"See your future.
Be your future."

February 27, 2019

Dear Shareholders:

Last year was one that brought about many mixed emotions. From a financial performance standpoint, 2018 was an excellent year for Nelnet that produced a significant amount of momentum going into 2019. However, the year was clouded with the unexpected passing of our dear friend, co-founder, long-time co-CEO, and then-vice chairman, Steve Butterfield. Steve – or "Butter," as all who knew him affectionately refer to him – made a permanent impact on the culture of our company. His passion for all associates who keep Nelnet operating and the customers we serve is woven into the fabric of who we are and how we operate as a company. He was the consummate salesman and an eternal optimist, especially when it came to Nelnet. He always acted as a mentor to Mike Dunlap, me, and many others inside and outside of the company.

Butter had a saying for every situation; some very appropriate, others that should not be put in print, and occasionally a few that would make one truly laugh out loud. Just a few of Butter's classic one-liners were: "**Can I get a 20-second time out?**"; "**That ain't gonna' feed the bulldog.**"; "**Give us the check, and kick us out politely.**"; "**You know I'm living on a fixed income now.**"; "**Give me a honk on the pipes.**"; "**You're a good egg.**"; "**We're going to Sizzler.**"; "**I was slightly over-served.**"; "**Whoa, Nelly!**"; "**Tied up tighter than a tie ball game**"; "**Honey bee**"; "**See your future. Be your future.**"; and the favorite one among those who knew him best, "**Give me a final, final.**"

Butter loved people. He had a way of making them feel at ease, and he could bring levity to most any situation. He loved to talk about the financials of the company, the metrics of success of each division, and how we compared to the competition. Like many, he viewed the financial performance and cash we generate as a scorecard in a permanently evolving contest. As a major shareholder, and specifically after he retired as co-CEO 12 years ago, he loved to talk about the Nelnet dividend. Every quarterly meeting where the board voted on the dividend, Butter made the motion to approve the dividend.

Let there be no doubt that we miss Butter every day. We are running this company on the principles he helped instill in us and with a continual eye to make him proud and to continue his legacy.

"Can I Get a 20-Second Time Out?"

In every one of our annual letters to shareholders, we talk about our view on value creation and the fair valuation of our stock price. This year will be no exception. On Jan. 1, 2018, our total market value was $2.236 billion and on Dec. 31, 2018, our market value was $2.107 billion. Let's take a 20-second time out to think about that perplexing statistic in light of the following facts.

In 2018, our total revenue from our three fee-for-services divisions (servicing, payments, and telecommunications) increased to $707 million, up from $442 million in 2017. Corporate-wide during the year, we created GAAP net income of $228 million, adjusted net income of $227 million,[1] and we generated $271 million in cash from operating activities. We acquired Great Lakes, one of the most respected companies in the student loan servicing business. We acquired almost $4 billion in Federal Family Education Loan (FFEL) Program loans, private education loans, and consumer loan assets. We acquired Tuition Management Systems (TMS), a significant player in the higher education and K-12 payment plan space. We increased our fiber business by almost 17,000 residential lines. The number of servicing borrowers increased from 7.8 million to 15.6 million. The number of students served in our payments business in K-12 and higher education increased from 10.2 million to 11.5 million. Our loan portfolio increased to $22.4 billion, when most thought it would run off by more than $3 billion during the year. We bought back almost 870,000 shares of stock at an average price of $52.22 per share, and we increased our book value per share from $52.67 on Jan. 1, 2018, to $57.24 on Dec. 31, 2018. And to address Butter's favorite topic, we increased our quarterly dividends from a total of $0.58 per share in 2017 to a total of $0.66 per share in 2018.

A couple years back, we would frequently get the question of what we planned to do with the cash we generated. I think the answer to this question is a great way to highlight what we believe is the best use of our capital and our thoughts on capital allocation, as well as to explain what we are focusing on as a management team. Last year, we deployed $723 million in capital, which brings our six-year total to $2.8 billion in capital deployed (including dividends, stock repurchases, and debt repurchases).

