purposes as set forth in, or that are otherwise required or permitted by, Section 2.03 hereof;

(xxxii) not agree to, enter into or consummate any transaction which would render it unable to confirm that (A) it is not an "employee benefit plan" as defined in Section 3(32) of ERISA, which is subject to Title I of ERISA, or a "governmental plan" within the meaning of Section 3(32) of ERISA; (B) it is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans; and (C) less than 25% of each of its outstanding classes of equity interests are held by a "benefit plan investor" within the meaning set forth in 29 C.F.R. § 2510.3-101(f)(2);

(xxxiii) to the fullest extent permitted by applicable law and except as otherwise expressly provided elsewhere in this Section, not take or refrain from taking any act which would make it impossible to carry on the activities of the Trust set forth in Section 2.03 hereof;

(xxxiv) except as expressly provided in the Agreement, not knowingly perform any act that would subject (A) the Certificateholder to liabilities of the Trust in any jurisdiction or (B) the Trust to taxation as a corporation under relevant provisions of the Code;

(xxxv) not combine, consolidate or merge the Trust into or with any other Person, convert the Trust into an entity that is not a Delaware statutory trust, reorganize or form the Trust in a jurisdiction other than Delaware or, to the fullest extent permitted by applicable law, dissolve, liquidate, wind-up or transfer the ownership of substantially all of its assets;

(xxxvi) not enter into the Facility Documents or any other agreement with any intent to hinder, delay or defraud creditors of any Person;

(xxxvii) not permit the Trust to be maintained or used to abuse creditors or to perpetrate a fraud, injury or injustice to creditors of any Person; and

(xxxviii) cause any agents and other representatives of the Trust to act at all times with respect to the Trust in furtherance of the foregoing.

Notwithstanding any provision of this Agreement to the contrary, the Trust has full power and authority and is specifically authorized to execute, deliver and perform (and the Trustee, on behalf of the Trust, is hereby authorized to execute and deliver) the Trust Documents and all documents, agreements, certificates, financing statements and other writings, contemplated thereby or related thereto, all without any further act, vote, consent or approval of the Delaware Trustee, any Certificateholder or other Person whatsoever. The foregoing authorization shall not be deemed to conflict with or violate any restriction contained elsewhere in this Agreement on the

powers of the Trust or the Trustee on behalf of the Trust to enter into any agreements or transactions.

(c) None of the Trust, the Certificateholder, the Depositor or any Person on behalf of the Trust shall, and none of them shall have the authority to, enter into any agreements, written or otherwise (other than the obligations of the Certificateholder under Sections 3.03(f), 7.01(d), 7.01(i) and 8.04 hereof and under the other Facility Documents), pursuant to which the Certificateholder or any of its Affiliates agrees to (i) extend credit or make loans, payments or contributions to or for the Trust, (ii) assume, guaranty or otherwise be obligated for the payment of the obligations or the performance of the Trust, (iii) hold itself out as being liable for the obligations of the Trust or (iv) hold out its credit as being available to satisfy the obligations of the Trust.

Section 2.05 Appointment of Trustee and Delaware Trustee. The Depositor hereby appoints the Trustee as trustee of the Trust, effective as of the date hereof, to have all the rights, powers and duties set forth herein and the Trustee accepts such appointment. The Depositor hereby appoints the Delaware Trustee as trustee of the Trust, effective as of the date hereof, for the sole purpose of satisfying Section 3807(a) of the Delaware Statutory Trust Act, and the Delaware Trustee hereby accepts such appointment.

Section 2.06 Initial Capital Contribution of Trust Estate. The Depositor shall pay the organizational expenses of the Trust as they may arise or shall, upon the request of the Trustee, promptly reimburse the Trustee for any such expenses paid by the Trustee on behalf of the Trust.

The Depositor for value received, does hereby absolutely and unconditionally contribute to the capital of, assign, transfer and convey to, the Trust, without recourse, all of the right, title and interest of the Depositor in, to and under each Education Loan described on the loan schedule attached as Exhibit B hereto, including the promissory notes, contracts or other documentation evidencing the student loans, together with all revenues and recoveries of principal and interest and other payments and cash collections received, together with any security interests or liens and property securing the payment thereof, all records and other documents maintained with respect to the student loans and proceeds of all of the forgoing (the "Trust Estate"). The transfer by the Depositor to the Trust of the Trust Estate as provided herein is intended to be, and to be construed as, an unconditional and absolute capital contribution to the Trust of all of the Depositor's right, title and interest in, to and under the Trust Estate, without recourse, and not a transfer as security for a loan. The Depositor and the Trust intend that the value of the Depositor's equity interest in the Trust will be increased by an amount equal to the fair market value of the Trust Estate immediately following their Contribution to the Recipient. The Trust hereby accepts the Trust Estate as a capital contribution from the Depositor to the Trust.

It is the intention of the parties hereto that the contribution of the Trust Estate by the Depositor to the Trust as provided in this Agreement for all purposes be, and be construed as, an unconditional and absolute capital contribution to the Trust of all of the Depositor's right, title and interest in, to and under the Trust Estate, without recourse. Furthermore, neither the Depositor nor the Trust intend that any such contribution be deemed a pledge of the Trust Estate by the Depositor to the Trust to secure a debt or other obligation of the Depositor. If, however, notwithstanding the intention of the parties, the conveyance provided for in this Agreement is determined to be a

transfer for security, then this Agreement shall also be deemed to be a security agreement and the Depositor hereby grants to the Trust a security interest in all of the Depositor's right, title and interest in, to and under the Trust Estate.

Section 2.07 Declaration of Trust. The Trustee hereby declares that it will hold the Trust Estate, in trust upon and subject to the conditions set forth herein for the benefit of the Certificateholder, subject to the obligations of the Trust under the other Trust Documents and the grant of the security interest to the Buyer. It is the intention of the parties hereto that (i) the Trust constitute a statutory trust under Delaware law, (ii) this Agreement constitute the governing instrument of such trust and (iii) the Trust Certificate represents the beneficial interests therein. Effective as of the date hereof, the Trustee and the Delaware Trustee, as applicable, shall have all the rights, powers and duties set forth herein and in the Delaware Statutory Trust Act with respect to accomplishing the purposes of the Trust.

Section 2.08 Liability of the Certificateholder. No Certificateholder (in such capacity) shall have any personal liability for any liability or obligation of the Trust. The rights of the Certificateholder shall be determined as set forth herein and in the Delaware Statutory Trust Act, and the relationship between the parties hereto created by this Agreement shall not constitute indebtedness for any purpose.

Section 2.09 Title to Trust Property. Legal title to all of the Trust Estate shall be vested at all times in the Trust as a separate legal entity except where applicable law in any jurisdiction requires title to any part of the Trust Estate to be transferred to and vested in a trustee or trustees, in which case title shall be deemed to be vested in the Trustee, a co-trustee and/or a separate trustee, as the case may be; provided that legal title to the Education Loans shall be vested at all times in the Trustee on behalf of the Trust. Any such trustee shall take such part of the Trust Estate subject to the security interest of the Buyer therein established under the Repurchase Agreement. Such trustee's acceptance of its appointment shall constitute acknowledgement of such security interest and shall constitute a grant to the Buyer of a security interest in all property held by such trustee. Any such trustee authorizes the Depositor and the Buyer to prepare and file all such financing statements naming such trustee as debtor that are necessary or advisable to perfect, make effective or continue the lien of the Buyer and which are in form and substance satisfactory to such trustee. In no event shall title to the Trust Estate be placed in the name of the Delaware Trustee.

Section 2.10 Representations, Warranties and Covenants of the Depositor. The Depositor hereby represents, warrants and covenants to the Trustee and the Delaware Trustee as follows:

(a) The Depositor is duly organized and validly existing as a Nebraska corporation in good standing under the laws of the State of Delaware, with power and authority to own its properties and to conduct its business as such properties are currently owned and such business is presently conducted.

(b) The Depositor has the power and authority to execute and deliver this Agreement and to carry out its terms; the Depositor has full power and authority to sell and assign the property to be sold and assigned to and deposited with the Trust (or with the Trustee on behalf of the Trust) and the Depositor has duly authorized such sale and assignment and deposit to the Trust (or to the

Trustee on behalf of the Trust) by all necessary action; and the execution, delivery and performance of this Agreement has been duly authorized by the Depositor by all necessary action.

(c) This Agreement has been duly executed and delivered by the Depositor and constitutes a legal, valid and binding obligation of the Depositor enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization and similar laws relating to creditors' rights generally and subject to general principles of equity.

(d) The consummation of the transactions contemplated by this Agreement and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under, the Articles of Incorporation or Bylaws of the Depositor, or any indenture, agreement or other instrument to which the Depositor is a party or by which it is bound; nor result in the creation or imposition of any lien upon any of its properties pursuant to the terms of any such indenture, agreement or other instrument (other than pursuant to the Trust Documents); nor violate any law or, to the Depositor's knowledge, any order, rule or regulation applicable to the Depositor of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Depositor or its properties.

(e) The Depositor agrees for the benefit of the Certificateholder that it will comply with each of the requirements set forth in its Articles of Incorporation or Bylaws.

Section 2.11 Intended Tax Characterization of the Trust. (a) The parties intend that so long as the Trust is viewed as having only a single owner for federal income tax purposes (i) the Trust be classified pursuant to Treasury Regulations promulgated under Section 7701 of the Code as an entity that is disregarded as distinct from the Certificateholder, (ii) until the issuance of the Trust Certificate, the Depositor shall be treated as owning all assets owned by the Trust and having incurred all liabilities incurred by the Trust, (iii) upon the issuance of the Trust Certificate, the Certificateholder be treated as owning all assets owned by the Trust and having incurred all liabilities incurred by the Trust and (iv) that all transactions between the Trust and the Certificateholder be disregarded for tax purposes.

(b) If the Trust is ever viewed as having two or more beneficial or equity owners for federal income tax purposes (either because the Trust Certificate is treated as having more than one owner), the parties further intend that the Trust be classified as a partnership pursuant to Treasury Regulations promulgated under Section 7701 of the Code and that all income, gain, loss and expense of the Trust be allocated among such beneficial/equity owners in accordance with the Treasury Regulations then applicable to entities classified as partnerships for tax purposes. At such time, this Agreement may be amended in accordance with Section 11.01 hereof to include provisions, if any, necessary to provide for the maintenance of capital accounts, to allow for allocations that track as closely as possible the manner in which cash and other property have been and are to be distributed under the Repurchase Agreement and this Agreement and to designate a tax matters partner.

(c) It is further intended that the Trust be classified for all state and local tax purposes in a manner that is consistent with the foregoing federal income tax characterizations unless and until otherwise required by an applicable state or local taxing authority.

(d) The Certificateholder, by its acceptance of the Trust Certificate issued hereunder, agrees to be bound by the foregoing intended tax characterizations and to take no action inconsistent with such characterizations unless and until otherwise required by an applicable tax authority. The Certificateholder agrees that if the Trust is ever required to file income tax returns or reports, to cause such returns and reports to be prepared in a manner that is consistent with the foregoing characterizations. Each of the Depositor, the Trustee, the Delaware Trustee and the Certificateholder agree that under no circumstances will they make an election on IRS Form 8832 or otherwise to classify the Trust as an association taxable as a corporation for federal, state or any other applicable tax purpose.

Section 2.12 Subsidiary Trust Account. The Trust shall establish and maintain with the Trustee a segregated non-interest bearing time or demand deposit account (the "Subsidiary Trust Account"). The Depositor and the Trust shall cause a Servicer remit all collections (other than Liquidation Proceeds) received by Servicer with respect to the Education Loans owned by the Trust into the Subsidiary Trust Account within two (2) Business Days of receipt thereof. All Liquidation Proceeds received by the Servicer in connection with the sale or other disposition of an Education Loan shall be remitted to the Subsidiary Trust Account on the same day of receipt. On each Remittance Date, amounts on deposit in the Subsidiary Trust Account shall be used as follows:

(a) first, to pay all Servicer, Trustee and Delaware Trustee fees, expenses and indemnification then due and owing to the Servicer, the Trustee and the Delaware Trustee with respect to the Subsidiary Trust Assets and pursuant to the express terms of the Facility Documents, but solely to the extent such amounts are unpaid;

(b) second, to transfer all remaining amounts, if any, to the Collection Account established pursuant to the Repurchase Agreement until the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full, and thereafter to distribute al remaining amounts to the Certificateholder.

ARTICLE III

TRUST CERTIFICATE

Section 3.01 Initial Beneficial Ownership. Upon the formation of the Trust by the contribution by the Depositor pursuant to Section 2.06 hereof and until the issuance of the Trust Certificate, the Depositor shall be the sole beneficial owner of the Trust. Upon the occurrence of the initial Transaction under the Repurchase Agreement, the Trust Certificate and all beneficial interests therein shall be assigned by the Depositor to the Buyer and the Trust Certificate shall be re-registered in the name of the Buyer. For the avoidance of doubt, until the Repurchase Agreement is terminated and the obligations owed to the Buyer thereunder are paid in full, the Buyer shall, for all intents and purposes, be recognized hereunder as the Certificateholder of the Trust Certificate.

Section 3.02 Corporate Trust Office. The Trustee initially designates 6801 S. 27th Street, Lincoln, NE 68512, Attention Jon Gross, Senior Vice President (Jon.Gross@ubt.com), as its principal corporate trust office, at which it shall act as trustee of the Trust. The Delaware Trustee

initially designates its office located at 300 Delaware Avenue, 9th Floor, Wilmington, Delaware 19801 Attn: Corporate Trust Administration/ Nelnet Legacy Private Loans Trust as its principle corporate trust office in Delaware.

Section 3.03 The Trust Certificate.

(a) General. The Trust Certificate shall be issued in one registered, definitive physical certificate substantially in the form of Exhibit A hereto intended as a medium for investment and is a security governed by Article 8 of the Uniform Commercial Code and shall be a "security" governed by Article 8 of the New York Uniform Commercial Code. The Certificateholder shall receive payments as provided in Section 2.12 hereof and Section 6.3(d) of the Repurchase Agreement until the Repurchase Agreement is terminated. The Trust Certificate shall be executed on behalf of the Trust by manual or facsimile signature of a Responsible Officer of the Trustee.

(b) Authentication. Concurrently with the contribution of the initial Education Loans to the Trust on the Effective Date, the Trustee shall cause the Trust Certificate to be executed on behalf of the Trust, authenticated and delivered to or upon the written order of the Depositor, signed by its Responsible Officer (as defined in the Repurchase Agreement), without further action by the Depositor. No Trust Certificate shall entitle its holder to any benefit under this Agreement, or shall be valid for any purpose, unless there shall appear on such Trust Certificate a certificate of authentication substantially in the form set forth in Exhibit A, executed by a Responsible Officer of the Trustee by manual signature; such authentication shall constitute conclusive evidence that such Trust Certificate shall have been duly authenticated and delivered hereunder. The Trust Certificate shall be dated the date of its authentication.

(c) Registration of Transfer and Exchange. The Trustee shall be the Trust Certificate Registrar. The Trust Certificate Registrar shall keep or cause to be kept, at its office maintained pursuant to Section 3.02 hereof, a Trust Certificate Register in which, subject to such reasonable regulations as it may prescribe, the Trustee shall provide for the registration of the Trust Certificate and of transfers and exchanges of the Trust Certificate as herein provided.

Upon surrender for registration of transfer of the Trust Certificate at its office maintained pursuant to Section 3.02 hereof and delivery thereof to the Trustee, together with a written direction to execute and authenticate, the Trustee shall execute, authenticate and deliver, in the name of the designated transferee, a new Trust Certificate dated the date of authentication by the Trustee or any authenticating agent. At the option of the Certificateholder, the Trust Certificate may be exchanged for another Trust Certificate upon surrender of the Trust Certificate to be exchanged at its office maintained pursuant to Section 3.02 hereof.

A Trust Certificate presented or surrendered for registration of transfer or exchange shall be accompanied by a written instrument of transfer in form satisfactory to the Trustee and the Trust Certificate Registrar duly executed by the holder thereof or his attorney duly authorized in writing, with such signature guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company; provided, however, that any transfer or exchange from the Depositor to the Buyer, or from the Buyer to the Depositor or to any of their Affiliates or from such Affiliate to any other Affiliate need not have such signature guaranteed. A Trust Certificate

surrendered for registration of transfer or exchange shall be cancelled and subsequently disposed of by the Trustee in accordance with its customary practice.

(d) Taxes and Charges. No service charge shall be made for any registration of transfer or exchange of the Trust Certificate, but the Trustee or the Trust Certificate Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of the Trust Certificate.

(e) ERISA and Benefit Plans. The Trust Certificate (including any beneficial interest therein) may not be acquired directly or indirectly for, on behalf of or with the assets of (i) an employee benefit plan (as defined in Section 3(3) of ERISA) whether or not subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code or any entity whose underlying assets include plan assets by reason of a plan's investment in the entity, (ii) any person who is not a United States person within the meaning of Section 7701(a)(30) of the Code or (iii) any "pass-thru entity" referred to in Section 1(h)(10) of the Code, the income of which pass-thru entity is includible directly or indirectly through one or more other such pass-thru entities by any person referred to in clause (ii) above. By accepting and holding the Trust Certificate, the holder thereof shall be deemed to have represented and warranted that it is not acquiring the Trust Certificate by or for the account of any entity in violation of the above restrictions, and to have agreed that if such restrictions are violated, the holder will promptly dispose of the Trust Certificate.

(f) Mutilated, Destroyed, Lost or Stolen Trust Certificate. If (i) the mutilated Trust Certificate shall be surrendered to the Trust Certificate Registrar, or if the Trust Certificate Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of the Trust Certificate, and (ii) there shall be delivered to the Trust Certificate Registrar and the Trustee such security or indemnity as may be required by them to save each of them and the Trust harmless, then in the absence of notice that such Trust Certificate shall have been acquired by a bona fide purchaser, the Trustee, on behalf of the Trust, shall execute and the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Certificate, a new Trust Certificate of like tenor. In connection with the issuance of any new Trust Certificate under this Section, the Trustee and the Trust Certificate Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Certificate issued pursuant to this subsection (f) shall constitute conclusive evidence of ownership in the Trust, as if originally issued, whether or not the lost, stolen or destroyed Trust Certificate shall be found at any time.

(g) Persons Deemed Owners. Prior to due presentation of the Trust Certificate for registration of transfer, the Trustee and the Trust Certificate Registrar and any agent of either of them may treat the Person in whose name the Trust Certificate shall be registered in the Trust Certificate Register as the owner of such Trust Certificate for the purpose of receiving distributions thereon and for all other purposes whatsoever, and neither the Trustee, the Trust Certificate Registrar nor any agent thereof shall be bound by any notice to the contrary.

(h) Restrictions on Transfer of the Trust Certificate.

(i) The Trust Certificate has not been registered or qualified under the Securities Act of 1933, as amended (the "Securities Act") or any state securities law. No transfer, sale, pledge or other disposition of the Trust Certificate or any interest therein shall be made unless such transfer is made pursuant to an exemption under the Securities Act.

(ii) The prospective transferee shall be aware that the Trust Certificate shall bear legends referring to the restrictions contained in sub-clause (i) above and by its acceptance of the Trust Certificate agrees to abide by such restrictions.

(iii) The prospective transferee shall deliver an opinion of counsel addressed to the Trustee, and, if it is not the proposed transferor, the Depositor, to the effect that, (1) as a matter of federal income tax law, such prospective transferee is permitted to accept the transfer of the Trust Certificate, (2) such transfer or pledge would not jeopardize the tax treatment of the Trust, (3) such transfer or pledge would not subject the Trust to any entity-level tax, and (4) such pledge or transfer would not cause the Trust to be treated, for federal income tax purposes, as an association or a publicly traded partnership taxable as a corporation.

(iv) No pledge, purchase or transfer of the Trust Certificate shall be effective unless such pledge, purchase or transfer is to a single owner who shall be the registered Certificateholder. In addition, no pledge, purchase or transfer (or purported transfer) of the Trust Certificate shall be effective, and no person shall otherwise become an Certificateholder if after giving effect to such pledge, purchase or transfer (or purported transfer) the Trust would have more than 95 equity owners for federal income tax purposes. For purposes of determining whether the Trust will have more than 95 equity owners, each person indirectly owning an interest the Trust Certificate through a partnership (including an entity treated as a partnership for federal income tax purposes), a grantor trust or an S corporation (each such entity a "flow through entity") shall be treated as a separate holder unless the Trust Certificate does not constitute substantially all of the value of the assets in such flow through entity.

ARTICLE IV

ACTIONS BY TRUSTEE

Section 4.01 Prior Notice to the Certificateholder with Respect to Certain Matters. With respect to the following matters, the Trustee shall not take action unless at least ten (10) days before the taking of such action, the Trustee shall have notified the Certificateholder in writing of the proposed action and the Certificateholder shall not have notified the Trustee in writing prior to the tenth (10th) calendar day after such notice is given that it has withheld consent or provided alternative direction:

(a) the initiation of any material claim or lawsuit by the Trust (except claims or lawsuits brought in connection with the collection of the Education Loans) and the compromise of any

material action, claim or lawsuit brought by or against the Trust (except with respect to the aforementioned claims or lawsuits for collection of Education Loans);

(b) the election by the Trust to file an amendment to the Certificate of Trust (unless such amendment is required to be filed under the Delaware Statutory Trust Act); or

(c) the taking of any Enumerated Action with respect to the Trust.

Section 4.02 Action with Respect to Sale of the Education Loans. Except as expressly provided in the Trust Documents, the Trustee shall not have the power, except upon the written direction of the Certificateholder, to sell the Education Loans. If an Event of Default has occurred and is continuing under the Repurchase Agreement, the Buyer may exercises the Unwind Rights.

Section 4.03 Action with Respect to Bankruptcy. The Trustee shall not have the power to commence a voluntary proceeding in bankruptcy relating to the Trust without the prior approval of the Certificateholder, acting with the unanimous consent of its Board of Directors (or other governing body), and the delivery to the Trustee by the Certificateholder of a certificate certifying that the Certificateholder reasonably believes that the Trust is insolvent; provided, however, that under no circumstances shall the Trustee commence or join in commencing such proceeding prior to the date that is one year and one day after the termination of the Repurchase Agreement; provided, further, that nothing herein shall be deemed to prohibit the Trustee from filing a claim in, or otherwise participating in, any bankruptcy proceeding filed against the Trust.

Section 4.04 Restrictions. Neither the Depositor nor the Certificateholder shall direct the Trustee to take or refrain from taking any action if such action or inaction would be contrary to any obligation of the Trust or the Trustee under this Agreement or any of the other Trust Documents or would be contrary to Sections 2.03 or 2.04 hereof nor shall the Trustee be permitted to follow any such direction, if given.

ARTICLE V

APPLICATION OF TRUST FUNDS; CERTAIN DUTIES

Section 5.01 Application of Trust Funds. (a) On each Monthly Distribution Date, any amounts payable in respect of the Trust Certificate shall be paid to the Certificateholder in accordance with Section 2.12 hereof and Section 6.3(d) of the Repurchase Agreement until the Repurchase Agreement is terminated; provided, that after the Obligations under the Repurchase Agreement have been satisfied, all remaining assets of the Trust will be available for distribution to the Certificateholder.