Capital Deployment By Year (in millions)

	2013	2014	2015	2016	2017	2018	6-Year Total
FFELP loan/residual acquisitions, net of financing	$38	$127	$140	-	-	$105	$410
Private and consumer loan acquisitions	$68	$17	$173	$61	$75	$188	$582
Business acquisitions	-	$47	-	-	-	$153	$200
ALLO acquisition and capital expenditures	-	-	$47	$39	$115	$87	$288
Other capital expenditures (non-ALLO)	$17	$26	$17	$29	$41	$38	$168
HUDL investment	-	$1	$41	-	$10	-	$52
Other investments (venture capital/real estate/solar)	$20	$45	$53	$22	$19	$67	$226
Debt repurchases	$79	$47	$42	$77	$181	$13	$439
Stock repurchases	$13	$16	$96	$69	$69	$45	$308
Dividends	$19	$19	$19	$21	$24	$27	$129
	$254	**$345**	**$628**	**$318**	**$534**	**$723**	**$2,802**

In light of these successes in virtually all of our business lines and overall corporate financial performance, it begs the question, did the equity markets truly believe we decreased the value of our company in 2018? Was the company over-valued at the beginning of the year? Or were there technical market issues outside of our control at play? It is hard to pinpoint the exact answer, and toward the end of the letter we will reiterate our fair value approach, but our goal for 2019 is to keep the momentum rolling.

[1]We prepare our financial statements and present our financial results in accordance with GAAP. However, we also provide additional non-GAAP financial information related to specific items management believes to be important in the evaluation of our operating results and performance. A reconciliation of our GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why we believe providing this additional information is useful to investors can be found in our Annual Report on Form 10-K for the year ended Dec. 31, 2018, filed with the Securities and Exchange Commission on Feb. 27, 2019.

Loan Servicing:
"I was Slightly Over-Served."

Butter frequently used this quote as commentary about a fun event the previous evening. However, in our Loan Servicing business, it is our explicit aim to over-serve our customers – to in fact give them amazing service and exceptional experiences.

Our Loan Servicing division started out the year with a bang with the acquisition of Great Lakes, the largest addition of people and operations in our corporate history. Over 1,600 associates joined the Nelnet family. We spent the year integrating shared services (e.g., human resources, accounting, legal, marketing, technology, etc.). Overall, we believe the integration has gone very well. That belief is based on the fact that the two companies remain first and second in government surveys of customer service.

In Loan Servicing, we typically get paid on a per-borrower account basis. Throughout the year, we increased our servicing volume for all loan types – FFEL Program, private, federal Direct, and consumer loans. Our customers are the federal government, state agencies, banks, and FinTech companies. At the end of 2018, we serviced $465 billion of loans for 15.6 million borrower customers. Our revenue increased from $223 million in 2017 to $440 million in 2018 due to a significant expansion in the number of accounts serviced.

The big unknown in the business is what the federal government will do in 2019 with its procurement for a new loan system and service providers to operate that system. Here is what we know from publicly available information. Our current contracts with the government provide that they will expire on June 16, 2019. The government cancelled the previously outstanding procurement on Jan. 15, 2019, and issued a new one. The procurement is now separated into three large ongoing components, and we are part of teams that intend to respond to each of the three components. These components include the single NextGen Enhanced Processing Solution in its current state, and the future state NextGen Optimal Processing Solution, in addition to the loan processing and customer service work that will accompany the systems under the current and future states. It currently looks like the core servicing platform and servicers on that platform could be performing additional collection work under the new procurements versus the collection agencies the government hired under the existing contracts.

The main impact on our loan servicing division in 2019 will be from the uncertainty around the procurement and the ongoing integration of the two core processing systems we now own. We are maintaining a delicate balance of systems integration work in light of the unknowns that come with the government procurement. In the meantime, rest assured that we will focus on the one thing we can control: our number one core value of providing superior customer experiences. This includes being the best partner for the borrowers we have the privilege of serving, our lender customers, and the federal government.