(b) In the event that any withholding tax is imposed on any such payment to the Certificateholder, such tax shall reduce the amount otherwise distributable on the Trust Certificate.

Section 5.02 Method of Payment. Distributions made to the Certificateholder on any Remittance Date shall be made by wire transfer, in immediately available funds, to the account of such holder at a bank or other entity having appropriate facilities therefor as such holder shall have provided to the Trustee and the Collection Account Bank at least five Business Days prior to such Remittance Date.

Section 5.03 No Segregation of Moneys; No Interest. Subject to Section 5.01 hereof, moneys received by the Trustee hereunder need not be segregated in any manner except to the extent required by law or any Trust Document and may be deposited under such general conditions as may be prescribed by law, and the Trustee shall not be liable for any interest thereon.

Section 5.04 Reports to the Certificateholder, the Internal Revenue Service and Others. The Trustee shall provide (or cause to be provided) any reports or other information required to be provided to the Certificateholder pursuant to the Code, the regulations promulgated thereunder or other applicable law. In addition, the Trustee shall provide (or cause to be provided) any information concerning the Trust Certificate to the Internal Revenue Service or other taxing authority as required under the Code, the Treasury Regulations or other applicable law.

ARTICLE VI

AUTHORITY AND DUTIES OF TRUSTEE

Section 6.01 General Authority. The Trustee is authorized and directed to execute and deliver the Trust Documents to which the Trust is to be a party and each certificate or other document attached as an exhibit to or contemplated by the Trust Documents to which the Trust is to be a party and any amendment thereto, in each case, in such form as the Depositor shall approve as evidenced conclusively by the Trustee's execution thereof. The Trustee is also authorized and directed on behalf of the Trust (i) to acquire and hold legal title to the Education Loans contributed by the Depositor and (ii) to take all actions required pursuant to the Repurchase Agreement.

In addition to the foregoing, the Trustee is authorized to take all actions required of the Trust pursuant to the Trust Documents. The Trustee is further authorized from time to time to take such action as the Depositor directs or instructs, in writing, with respect to the Trust Documents and is directed to take such action to the extent that the Depositor is expressly required pursuant to the Trust Documents to cause the Trustee to act.

Section 6.02 General Duties. It shall be the duty of the Trustee to discharge (or cause to be discharged) all of its responsibilities pursuant to the terms of this Agreement and the other Trust Documents to which the Trust is a party and to administer the Trust in the interest of the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full) and the Certificateholder subject to and in accordance with the provisions of this Agreement and the other Trust Documents. Without limiting the foregoing, the Trustee shall on behalf of the Trust file and prove any claim or claims that may exist on behalf of the Trust against the Depositor in connection with any claims paying procedure as part of an insolvency or a receivership proceeding involving the Depositor. Notwithstanding the foregoing, the Trustee shall be deemed to have discharged its duties and responsibilities hereunder and under the other Trust Documents to the extent the Depositor has agreed to perform any act or to discharge any duty of the Trustee hereunder or under any other Trust Document, and the Trustee shall not be held liable for the default or failure of the Depositor to carry out its obligations hereunder. Except as expressly provided in the Trust Documents, the Trustee shall have no obligation to administer, service or collect the Education Loans or to maintain, monitor or otherwise supervise the administration, servicing or collection of the Education Loans, and the Depositor shall provide for such administration, servicing or collection unless there is an Event of Default under the

Repurchase Agreement, in which case the Certificateholder shall provide for such administration, servicing or collection. The Trustee shall not be required to advance any funds against collections on the Education Loans or to any party under any Facility Document.

Section 6.03 Action upon Instruction. (a) The Trustee shall not be required to take any action hereunder or under any other Trust Document if the Trustee shall have reasonably determined, or shall have been advised by counsel, that such action is likely to result in liability on the part of the Trustee or is contrary to the terms hereof, any other Trust Document or is otherwise contrary to law.

(b) Whenever the Trustee is unable to determine the appropriate course of action between alternative courses and actions permitted or required by the terms of this Agreement or under any other Trust Document, the Trustee shall promptly give notice (in such form as shall be appropriate under the circumstances) to the Certificateholder requiring instruction as to the course of action to be adopted, and to the extent the Trustee acts in good faith in accordance with any written instruction of the Certificateholder received, the Trustee shall not be liable on account of such action to any Person. If the Trustee shall not have received appropriate instruction within ten (10) days of such notice (or within such shorter period of time as reasonably may be specified in such notice or may be necessary under the circumstances) it may, but shall be under no duty to, take or refrain from taking such action, not inconsistent with this Agreement or the other Trust Documents, as it shall deem to be in the best interests of the Certificateholder, and shall have no liability to any Person for such action or inaction.

(c) In the event that the Trustee is unsure as to the application of any provision of this Agreement, or any other Trust Document, or any such provision is ambiguous as to its application, or is, or appears to be, in conflict with any other applicable provision, or in the event that this Agreement permits any determination by the Trustee or is silent or is incomplete as to the course of action that the Trustee is required to take with respect to a particular set of facts, the Trustee may give notice (in such form as shall be appropriate under the circumstances) to the Certificateholder requesting written instruction and, to the extent that the Trustee acts or refrains from acting in good faith in accordance with any such written instruction received, the Trustee shall not be liable, on account of such action or inaction, to any Person. If the Trustee shall not have received appropriate instruction within ten (10) days of such notice (or within such shorter period of time as reasonably may be specified in such notice or may be necessary under the circumstances) it may, but shall be under no duty to, take or refrain from taking such action, not inconsistent with this Agreement or the other Trust Documents, as it shall deem to be in the best interest of the Certificateholder, and shall have no liability to any Person for such action or inaction.

Section 6.04 No Duties Except as Specified in this Agreement or in Instructions. The Trustee shall not have any duty or obligation to manage, make any payment with respect to, register, record, sell, service, dispose of or otherwise deal with the Trust Estate, or to otherwise take or refrain from taking any action under, or in connection with, any document contemplated hereby to which the Trustee is a party, except as expressly provided by the terms of this Agreement, any other Trust Document or in any document or written instruction received by the Trustee pursuant to Section 6.03 herein; and no implied duties or obligations shall be read into this Agreement or any other Trust Document against the Trustee. The Trustee shall have no

responsibility for the preparation, correctness, accuracy, existence, validity or perfection of any financing statement or filing any financing or continuation statement in any public office at any time or to otherwise perfect or maintain the perfection of any security interest or lien granted to it hereunder or to record this Agreement or any other Trust Document. The Trustee nevertheless agrees that it will, at its own cost and expense, promptly take all action as may be necessary to discharge any liens on any part of the Trust Estate that result from actions by, or claims against, UB&T, in its individual capacity or as the Trustee that are not related to the ownership or the administration of the Trust Estate.

Section 6.05 No Action Except Under Specified Documents or Instructions. The Trustee shall not manage, control, use, sell, dispose of or otherwise deal with any part of the Trust Estate except (i) in accordance with the powers granted to and the authority conferred upon the Trustee pursuant to this Agreement, (ii) in accordance with the other Trust Documents to which it is a party and (iii) in accordance with any document or instruction delivered to the Trustee pursuant to Section 4.02 or 6.03 hereof.

Section 6.06 Restrictions. The Trust shall act only through the Trustee or the Depositor (acting pursuant to the terms hereof). Neither the Trustee nor the Depositor shall take any action (a) that is inconsistent with the purposes of the Trust set forth in Section 2.03 hereof or the other Trust Documents or the covenants regarding operations set forth in Section 2.04 hereof or (b) that, to the actual knowledge of the Trustee or the Depositor, would result in the Trust becoming taxable as a corporation for federal income purposes. Neither the Depositor nor the Certificateholder shall direct the Trustee or the Depositor to take action that would violate the provisions of this Section.

ARTICLE VII

CONCERNING THE TRUSTEE AND THE DELAWARE TRUSTEE

Section 7.01 Acceptance of Trusts and Duties. Each of the Trustee and the Delaware Trustee accepts the trusts hereby created and agrees to perform its duties hereunder with respect to such trusts but only upon the terms of this Agreement. The Trustee also agrees to disburse or cause to be disbursed all moneys actually received by it constituting part of the Trust Estate upon the terms of this Agreement and the other Trust Documents. Neither the Trustee nor the Delaware Trustee shall be answerable or accountable hereunder or under any other Trust Document under any circumstances, except (i) for its own willful misconduct or gross negligence or (ii) in the case of the inaccuracy of any representation or warranty contained in Section 7.02 hereof expressly made by the Trustee or the Delaware Trustee. In particular, but not by way of limitation (and subject to the exceptions set forth in the preceding sentence):

(a) neither the Trustee nor the Delaware Trustee shall be liable for any error of judgment made in good faith by an officer or employee of the Trustee or the Delaware Trustee;

(b) neither the Trustee nor the Delaware Trustee shall be liable with respect to any action taken or omitted to be taken in good faith by it in accordance with the direction or instructions of the Depositor or the Certificateholder;

(c) the recitals contained herein and in the Trust Certificate (other than the signature of the Trustee and the certificate of authentication on the Trust Certificate) shall be taken as statements of the Depositor, and neither the Trustee nor the Delaware Trustee shall have any responsibility for the correctness thereof;

(d) no provision of this Agreement or any other Trust Document shall require the Trustee or the Delaware Trustee to expend or risk funds or otherwise incur any financial liability in the performance of any of its rights or powers hereunder or under any other Trust Document, if the Trustee or the Delaware Trustee shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured or provided to it;

(e) under no circumstances shall the Trustee or the Delaware Trustee be liable for indebtedness evidenced by or arising under any of the Trust Documents;

(f) except for the representations and warranties included in Section 7.02 hereof, neither the Trustee nor the Delaware Trustee shall be responsible or personally liable for or in respect of the validity, enforceability or sufficiency of this Agreement or for the due execution hereof by the Depositor or for the form, character, genuineness, enforceability, sufficiency, accuracy, value or validity of any of the Trust Estate or for or in respect of the validity, enforceability or sufficiency of the Trust Documents, other than (in the case of the Trustee) the certificate of authentication on the Trust Certificate, and neither the Trustee nor the Delaware Trustee shall in any event assume or incur any liability, duty or obligation to the Buyer, the Depositor or the Certificateholder, other than as expressly provided for herein and in the other Trust Documents;

(g) neither the Trustee nor the Delaware Trustee shall be responsible or personally liable for recording this Agreement or any other Trust Document, to prepare or file any financing or continuation statement in any public office at any time or otherwise to perfect or maintain the perfection of any ownership or security interest or lien or to prepare any tax, qualification to do business or securities law filing or report;

(h) neither the Trustee nor the Delaware Trustee shall be liable for, or have any duty to supervise or monitor, the action or inaction, default or misconduct of the Depositor, the Buyer or the Servicer under any of the other Trust Documents or otherwise and the Trustee and the Delaware Trustee may assume performance by each of such parties absent written notice or actual knowledge of a Responsible Officer to the contrary, and neither the Trustee nor the Delaware Trustee shall have any obligation or liability to perform the obligations of the Trust under this Agreement or the other Trust Documents that are required to be performed by the Depositor under the Repurchase Agreement or the Servicer under the Servicing Agreement;

(i) neither the Trustee nor the Delaware Trustee shall be under any obligation to exercise any of the rights or powers vested in it by this Agreement, or to institute, conduct or defend any litigation under this Agreement or otherwise or in relation to this Agreement or any other Trust Document, at the request, order or direction of the Depositor or Certificateholder, unless the Depositor or such holder has offered to the Trustee or the Delaware Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred by the

Trustee or the Delaware Trustee therein or thereby. The right of the Trustee or the Delaware Trustee to perform any discretionary act enumerated in this Agreement or in any other Trust Document shall not be construed as a duty, and neither the Trustee nor the Delaware Trustee shall be answerable for other than its gross negligence or willful misconduct in the performance of any such act;

(j) in no event shall the Trustee or the Delaware Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, acts of war or terrorism, insurrection, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunction of utilities, communications, or computer services; it being understood that the Trustee or the Delaware Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance of their respective obligations as soon as practicable under the circumstances;

(k) in no event shall the Trustee or the Delaware Trustee be responsible or liable for any special, indirect, punitive, incidental or consequential loss or damage (including, without limitation, lost profits) of any kind whatsoever irrespective of whether the Trustee or the Delaware Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action;

(l) neither the Trustee nor the Delaware Trustee shall be deemed to have knowledge or notice of any event or information, including any Event of Default under the Repurchase Agreement, or be required to act upon any event or information (including the sending of any notice), unless written notice of such event or information is received by a Responsible Officer and such notice references the event or information. Absent written notice in accordance with this Section, the Trustee and the Delaware Trustee may assume that no such event has occurred. Neither the Trustee nor the Delaware Trustee shall have any obligation to inquire into, or investigate as to, the occurrence of any such event (including any Event of Default). For purposes of determining the Trustee's or the Delaware Trustee's responsibility and liability hereunder, whenever reference is made in this Agreement to any event (including, but not limited to, an Event of Default), such reference shall be construed to refer only to such event of which the Trustee or the Delaware Trustee, as the case may be, has received written notice as described in this Section;

(m) the Trustee and the Delaware Trustee shall be entitled to rely conclusively on officer's certificates provided by the Depositor or the Certificateholder, as the case may be, to confirm compliance by the Trust with its covenants and obligations, but shall have no duty to request or otherwise monitor the delivery of such officer's certificates; and

(n) in no event shall the Trustee or the Delaware Trustee have any responsibility to monitor compliance with or enforce compliance with Regulation RR or other rules or regulations, including relating to risk retention. Neither the Trustee nor the Delaware Trustee shall be charged with knowledge of such rules, nor shall it be liable to the Certificateholder, the Depositor, the Servicer or other person for violation of such rules now or hereinafter in effect.

Section 7.02 Representations, Warranties and Covenants of the Trustee and the Delaware Trustee. (a) The Trustee hereby represents and warrants as of the date hereof to the Depositor and the Certificateholder that:

(i) It is duly organized and validly existing in good standing under the laws of its governing jurisdiction and has an office located within the State of Nebraska. It has all requisite banking power and authority to execute, deliver and perform its obligations under this Agreement.

(ii) It has taken all action necessary to authorize the execution and delivery by it of this Agreement, and this Agreement has been executed and delivered by one of its officers who is duly authorized to execute and deliver this Agreement on its behalf.

(iii) None of the execution or the delivery by it of this Agreement, the consummation by it of the transactions contemplated hereby or under any Trust Document to which it is a party, or compliance by it with any of the terms or provisions hereof or thereof will contravene any federal or New York state law, governmental rule or regulation governing the banking or trust powers of the Trustee or any judgment or order binding on it, or constitute any default under its charter documents or by-laws.

(iv) This Agreement has been duly executed and delivered and constitutes the legal, valid and binding agreement of the Trustee, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, or other similar laws affecting the enforcement of creditors' rights generally, and by general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) The Delaware Trustee hereby represents and warrants as of the date hereof to the Depositor and the Certificateholder that:

(i) It is duly organized and validly existing in good standing under the laws of its governing jurisdiction and has an office located within the State of Delaware. It has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement.

(ii) It has taken all corporate action necessary to authorize the execution and delivery by it of this Agreement, and this Agreement has been executed and delivered by one of its officers who is duly authorized to execute and deliver this Agreement on its behalf.

(iii) Neither the execution nor the delivery by it of this Agreement, nor the consummation by it of the transactions contemplated hereby nor compliance by it with any of the terms or provisions hereof will contravene any federal or Delaware state law, governmental rule or regulation governing the banking or trust powers of the Delaware Trustee or any judgment or order binding on it, or constitute any default under its charter documents or by-laws.

(iv) This Agreement has been duly executed and delivered and constitutes the legal, valid and binding agreement of the Delaware Trustee, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, or other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

Section 7.03 Reliance; Advice of Counsel. (a) The Trustee and the Delaware Trustee shall incur no liability to anyone in acting upon any signature, instrument, direction, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper believed by it to be genuine and believed by it to be signed by the proper party or parties. The Trustee and the Delaware Trustee may request and conclusively rely upon an opinion of counsel. The Trustee and the Delaware Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the method of the determination of which is not specifically prescribed herein, the Trustee and the Delaware Trustee may for all purposes hereof request and rely on a certificate, signed by the president or any vice president or by the treasurer or other Responsible Officers (as defined in the Repurchase Agreement) of the relevant party, as to such fact or matter and such certificate shall constitute full protection to the Trustee or the Delaware Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon. Neither the Trustee nor the Delaware Trustee need investigate or re-calculate, evaluate, verify or independently determine the accuracy of any report, certificate, information, statement, representation or warranty or any fact or matter stated in such document and may conclusively rely as to the truth of the statements and the correctness of the opinions expressed therein.

(b) In the exercise or administration of the trusts hereunder and in the performance of its duties and obligations under this Agreement or the other Trust Documents, the Trustee and the Delaware Trustee may, at the expense of the Trust, (i) act directly or through its agents or attorneys pursuant to agreements entered into with any of them (and the Trustee and the Delaware Trustee shall not be liable for the conduct or misconduct of such agents or attorneys if such agents or attorneys shall have been selected by the Trustee or the Delaware Trustee, as the case may be, with due care) and (ii) consult with counsel, experts and accountants to be selected with due care and employed by it. Neither the Trustee nor the Delaware Trustee shall be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or written opinion of any such counsel, experts or accountants and not contrary to this Agreement or any other Trust Document.

Section 7.04 Not Acting in Individual Capacity. Except as provided in this Article, in accepting the trusts hereby created each of UB&T and U.S. Bank Trust National Association is acting solely as Trustee and Delaware Trustee, respectively, hereunder and not in its individual capacity and all Persons having any claim against the Trustee or the Delaware Trustee by reason of the transactions contemplated by this Agreement or any other Trust Document shall look only to the Trust Estate for payment or satisfaction thereof.

Section 7.05 Trustee and Delaware Trustee Not Liable for Trust Certificate or Education Loans. The recitals contained herein and in the Trust Certificate (other than the representations, warranties and covenants of the Trustee and the signature of and authentication by the Trustee on

the Trust Certificate) shall be taken as the statements of the Depositor, and each of the Trustee and the Delaware Trustee assume no responsibility for the correctness thereof. The Trustee and the Delaware Trustee make no representations as to the validity or sufficiency of this Agreement, the Trust Certificate, any other Trust Document (other than in the case of the Trustee the signature of and authentication by the Trustee on the Trust Certificate) or any Education Loan or related documents.

Neither the Trustee nor the Delaware Trustee shall at any time have any responsibility (or liability) for or with respect to the legality, validity, enforceability and eligibility of any Education Loan, or for or with respect to the sufficiency of the Trust Estate or its ability to generate the payments to be distributed to the Certificateholder under this Agreement or under the Repurchase Agreement, including (a) the existence and contents of any computer or other record of any Education Loan, (b) the validity of the assignment of any Education Loan to the Trustee on behalf of the Trust, (c) the completeness of any Education Loan file, (d) the performance or enforcement (except as expressly set forth in any Trust Document) of any Education Loan, (e) the enforceability of any Education Loan, (f) the compliance by the Servicer with any warranty, representation or covenant made under any Trust Document or in any related document, or (g) the accuracy of any such warranty or representation or any action or inaction of the Depositor, the Certificateholder or the Servicer taken in the name of the Trustee or the Delaware Trustee.

Section 7.06 Duties of the Delaware Trustee. The Delaware Trustee is appointed to serve as the trustee of the Trust in the State of Delaware for the sole purpose of satisfying the requirement of Section 3807(a) of the Delaware Statutory Trust Act that the Trust have at least one trustee with a principal place of business in Delaware. It is understood and agreed by the parties hereto that the Delaware Trustee shall have none of the duties or liabilities of the Trustee. The duties of the Delaware Trustee shall be limited to (a) accepting legal process served on the Trust in the State of Delaware and (b) the execution of any certificates required to be filed with the Secretary of State of the State of Delaware which the Delaware Trustee is required to execute under Section 3811 of the Delaware Statutory Trust Act. To the extent that, at law or in equity, the Delaware Trustee has duties (including fiduciary duties) and liabilities relating thereto with respect to the Trust, the beneficial owners thereof or any other person, it is hereby understood and agreed by the other parties hereto that such duties and liabilities will be replaced by the duties and liabilities of the Delaware Trustee expressly set forth in this Section. No implied duties (including fiduciary duties) or obligations shall be read into this Agreement or any Trust Document against the Delaware Trustee. The Delaware Trustee shall have all the rights, privileges and immunities (but none of the obligations) of the Trustee. In addition to the foregoing, the Delaware Trustee also hereby agrees to execute and deliver all amendments or supplements to this Agreement, delivered to it for execution pursuant to Section 11.01 hereof, if such amendment or supplement does not affect the rights, indemnities, immunities or duties of the Delaware Trustee. The Delaware Trustee shall not be liable for supervising or monitoring the performance and the duties and obligations of any other Person, including, without limitation, the Trustee or the Trust under this Agreement or any Trust Document and the Delaware Trustee shall have no liability for the acts or omissions of the Trustee, the Trust, the beneficial owners thereof or any other person.

ARTICLE VIII

COMPENSATION AND INDEMNITY OF TRUSTEE AND DELAWARE TRUSTEE

Section 8.01 Trustee's and Delaware Trustee's Fees and Expenses. The Trustee and the Delaware Trustee shall receive as compensation for its services hereunder the trustee fees, payable in accordance with Section 2.12 hereof. The Trustee and the Delaware Trustee shall be entitled to be reimbursed by the Trust, or, to the extend not paid thereby, by the Depositor, for its other reasonable expenses (including the reasonable fees and expenses of counsel and independent accountants) hereunder, payable in accordance with Section 2.12 hereof, or, to the extend not paid thereby, by the Depositor.

Section 8.02 Payments to the Trustee and to the Delaware Trustee. Any amounts paid to the Trustee or to the Delaware Trustee pursuant to Section 8.01 hereof shall be deemed not to be a part of the Trust Estate immediately after such payment.

Section 8.03 Indemnity. Each of the Trust and the Depositor, jointly and severally, agrees, to the fullest extent permitted by applicable law, to assume liability for, defend, indemnify and hold harmless the Trustee, in its individual capacity and in its capacity as Trustee, and the Delaware Trustee, in its individual capacity and in its capacity as Delaware Trustee, and their officers, directors, employees and agents from and against any and all liabilities, obligations, losses, damages, taxes, claims, actions, suits, costs, expenses, taxes, penalties and disbursements (including reasonable fees and expenses of its accountants, experts and counsel, including without limitation, any legal fees, costs and expenses in connection with enforcing (including any action, claim or suit brought) its rights to indemnity hereunder) of any kind and nature whatsoever which may be imposed on, incurred by or asserted at any time against the Trustee, in its individual capacity and in its capacity as Trustee, or the Delaware Trustee, in its individual capacity and in its capacity as Delaware Trustee, and their officers, directors, employees and agents in any way relating to or arising out of the Trust Estate, any of the properties included therein, the acceptance, creation, operation, termination or administration of the Trust Estate or the Trust or any action or inaction of the Trustee, the Delaware Trustee or the Trust hereunder or under the Transaction Documents or any other agreement contemplated by any of the foregoing or any certificate of the Certificateholder, except only that the Trust shall not be required so to assume liability for, or to indemnify any of the foregoing Persons with respect to such Person's gross negligence or willful misconduct and provided that the Trust, the Trustee and the Delaware Trustee agree that such assumption of liability for liabilities, obligations, losses, damages, taxes, claims, actions, costs, expenses, taxes, penalties or disbursements of any kind shall be direct and primary and not that of a guarantor. If any item assumed by the Trust under this Section is also subject to indemnification by another party to any of the documents specifically referenced herein (other than Section 8.04 hereof), the Trustee or the Delaware Trustee shall first make demand on such party for indemnification of any such item but shall not be obligated to exhaust its remedies thereunder. The indemnities contained in this Section shall survive the resignation or removal of the Trustee or the Delaware Trustee and shall survive the termination of the Trust and this Agreement. Such indemnification and reimbursement shall be paid solely from amounts made available in the Subsidiary Trust Account pursuant to Section 2.12 hereof.

Section 8.04 Certificateholder to Assume Liability. To the extent the following amounts required to be paid hereunder to the Trustee or the Delaware Trustee are not paid pursuant to Sections 8.01 or 8.03 hereof and to the fullest extent permitted by applicable law, the Certificateholder shall pay or cause to be paid (or reimburse the Trustee or the Delaware Trustee, as applicable, for) (a) all reasonable fees and expenses of the Trustee and the Delaware Trustee, as applicable, hereunder, including, without limitation, the reasonable compensation, expenses and disbursements of such agents, representatives, accountants, experts and counsel as the Trustee and the Delaware Trustee, as applicable, may employ in connection with the exercise and performance of its rights and duties under this Agreement, the Transaction Documents or any other agreement contemplated by any of the foregoing, whether or not the transactions contemplated hereby and thereby are consummated and (b) all amounts required to be paid by Sections 8.01 or 8.03 hereof and not paid by the Trust. The liabilities and indemnities contained in this Section are for the benefit of the Trustee and the Delaware Trustee, as applicable, each in its individual capacity and its officers, directors and employees and shall not be construed as imposing any liabilities on the Certificateholder or any Affiliate thereof for any expense or liability of the Trust to third parties. Except as expressly provided in this Section and in Sections 3.03(f), 7.01(d) and 7.01(i) hereof, the Certificateholder shall not have any liabilities for the expenses and liabilities of the Trust and all such expenses and liabilities are special limited obligations of the Trust payable solely from the Trust Estate.

ARTICLE IX

TERMINATION OF TRUST AGREEMENT

Section 9.01 Termination of Trust Agreement. (a) This Agreement (other than Article VIII) and the Trust shall terminate and be of no further force or effect upon (i) the final distribution of all moneys or other property or proceeds of the Trust Estate in accordance with the terms of the Repurchase Agreement and Article V hereof and (ii) the filing of the certificate of cancellation by the Trustee pursuant to subsection (c) of this Section. The bankruptcy, liquidation, dissolution, death or incapacity of the Certificateholder shall not (x) operate to terminate this Agreement or the Trust, (y) entitle such holder's legal representatives or heirs to claim an accounting or to take any action or proceeding in any court for a partition or winding up of all or any part of the Trust or Trust Estate or (z) otherwise affect the rights, obligations and liabilities of the parties hereto.

(b) Except as provided in subsection (a) of this Section, none of the Depositor, the Buyer or the Certificateholder shall be entitled to revoke or terminate the Trust.

(c) Upon final distribution of any funds remaining in the Trust, the Trustee shall file a certificate of cancellation (to be prepared by the Depositor) of the Trust's certificate of trust pursuant to Section 3810(c) of the Delaware Statutory Trust Act and shall give notice thereof to the Delaware Trustee.

ARTICLE X

SUCCESSOR TRUSTEES AND DELAWARE TRUSTEES AND ADDITIONAL TRUSTEES AND DELAWARE TRUSTEES

Section 10.01 Eligibility Requirements for Trustee and Delaware Trustee. The Trustee (other than UB&T, as initial Trustee) shall at all times be a corporation or association (i) being authorized to exercise corporate trust powers and hold legal title to the Education Loans; (ii) having a combined capital and surplus of at least $50,000,000 and being subject to supervision or examination by Federal or state authorities; (iii) having a place of business in the State of New York and (iv) having (or having a parent which has) a rating in respect of its long-term senior unsecured debt of at least "BBB-" (or the equivalent) by each of the Rating Agencies. If the Trustee shall publish reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purpose of this Section, the combined capital and surplus of the Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Delaware Trustee shall at all times be a bank or trust company satisfying the provisions of Section 3807(a) of the Delaware Statutory Trust Act. In case at any time the Trustee or the Delaware Trustee, as the case may be, shall cease to be eligible in accordance with the provisions of this Section, the Trustee or the Delaware Trustee, as the case may be, shall resign immediately in the manner and with the effect specified in Section 10.02 hereof.

Section 10.02 Resignation or Removal of Trustee or the Delaware Trustee. The Trustee or the Delaware Trustee, as the case may be, may at any time resign and be discharged from the trusts hereby created by giving thirty (30) days written notice thereof to the Depositor. Upon receiving such notice of resignation, the Depositor shall, with the consent of the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full, and which consent shall not be unreasonably withheld, conditioned or delayed), promptly appoint a successor Trustee or Delaware Trustee, as applicable, meeting the eligibility requirements of Section 10.01 hereof by written instrument, in duplicate, one copy of which instrument shall be delivered to the resigning Trustee or Delaware Trustee and one copy to the successor Trustee or Delaware Trustee. If no successor Trustee or Delaware Trustee shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee or Delaware Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee or Delaware Trustee; provided, however, that such right to appoint or to petition for the appointment of any such successor shall in no event relieve the resigning Trustee or Delaware Trustee from any obligations otherwise imposed on it under the Trust Documents until such successor has in fact assumed such appointment.

If at any time the Trustee or the Delaware Trustee shall cease to be or shall be likely to cease to be eligible in accordance with the provisions of Section 10.01 hereof and shall fail to resign after written request therefor by the Depositor, or if at any time an event of bankruptcy with respect to the Trustee or the Delaware Trustee shall have occurred and be continuing, then the Depositor may remove the Trustee or the Delaware Trustee. If the Depositor shall remove the Trustee or the Delaware Trustee, as the case may be, under the authority of the immediately preceding sentence, the Depositor shall promptly appoint a successor Trustee or Delaware Trustee, as applicable, by written instrument, in duplicate, one copy of which instrument shall be delivered

to the outgoing Trustee or Delaware Trustee so removed and one copy to the successor Trustee or Delaware Trustee, as applicable.

Any resignation or removal of the Trustee or the Delaware Trustee, as applicable, and appointment of a successor Trustee or Delaware Trustee, as applicable, pursuant to any of the provisions of this Section shall not become effective until acceptance of appointment by the successor Trustee or Delaware Trustee, as applicable, pursuant to Section 10.03 hereof, payment of all fees and expenses owed to the outgoing Trustee or the Delaware Trustee, as applicable, and the filing of a certificate of amendment to the Trust's certificate of trust pursuant to Section 3810(b) of the Delaware Statutory Trust Act. The Depositor shall provide notice of such resignation or removal of the Trustee or the Delaware Trustee, as applicable, to the Certificateholder and the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full).

Section 10.03 Successor Trustee or Delaware Trustee. Any successor Trustee or Delaware Trustee, as applicable, appointed pursuant to Section 10.02 hereof shall execute, acknowledge and deliver to the Depositor and to its predecessor Trustee or Delaware Trustee, as applicable, an instrument accepting such appointment under this Agreement, and thereupon the resignation or removal of the predecessor Trustee or Delaware Trustee, as applicable, shall become effective and such successor Trustee or Delaware Trustee, as applicable, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties and obligations of its predecessor under this Agreement, with like effect as if originally named as Trustee or Delaware Trustee, as applicable. The predecessor Trustee or Delaware Trustee, as applicable, shall upon payment to it of its fees and expenses deliver to the successor Trustee or Delaware Trustee, as applicable, all documents, statements, moneys and properties held by it under this Agreement; and the Depositor and the predecessor Trustee or Delaware Trustee, as applicable, shall execute and deliver such instruments and do such other things as may reasonably be required for fully and certainly vesting and confirming in the successor Trustee or Delaware Trustee, as applicable, all such rights, powers, duties and obligations.

No successor Trustee or Delaware Trustee, as applicable, shall accept such appointment as provided in this Section unless, at the time of such acceptance, such successor Trustee or Delaware Trustee, as applicable, shall be eligible pursuant to Section 10.01 hereof.

Upon acceptance of appointment by a successor Trustee or Delaware Trustee, as applicable, pursuant to this Section, the Depositor shall mail notice of the successor of such Trustee or Delaware Trustee, as applicable, to the Certificateholder and the Administrative Agent. If the Depositor shall fail to mail such notice within ten days after acceptance of appointment by the successor Trustee or Delaware Trustee, as applicable, the successor Trustee or Delaware Trustee, as applicable, shall cause such notice to be mailed at the expense of the Depositor.

Any successor Delaware Trustee appointed pursuant to this Section shall promptly file an amendment to the certificate of trust with the Secretary of State identifying the name and principal place of business of such successor Delaware Trustee in the State of Delaware.

Section 10.04 Merger or Consolidation of Trustee or Delaware Trustee. Any corporation or association into which the Trustee or the Delaware Trustee, as applicable, may be merged or

converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Trustee or the Delaware Trustee, as applicable, shall be a party, or any corporation or association succeeding to all or substantially all the corporate trust business of the Trustee or the Delaware Trustee, as applicable, shall, without the execution or filing of any instrument or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding, be the successor of the Trustee or the Delaware Trustee, as applicable, hereunder; provided that such corporation or association shall be eligible pursuant to Section 10.01 hereof; and provided, further, that the Trustee or the Delaware Trustee, as applicable, shall mail notice of such merger or consolidation to the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full) not less than fifteen (15) days prior to the effective date thereof and the Delaware Trustee shall file an amendment to the certificate of trust as required under the Delaware Statutory Trust Act.

Section 10.05 Appointment of Co-Trustee or Separate Trustee. Notwithstanding any other provisions of this Agreement, at any time, for the purpose of meeting any legal requirements of any jurisdiction in which any part of the Trust Estate may at the time be located, the Depositor and the Trustee acting jointly shall have the power and shall execute and deliver all instruments to appoint one or more Persons approved by the Trustee, meeting the eligibility requirements of clauses (i) through (iii) of the first sentence of Section 10.01 hereof, to act as co-trustee, jointly with the Trustee, or separate trustee or separate trustees, of all or any part of the Trust Estate, and to vest in such Person, in such capacity, such title to the Trust Estate, or any part thereof, and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Depositor and the Trustee may consider necessary or desirable. If the Depositor shall not have joined in such appointment within fifteen (15) days after the receipt by it of a request so to do, the Trustee alone shall have the power to make such appointment. No co-trustee or separate trustee under this Agreement shall be required to meet the terms of eligibility as a successor trustee pursuant to clauses (i) or (iii) of Section 10.01 hereof and no notice of the appointment of any co-trustee or separate trustee shall be required pursuant to Section 10.03 hereof.

Each separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties, and obligations conferred or imposed upon the Trustee shall be conferred upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties, and obligations (including the holding of title to the Trust or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, solely at the written direction of the Trustee;

(ii) no trustee under this Agreement shall be personally liable by reason of any act or omission of any other trustee under this Agreement; and

(iii) the Depositor and the Trustee acting jointly may at any time accept the resignation of or remove any separate trustee or co-trustee.

Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Agreement and the conditions of this Article. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Agreement, specifically including every provision of this Agreement relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Each such instrument shall be filed with the Trustee and a copy thereof given to the Depositor.

Any separate trustee or co-trustee may at any time appoint the Trustee as its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Agreement on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Supplements, Amendments and Waivers. Any provision of this Agreement may be supplemented, amended or waived if, but only if, such supplement, amendment or waiver is in writing and, in the case of a supplement or an amendment, is signed by the Certificateholder, the Trustee and the Delaware Trustee, with the prior written consent of the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full, and which consent shall not be unreasonably withheld, conditioned or delayed) and, in the case of a waiver, is signed by the party (or parties, as applicable) granting the waiver and then such waiver shall be effective only in the specific instance and for the specific purpose for which given. To the extent the consent of any of the parties hereto is required under this Agreement, the determination as to whether to grant or withhold such consent shall be made by such party in its sole discretion without any implied duty toward any other Person, except as otherwise expressly provided herein. Notwithstanding anything herein to the contrary, no provision of this Agreement may be supplemented, amended or waived if such supplement, amendment or waiver will cause the Trust to be treated, for federal income tax purposes, as an association or a publicly traded partnership taxable as a corporation.

Prior to the execution of any amendment to this Agreement, the Trustee, the Delaware Trustee and the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full) shall be entitled to receive and rely upon an opinion of counsel from the Depositor stating that (i) the execution of such amendment is authorized or permitted by this Agreement and (ii) in the opinion of such counsel all conditions precedent in connection with such amendment, if any, have been complied with. The Trustee, the Delaware Trustee and the Buyer (unless the Repurchase Agreement has been terminated and all

obligations owed thereunder to the Buyer have been paid in full) may, but shall not be obligated to enter into any such amendment which affects the Trustee's or the Buyer's (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full), as applicable, own rights, duties or immunities under this Agreement or otherwise. No amendment pursuant to this Section shall be effective which affects the rights, duties, indemnities or immunities of the Trustee, the Delaware Trustee or the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full) without the prior written consent of such affected party.

Section 11.02 No Legal Title to Trust Estate in the Certificateholder. Subject to its rights to exercise the Unwind Rights, the Certificateholder shall not have legal title to any part of the Trust Estate. The Certificateholder shall be entitled to receive distributions with respect to its undivided beneficial ownership interest therein only in accordance with Section 2.12 hereof and Section 6.3(d) of the Repurchase Agreement until the Repurchase Agreement is terminated and all obligations owed thereunder to the Buyer have been paid in full. No transfer, by operation of law or otherwise, of any right, title, or interest of the Certificateholder to and in its beneficial ownership interest in the Trust Estate shall operate to terminate this Agreement or the trusts hereunder or entitle any transferee to an accounting or to the transfer to it of legal title to any part of the Trust Estate.

Section 11.03 Limitations on Rights of Others. Except for Section 2.08 hereof, the provisions of this Agreement are solely for the benefit of the Trustee, the Delaware Trustee, the Certificateholder, the Depositor, and, to the extent expressly provided herein, the Buyer (unless the Repurchase Agreement has been terminated and all obligations owed thereunder to the Buyer have been paid in full), and nothing in this Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Trust Estate or under this Agreement or any covenants, conditions or provisions contained herein.

Section 11.04 Notices. (a) All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including communication by facsimile copy or other electronic means) and mailed, delivered by nationally recognized overnight courier service, transmitted or delivered by hand, if to the Delaware Trustee, to 300 Delaware Avenue, 9th Floor, Wilmington, DE 19801, Attn: NELNET Legacy Private Loans Trust, with a copy to 1 Federal Street, EX-MA-FED, Boston, MA 02110, Attn: GSF-Nelnet Unsecured Personal Loan Warehouse Trust and with respect to each other party hereto, at its address as specified in the Repurchase Agreement or at such other address as shall be designated by such party in a written notice to the other parties hereto; provided, however, that each notice to the Trust shall be delivered to Nelnet Legacy Private Loans Trust c/o Nelnet Private Student Loan Financing Corporation, as Depositor, with a copy to the Trustee at its address set forth in Section 3.02 hereof. Each such notice, request or other communication shall be effective (i) if given by facsimile, when such facsimile is transmitted to the specified facsimile number and an appropriate confirmation is received, (ii) if given by email, when sent to the specified email address and an appropriate confirmation is received, (iii) if given by mail, five (5) days after being deposited in the United States mail, first class postage prepaid, (iv) if given by a nationally recognized courier guaranteeing overnight delivery, the Business Day following such day after such communication is delivered to such courier or (v) if given by any other means, when delivered at the address specified in this Section.

Notwithstanding the foregoing, any recipient may designate what it deems to be appropriate confirmation and that notification by e-mail to it shall not be effective without such confirmation.

(b) The Depositor shall make available to the Trustee (i) as soon as possible, and in any event within ninety (90) days after the end of each fiscal year of the Depositor (or an affiliate of the Depositor), audited financials of the Depositor (or an affiliate of the Depositor) as at the end of and for such fiscal year and (ii) as soon as possible, and in any event within forty-five (45) days after the end of each quarterly accounting period of the Depositor (or an affiliate of the Depositor), unaudited financials of the Depositor (or an affiliate of the Depositor) as at the end of and for such period.

Section 11.05 No Waivers; Remedies. No failure or delay by any party hereto in exercising any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 11.06 Successors and Assigns. All covenants and agreements contained herein shall be binding upon and inure to the benefit of the Depositor and its successors, the Trustee and its successors, the Delaware Trustee and its successors, each Certificateholder and its successors and permitted assigns, all as herein provided. Any request, notice, direction, consent, waiver or other instrument or action by the Buyer (unless the Repurchase Agreement has been terminated) or the Certificateholder shall bind the successors and assigns of such holder.

Section 11.07 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICTS OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 11.08 Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

Section 11.09 Waiver of Jury Trial. Each of the parties hereto hereby waives any right to have a jury participate in resolving any dispute, whether sounding in contract, tort or otherwise, among any of them arising out of, connected with, relating to or incidental to the relationship between them in connection with this Agreement or other Facility Documents.

Section 11.10 Bankruptcy Non-Petition and Limited Recourse. The Trustee (not in its individual capacity but solely as Trustee), by entering into this Agreement, the Delaware Trustee (not in its individual capacity but solely as Delaware Trustee), by entering into this Agreement, the Certificateholder (as evidenced by its acceptance of the Trust Certificate) and the Buyer by accepting the benefits of this Agreement, hereby covenant and agree that they will not, prior to the date which is one year and one day (or, if longer, any applicable preference period plus one day) after termination of this Agreement and payment in full of the Obligations under the Repurchase

Agreement, institute against, or join any other Person in instituting against, the Trust or the Depositor any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding, or any similar proceeding under any federal or state bankruptcy or similar law; provided, that nothing in this provision shall preclude or be deemed to stop any party hereto (a) from taking any action prior to the expiration of the aforementioned one year and one day period in (i) any case or proceeding voluntarily filed or commenced by the Trust or the Depositor or (ii) any involuntary insolvency proceeding filed or commenced against the Trust or the Depositor by a Person other than any other party hereto or (b) from commencing against the Trust or the Depositor or the Subsidiary Trust Asset Collateral any legal action which is not a bankruptcy, reorganization, arrangement, insolvency or a liquidation proceeding. The obligations of the Trust are limited recourse obligations payable solely from the Subsidiary Trust Asset Collateral and, following realization of the Subsidiary Trust Asset Collateral and its application in accordance with the terms of this Agreement and the Repurchase Agreement, any outstanding obligations of the Trust shall be extinguished and shall not thereafter revive. In addition, no recourse shall be had for any amounts payable or any other obligations arising under the Facility Documents against any officer, member, director, employee, partner or security holder of the Trust or the Depositor or any of their successors or assigns. The foregoing shall not limit the rights of the Trustee or the Delaware Trustee, respectively, to file any claim in, or otherwise take any action with respect to, any insolvency proceeding that was instituted against the Trust by a Person other than the Trustee or the Delaware Trustee, respectively.

Section 11.11 No Recourse. Each Certificateholder by accepting the Trust Certificate acknowledges that such holder's Trust Certificate represents beneficial interests in the Trust only and does not represent interests in or obligations of the Depositor, the Servicer, the Trustee, the Delaware Trustee, the Buyer or any Affiliate thereof or any officer, director or employee of any thereof and no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated in this Agreement, the Trust Certificate or the other Trust Documents.

Section 11.12 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery by facsimile or electronic mail of an executed signature page of this Agreement shall be effective as delivery of an executed counterpart hereof.

Section 11.13 Entire Agreement. This Agreement, including all Exhibits, Schedules and Appendices and other documents attached hereto or incorporated by reference herein, together with the other Facility Documents, constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all other negotiations, understandings and representations, oral or written, with respect to the subject matter hereof.

Section 11.14 Limitation of Liability. No claim may be made by any party hereto or any other Person against any other party hereto or their affiliates, directors, officers, employees, attorneys or agents for any special, indirect, consequential or punitive damages in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement or any act, omission or event occurring in connection therewith; and each party hereto hereby waives, releases and agrees not to sue upon any claim for

any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

Section 11.15 Section Titles. The section titles contained in this Agreement shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties.

Section 11.16 Force Majeure. In no event shall the Trustee or the Delaware Trustee be liable for any failure or delay in the performance of its obligations hereunder because of circumstances beyond their control, including but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, government action, including any laws, ordinances, regulations, government action or the like which delay, restrict or prohibit the providing of the services contemplated by this Agreement; it being understood that the Trustee and the Delaware Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance of their obligations hereunder as soon as practicable under the circumstances.

Section 11.17 Patriot Act Compliance. In order to comply with laws, rules, regulations and executive orders in effect from time to time applicable to banking institutions, including, without limitation, those relating to the funding of terrorist activities and money laundering, including Section 326 of the USA Patriot Act of the United States ("Relevant Law"), each of UB&T and U.S. Bank Trust National Association is required to obtain, verify, record and update certain information relating to individuals and entities which maintain a business relationship with UB&T and U.S. Bank Trust National Association. Accordingly, each of the parties agrees to provide to each of UB&T and U.S. Bank Trust National Association upon its request from time to time such identifying information and documentation as may be available in order to enable UB&T and U.S. Bank Trust National Association to comply with Relevant Law.

Section 11.18 Survival. The provisions of this Article shall be continuing and shall survive the termination of this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Trust Agreement to be duly executed and delivered as of the date first above written.

NELNET PRIVATE STUDENT LOAN FINANCING CORPORATION, as the Depositor and as the initial Certificateholder

By _____
Name: Thomas G. McCurley
Title: Assistant Vice President

UNION BANK AND TRUST COMPANY, as Trustee

By _____
Name: _____
Title: _____

U.S. BANK TRUST NATIONAL ASSOCIATION, as Delaware Trustee

By _____
Name: _____
Title: _____

Acknowledged and Agreed:

BANK OF AMERICA, N.A., as Buyer

By _____
Name: _____
Title: _____

[SIGNATURE PAGE TO AMENDED AND RESTATED TRUST AGREEMENT]

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Trust Agreement to be duly executed and delivered as of the date first above written.

NELNET PRIVATE STUDENT LOAN FINANCING CORPORATION, as the Depositor and as the initial Certificateholder

By _____
Name: Thomas G. McCurley
Title: Assistant Vice President

UNION BANK AND TRUST COMPANY, as Trustee

By _____
Name: Jon Grust
Title: SVP

U.S. BANK TRUST NATIONAL ASSOCIATION, as Delaware Trustee

By _____
Name: _____
Title: _____

Acknowledged and Agreed:

BANK OF AMERICA, N.A., as Buyer

By _____
Name: _____
Title: _____

[SIGNATURE PAGE TO AMENDED AND RESTATED TRUST AGREEMENT]

4814-8521-2291

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Trust Agreement to be duly executed and delivered as of the date first above written.

NELNET PRIVATE STUDENT LOAN FINANCING CORPORATION, as the Depositor and as the initial Certificateholder

By _____
Name: Thomas G. McCurley
Title: Assistant Vice President

UNION BANK AND TRUST COMPANY, as Trustee

By _____
Name: _____
Title: _____

U.S. BANK TRUST NATIONAL ASSOCIATION, as Delaware Trustee

By _____
Name: Maryellen Hunter
Title: Vice President

Acknowledged and Agreed:

BANK OF AMERICA, N.A., as Buyer

By _____
Name: _____
Title: _____

[SIGNATURE PAGE TO AMENDED AND RESTATED TRUST AGREEMENT]

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Trust Agreement to be duly executed and delivered as of the date first above written.

NELNET PRIVATE STUDENT LOAN FINANCING CORPORATION, as the Depositor and as the initial Certificateholder

By _____
Name: Thomas G. McCurley
Title: Assistant Vice President

UNION BANK AND TRUST COMPANY, as Trustee

By _____
Name: _____
Title: _____

U.S. BANK TRUST NATIONAL ASSOCIATION, as Delaware Trustee

By _____
Name: _____
Title: _____

Acknowledged and Agreed:

BANK OF AMERICA, N.A., as Buyer

By _____
Name: _____
Title: John A. Semrai
Managing Director

[SIGNATURE PAGE TO AMENDED AND RESTATED TRUST AGREEMENT]

4814-8521-2291

EXHIBIT A

FORM OF TRUST CERTIFICATE

NO. __

THIS TRUST CERTIFICATE DOES NOT EVIDENCE AN OBLIGATION OF, OR AN INTEREST IN, AND IS NOT GUARANTEED BY THE DEPOSITOR, THE TRUSTEE, THE DELAWARE TRUSTEE, THE SERVICER OR ANY OF THEIR RESPECTIVE AFFILIATES OR ASSIGNEES. THIS TRUST CERTIFICATE IS NOT INSURED OR GUARANTEED BY ANY GOVERNMENTAL AGENCY OR INSTRUMENTALITY OR BY ANY PRIVATE INSURER.

THIS TRUST CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS CERTIFICATE, AGREES FOR THE BENEFIT OF THE TRUST THAT THIS CERTIFICATE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (I) TO A PERSON WHOM THE TRANSFEROR REASONABLY BELIEVES IS AN INSTITUTIONAL ACCREDITED INVESTOR TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON REGULATION D, AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION OR (II) TO A PERSON WHOM IS A "QUALIFIED PURCHASER" AS DEFINED FOR PURPOSES OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY ACQUIRING THIS TRUST CERTIFICATE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE DEPOSITOR AND THE TRUSTEE THAT: IT IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A)(1)-(3) AND (7) OF REGULATION D UNDER THE SECURITIES ACT) OR AN ENTITY IN WHICH ALL THE EQUITY OWNERS COME WITHIN SUCH PARAGRAPHS; ITS ACQUISITION OF THIS TRUST CERTIFICATE IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, IT IS A "QUALIFIED PURCHASER" AS DEFINED FOR PURPOSES OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT AND IT IS HOLDING THIS TRUST CERTIFICATE FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION.

NO TRANSFER OF THIS TRUST CERTIFICATE WILL BE REGISTERED UNLESS THERE IS PROVIDED A REPRESENTATION SATISFACTORY TO THE TRUSTEE THAT THIS TRUST CERTIFICATE IS NOT BEING ACQUIRED DIRECTLY OR INDIRECTLY FOR, ON BEHALF OF OR WITH THE ASSETS OF, AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (" ERISA")) WHETHER OR NOT SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(E)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR ANY ENTITY WHOSE UNDERLYING

ASSETS INCLUDE PLAN ASSETS BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY.

THIS TRUST CERTIFICATE MAY NOT BE SOLD, PLEDGED, TRANSFERRED OR ASSIGNED EXCEPT IN ACCORDANCE WITH SECTION 3.03(h) OF THE TRUST AGREEMENT (AS DEFINED BELOW).

NELNET LEGACY PRIVATE LOANS TRUST
TRUST CERTIFICATE

evidencing all of the ownership interests in the Trust, as defined below, the property of which includes, among other things, an initial pool of Education Loans contributed to the Trust by the Depositor (as defined below), on the Effective Date, and in the future may include additional Education Loans which may be acquired by the Trust from time to time.

(This Trust Certificate does not represent an interest in or obligation of the Depositor, the Servicer (as defined below), the Trustee (as defined below), the Delaware Trustee (as defined below) or any of their respective affiliates, except to the extent described below.)

THIS CERTIFIES THAT _____ is the registered owner of this Trust Certificate. Nelnet Legacy Private Loans Trust (the "Trust") was formed as a statutory trust under the laws of the State of Delaware by Nelnet Private Student Loan Financing Corporation, a Nebraska corporation (in such capacity, the "Depositor"). The Trust was created pursuant to a Trust Agreement, dated as of December 20, 2018, as amended and restated pursuant to an Amended and Restated Trust Agreement, dated as of December 21, 2018 (collectively, the "Trust Agreement"), by and among the Depositor, Union Bank and Trust Company, a Nebraska state-chartered commercial bank, not in its individual capacity but solely as Trustee on behalf of the Trust (the "Trustee") and U.S. Bank Trust National Association, a national banking association, not in its individual capacity but solely as Delaware trustee (the "Delaware Trustee"), a summary of certain of the pertinent provisions of which is set forth below. To the extent not otherwise defined herein, the capitalized terms used herein have the meanings assigned to them in the Master Repurchase Agreement dated as of December 21, 2018 (as amended, restated, supplemented or otherwise modified from time to time, the "Repurchase Agreement"), among Nelnet Private Student Loan Financing Corporation, as seller, Bank of America, N.A., as buyer (the "Buyer"), and the Trust.

This Trust Certificate is issued under and is subject to the terms, provisions and conditions of the Trust Agreement, to which Trust Agreement the holder of this Trust Certificate by virtue of the acceptance hereof assents and by which such holder is bound. The property of the Trust will include an initial pool of private student loans contributed by the Depositor on or about the Effective Date, additional personal loans which may be contributed by the Depositor from time to time to the Trust (the "Education Loans"), certain bank accounts, all moneys paid thereon and the proceeds thereof and certain other rights under the Trust Agreement, the Repurchase Agreement, the Servicing Agreement and all proceeds of the foregoing.

To the extent of funds available therefor, amounts owing hereon will be distributed on the 25th day of each calendar month (or, if such 25th day is not a Business Day, the next succeeding Business Day), commencing on January 25, 2019 to the holder of this Trust Certificate.

The holder of this Trust Certificate acknowledges and agrees that its rights to receive distributions in respect of this Trust Certificate are subordinate to Obligations to the Buyer as described in the Repurchase Agreement.

It is the intent of the Depositor, and the holder of this Trust Certificate that, for purposes of federal, state and local income and franchise and any other income taxes, this Trust Certificate will be treated as equity in, the Trust. In addition, as more fully described in Section 2.11 of the Trust Agreement, for federal income tax purposes the Trust is intended to be classified as a disregarded entity so long as there is only one tax owner of the Trust Certificate and as a partnership if there is more than one tax owner of this Trust Certificate. The holder of this Trust Certificate agrees, by acceptance of this Trust Certificate, to treat this Trust Certificate and the Trust consistent with such intent.

The holder of this Trust Certificate, by its acceptance of this Trust Certificate, covenants and agrees that it will not at any time institute against the Depositor or the Trust, or join in any institution against the Depositor or the Trust of, any bankruptcy, reorganization, arrangement, insolvency, receivership or liquidation proceedings, or other proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to this Trust Certificate, the Trust Agreement or any of the other Trust Documents. The foregoing shall not limit the rights of the holder of this Trust Certificate to file any claim in, or otherwise take an action with respect to, any insolvency proceeding that was instituted against the Depositor or the Trust by a Person other than the holder of this Trust Certificate.

Distributions on this Trust Certificate will be made as provided in the Repurchase Agreement to the holder of record hereof without the presentation or surrender of this Trust Certificate or the making of any notation hereon.

This Trust Certificate does not represent an obligation of, or an interest in, the Depositor, Nelnet Servicing, LLC, as servicer (the "Servicer"), the Buyer, the Trustee, the Delaware Trustee or any affiliates of any of them, and no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated herein, in the Trust Agreement or in the other Trust Documents. In addition, this Trust Certificate is not guaranteed by any governmental agency or instrumentality and is limited in right of payment to certain collections with respect to the Trust Estate, all as more specifically set forth in the Trust Agreement and the Repurchase Agreement. A copy of each of the Trust Agreement, the Repurchase Agreement and the Servicing Agreement may be examined during normal business hours at the principal office of the Depositor, and at such other places, if any, designated by the Depositor, by the holder of this Trust Certificate upon request. This Trust Certificate is intended as a medium for investment and is a security governed by Article 8 of the Uniform Commercial Code.

The rights and obligations of the holder of this Trust Certificate are set forth in the Trust Agreement, the terms of which are incorporated by reference herein.

As provided in the Trust Agreement and subject to certain limitations therein set forth, this Trust Certificate is exchangeable for a new Trust Certificate as requested by the holder surrendering the same. No service charge will be made for any such registration of transfer or

exchange, but the Trustee may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

The Trustee and any agent of the Trustee may treat the person in whose name this Trust Certificate is registered as the owner hereof for all purposes, and neither the Trustee nor any such agent shall be affected by any notice to the contrary.

This Trust Certificate (including any beneficial interest herein) may not be acquired by directly or indirectly for, on behalf of or with the assets of, an employee benefit plan (as defined in Section 3(3) of ERISA) whether or not subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code or any entity whose underlying assets include plan assets by reason of a plan's investment in the entity (each, a "Benefit Plan"). By accepting and holding this Trust Certificate, the holder hereof shall be deemed to have represented and warranted that it is not a Benefit Plan, it is not purchasing this Trust Certificate directly or indirectly for, on behalf of or with the assets of a Benefit Plan and to have agreed that if this Trust Certificate is purchased directly or indirectly for, on behalf of or with the assets of a Benefit Plan, the holder will promptly dispose of this Trust Certificate.

THIS TRUST CERTIFICATE SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Unless the certificate of authentication hereon shall have been executed by a Responsible Officer of the Trustee or its authenticating agent, by manual signature, this Trust Certificate shall not entitle the holder hereof to any benefit under the Trust Agreement or the Repurchase Agreement or be valid for any purpose.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Trustee on behalf of the Trust and not in its individual capacity has caused this Trust Certificate to be duly executed as of the date set forth below.

NELNET LEGACY PRIVATE LOANS TRUST, a Delaware statutory trust

By: UNION BANK AND TRUST COMPANY, not in its individual capacity but solely as Trustee under that certain Amended and Restated Trust Agreement, dated as of the Effective Date, by and among Nelnet Private Student Loan Financing Corporation, as Depositor, the Trustee and U.S. Bank Trust National Association, in its capacity as Delaware Trustee

By:_____
Authorized Signatory

Date: _____ __, ____

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is the Trust Certificate referred to in the within-mentioned Trust Agreement.

UNION BANK AND TRUST COMPANY, not in its individual capacity but solely as Trustee under that certain Amended and Restated Trust Agreement, dated as of the Effective Date, by and among Nelnet Private Student Loan Financing Corporation, as Depositor, the Trustee and U.S. Bank Trust National Association, in its capacity as Delaware Trustee

By:_____
Authorized Signatory

or

[_____], solely in its capacity as Authenticating Agent for the Trustee

By:_____
Authenticating Agent

Date: _____ __, ____

4814-8521-2291.2

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL
SECURITY OR OTHER
IDENTIFYING NUMBER
OF ASSIGNEE

_____

(Please print or type name and address, including postal zip code, of assignee)

_____

the within Trust Certificate, and all rights thereunder, hereby irrevocably constituting and appointing

_____ Attorney to transfer said Trust Certificate on the books of the Trust Certificate Registrar, with full power of substitution in the premises.

Dated:

_____*

Signature Guaranteed:

_____*

* NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Trust Certificate in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

EXHIBIT B

SCHEDULE OF INITIAL EDUCATION LOANS

[Provided Electronically]

Exhibit 21.1

List of Direct and Indirect Subsidiaries of Nelnet, Inc. as of December 31, 201 8

	Name	Organized in	Relationship to Nelnet Inc.	Percentage Ownership
1	4719 50th, LLC	Nebraska	Indirect Subsidiary	100.0 %
2	5280 Solutions LLC (f/k/a Nelnet Technology Services LLC) (d/b/a Idaho Financial Associates, Charter Account Systems and 5280 Solutions)	Colorado	Indirect Subsidiary	100.0 %
3	ACM F Acquisition, LLC	Nebraska	Indirect Subsidiary	100.0 %
4	Aware3, LLC	Missouri	Indirect Subsidiary	100.0 %
5	Class Bundl, LLC	Nebraska	Indirect Subsidiary	100.0 %
6	Education Funding Capital I, LLC	Delaware	Indirect Subsidiary	100.0 %
7	EFS Finance Co., LLC	Nebraska	Indirect Subsidiary	100.0 %
8	Euclid Boulder Investment, LLC	Nebraska	Indirect Subsidiary	100.0 %
9	FACTS Education Corporation	Nebraska	Indirect Subsidiary	100.0 %
10	FACTS Education Solutions, LLC (Previously known as Mind Streams Education, LLC)	Arizona	Indirect Subsidiary	100.0 %
11	FACTS Management AUS Pty Ltd.	Australia	Indirect Subsidiary	100.0 %
12	First National Life Insurance Company of the USA	Nebraska	Indirect Subsidiary	100.0 %
13	FM Systems, LLC d/b/a Tuition Management Systems, LLC	Delaware	Indirect Subsidiary	100.0 %
14	FP Sacramento, LLC	Nebraska	Indirect Subsidiary	100.0 %
15	Great Lakes Educational Loan Services, Inc.	Wisconsin	Indirect Subsidiary	100.0 %
16	Lincoln Workspace, LLC	Nebraska	Indirect Subsidiary	100.0 %
17	LT&T Collection LLC	Nebraska	Indirect Subsidiary	100.0 %
18	Merchant Preservation Services, LLC	Nebraska	Indirect Subsidiary	100.0 %
19	Municipal Tax Investment, LLC	Nebraska	Direct Subsidiary	100.0 %
20	Municipal Tax Property, LLC	Nebraska	Indirect Subsidiary	100.0 %
21	National Education Loan Network, Inc.	Nevada	Direct Subsidiary	100.0 %
22	Nelnet Academic Services, LLC (f/k/a Nelnet Mentor, LLC)	Nebraska	Direct Subsidiary	100.0 %
23	Nelnet Bank, Inc.	Utah	Direct Subsidiary	100.0 %
24	Nelnet Business Solutions - Canada, Inc. (f/k/a Nelnet Canada, Inc.)	Canada	Indirect Subsidiary	100.0 %
25	Nelnet Business Solutions, Inc. (f/k/a FACTS Management Co.) (dba FACTS Management and infiNET Integrated Solutions)	Nebraska	Indirect Subsidiary	100.0 %
26	Nelnet Captive Insurance Company, Inc.	Delaware	Direct Subsidiary	100.0 %
27	Nelnet Consumer Finance, Inc.	Nebraska	Indirect Subsidiary	100.0 %
28	Nelnet Diversified Solutions, LLC (formerly NLS Holding Company, LLC)	Nebraska	Direct Subsidiary	100.0 %
29	Nelnet Education Loan Funding, Inc. (f/k/a NEBHELP, INC.)	Nebraska	Indirect Subsidiary	100.0 %
30	Nelnet FFELP Student Loan Warehouse-I, LLC	Delaware	Indirect Subsidiary	100.0 %
31	Nelnet Finance Corp.	Nebraska	Indirect Subsidiary	100.0 %
32	Nelnet Fund Management LLC	Nebraska	Direct Subsidiary	100.0 %

33	Nelnet Loan Acquisition Corporation	Nebraska	Indirect Subsidiary	100.0 %
34	Nelnet Management Corporation-1 (formerly Nelnet Student Loan Warehouse Corporation – 1)	Nevada	Indirect Subsidiary	100.0 %
35	Nelnet Private Education Loan Funding, LLC	Delaware	Indirect Subsidiary	100.0 %
36	Nelnet Private Student Loan Financing Corporation	Nebraska	Indirect Subsidiary	100.0 %
37	Nelnet Private Student Loan Warehouse-I LLC	Delaware	Indirect Subsidiary	100.0 %
38	Nelnet Real Estate Ventures, LLC	Florida	Indirect Subsidiary	100.0 %
39	Nelnet Sales Co., LLC	Nebraska	Indirect Subsidiary	100.0 %
40	Nelnet Servicing, LLC	Nebraska	Indirect Subsidiary	100.0 %
41	Nelnet Store, LLC	Nebraska	Indirect Subsidiary	100.0 %
42	Nelnet Student Loan Funding II Management Corporation	Nebraska	Indirect Subsidiary	100.0 %
43	Nelnet Student Loan Funding II, LLC	Delaware	Indirect Subsidiary	100.0 %
44	Nelnet Student Loan Funding III, LLC	Delaware	Indirect Subsidiary	100.0 %
45	Nelnet Student Loan Funding Management Corporation	Nevada	Indirect Subsidiary	100.0 %
46	Nelnet Student Loan Funding, LLC	Delaware	Indirect Subsidiary	100.0 %
47	Nelnet UNL Alliance, LLC (dba Union Financial Services, Inc.)	Nevada	Direct Subsidiary	100.0 %
48	NHELP-II, LLC	Delaware	Indirect Subsidiary	100.0 %
49	NHELP-III, LLC	Delaware	Indirect Subsidiary	100.0 %
50	NREV DFI Black, LLC	Nebraska	Indirect Subsidiary	100.0 %
51	NTS - Renweb Jamaica, Ltd	Jamaica	Indirect Subsidiary	100.0 %
52	PaymentSpring, LLC	Nebraska	Indirect Subsidiary	100.0 %
53	Propelr, LLC	Nebraska	Direct Subsidiary	100.0 %
54	Rally Workspace, LLC	Nebraska	Indirect Subsidiary	100.0 %
55	StudioCode, LLC	Nebraska	Indirect Subsidiary	100.0 %
56	Unilink Data Systems Pty Ltd	Australia	Indirect Subsidiary	100.0 %
57	Vosaic France, LLC	France	Indirect Subsidiary	100.0 %
58	Wachovia Education Loan Funding LLC	Delaware	Indirect Subsidiary	100.0 %
59	Whitetail Rock Fund Management, LLC	Nebraska	Indirect Subsidiary	100.0 %
60	Community Development Opportunity Fund I, LLC	Nebraska	Direct Subsidiary	99.0 %
61	Kearsarge NYMA MT, LLC	Massachusetts	Direct Subsidiary	99.0 %
62	Nelnet B2B Services, LLC	Nebraska	Direct Subsidiary	99.0 %
63	WPC-NN AZSI Acquisition, LLC	Delaware	Indirect Subsidiary	95.0 %
64	WPC-NN Carlsbad Caribou Court, LLC	Delaware	Indirect Subsidiary	95.0 %
65	WPC-NN Grand Avenue Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
66	WPC-NN Loop 410 Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
67	WPC-NN Perrin Beitel Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
68	WPC-NN Portland Schmeer Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
69	Allo Communications, LLC	Nebraska	Direct Subsidiary	91.5 %
70	1st Source Solar 2, LLC	Delaware	Direct Subsidiary	90.0 %
71	Whitetail Rock Capital Management, LLC	Nebraska	Indirect Subsidiary	90.0 %
72	3430 FP Drive, LP	Delaware	Indirect Subsidiary	81.7 %
73	WPC-NN Chula Vista, LLC	Arizona	Indirect Subsidiary	65.0 %
74	Timberline Suntree Associates, LLC	Kansas	Direct Subsidiary	56.7 %
75	GR Partners Harvest 960, LP	Pennsylvania	Indirect Subsidiary	56.6 %
76	151 Building, LLC	Nebraska	Indirect Subsidiary	50.0 %

77	330-333 Building, LLC	Nebraska	Indirect Subsidiary	50.0 %
78	401 Building LLC	Nebraska	Indirect Subsidiary	50.0 %
79	4600 Innovation Drive, LLC	Nebraska	Indirect Subsidiary	50.0 %
80	4800 NW 1st Street, LLC	Nebraska	Indirect Subsidiary	50.0 %
81	7200 WorldCom, LLC	Nebraska	Indirect Subsidiary	50.0 %
82	BenefitEd, LLC	Nebraska	Indirect Subsidiary	50.0 %
83	Class Bundl Apparel, LLC	Nebraska	Indirect Subsidiary	50.0 %
84	EADO, LLC	Nebraska	Indirect Subsidiary	50.0 %
85	GreatNet Solutions, LLC	Nebraska	Indirect Subsidiary	50.0 %
86	Invite Education, LLC	Delaware	Direct Subsidiary	50.0 %
87	Lincoln Lodging, LLC	Nebraska	Indirect Subsidiary	50.0 %
88	Lumberworks Lofts, LLC	Nebraska	Indirect Subsidiary	50.0 %
89	NGWeb Solutions, LLC	Nebraska	Indirect Subsidiary	50.0 %
90	Telegraph Flats, LLC	Nebraska	Indirect Subsidiary	50.0 %
91	TPD Phase Three - NMTC, LLC	Nebraska	Indirect Subsidiary	25.0 %
92	TPD Phase Three, LLC	Nebraska	Indirect Subsidiary	25.0 %

Note: This list does not include Nelnet Student Loan Trusts utilized in asset backed security financings.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Nelnet, Inc.:

We consent to the incorporation by reference in the registration statements on Form S - 8 (Nos. 333 - 112374, 333 - 144790, 333 - 151991, and 333 - 161814) and the registration statement on Form S - 3 (No. 333 - 144789) of Nelnet, Inc. of our reports dated February 27, 2019 with respect to the consolidated balance sheets of Nelnet, Inc. and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three - year period ended December 31, 2018, and the related notes (collectively, the " consolidated financial statements "), and the effectiveness of internal control over finan cial reporting as of December 31, 2018 which report s appear in the December 31, 2018 annual report on Form 10 - K of Nelnet, Inc.

/s/ KPMG LLP

Lincoln, Nebraska
February 27, 201 9

Exhibit 31.1

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

I, Jeffrey R. Noordhoek, certify that:

1. I have reviewed this annual report on Form 10-K 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) D esigned 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: February 27, 2019

/s/ JEFFREY R. NOORDHOEK

Jeffrey R. Noordhoek Chief Executive Officer
Principal Executive Officer

Exhibit 31.2

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

I, James D. Kruger, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 27, 2019

/s/ JAMES D. KRUGER

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

Exhibit 32

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

In connection with the Annual Report of Nelnet, Inc. (the "Company") on Form 10-K for the year ended December 31, 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: February 27, 2019

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