We continue to see increasing opportunity with our FinTech offerings. In 2018, we began offering services for many FinTech originators, such as Prosper, QuarterSpot, Affirm, and others. In addition, we launched NelnetFinTech.com to bring additional awareness of our offerings to the growing FinTech industry. In support of our FinTech strategy, we are in the process of a complete re-architecting of our private education and consumer loan origination and repayment servicing systems. This is a large, multi-year technology build and spend for these systems. When we go live with the systems, we believe they will be the most advanced, rapidly customizable systems within the private education and consumer loan servicing industry. We are encouraged by the building momentum of our FinTech services and are confident it will continue throughout 2019 and beyond.

In today's highly polarized and politicized nation, student loan servicing often gets caught in the crossfire of the critically important public debate around college cost and student debt levels. The government and private programs in place to help finance education can be extremely complex and difficult to understand. As student debt continues to rise for most Americans, our mission and purpose of helping borrowers navigate the myriad of education loan programs is critical. The negative impact of delinquency or defaulting on loans can be life-altering, and we know that every borrower's circumstance is unique. Our approach is to empower borrowers through caring guidance and by providing the information they need to navigate the vast array of repayment options available. We remain deeply passionate about helping our borrower customers achieve financial success, and are actively engaged with several states that are seeking to protect and educate their borrowers. What we do benefits the lives of millions of people each day and we take that obligation very seriously.

Education Technology, Services, and Payment Processing: "We're Going to Sizzler."

Nelnet Business Solutions (NBS) is our education technology, services, and payment processing division with core drivers of revenue in payment processing and SAAS revenue from software products and services. NBS had another record year in 2018, earning gross revenue of $222 million, a 15 percent increase from $193 million in 2017, and continuing the year over year increase from $176 million in 2016.

I know what Butter would say about NBS this year: "Pack up the car, dear. We're going to Sizzler." Think about this statistic. It took NBS 25 years to pass $100 million in annual net revenue, and three years later, in 2018, we are at $162 million in annual net revenue. It is a classic example of recurring revenue streams coupled with the flywheel of momentum.

We characterize the business as a value-added payment processor and services company. We did have one setback in the division financials, as NBS earned $33 million in income before taxes in 2018, down from $39 million in 2017. This was a result of an impairment we took with the discontinuance of investment in a backend payment processing technology, which I will discuss in more detail below.

In November 2018, NBS acquired TMS, a services company offering tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. TMS is highly regarded in our industry due to its commitment to customer service, product innovation, and client retention. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the NBS customer base, further distancing us from our competitors in terms of market share in private, faith-based K-12 schools and advancing us to a market-leading position in higher education.

In addition to the TMS acquisition, we continued organic momentum by expanding clients and services to 11,500 private, faith-based K-12 schools by integrating our products and services into a complete school management solution. FACTS Management is a leading brand in the private, faith-based K-12 market, and in 2018 we completed a significant rebranding effort, bringing RenWeb School Management Solutions under the FACTS brand. Our leading products and services for schools include tuition management and billing services, financial needs assessment and scholarship administration, student information systems and learning management, enrollment management, emergency notification, donation, and parent portal reporting.

In 2018, we advanced FACTS Education Solutions, a subsidiary of NBS offering professional development for teachers and remedial education for students in need of additional help in reading and math. FACTS Education Solutions is innovative in its use of technology-advancing products that aid in both teacher and student evaluation.

Nelnet Campus Commerce is our higher education brand in the United States. With the addition of TMS, we now serve 1,400 colleges and universities with payment processing, billing and tuition management products, and commerce services. Our products help students and families afford higher education by stretching payments over semesters and the academic year, rather than taking on burdensome education-related debt. A key component of this business' competitive advantage is the deep integration with enterprise resource planning (ERP) partners on campus. Today, Nelnet Campus Commerce is a preferred partner of all major ERPs on campus. In 2019, we will beta test our CampusKey product, modernizing the mobile experience on campus by replacing the traditional campus ID card with a mobile experience.

As mentioned above, we made the difficult decision in 2018 to discontinue our investment in a backend payment processing technology. This resulted in a pre-tax charge to earnings of almost $8 million in the fourth quarter of 2018. Backend payment processing is clearly a scale business and one in which the window of competitive advantage quickly closes. When we started the deployment of a payment processing system utilized by some of the largest banks in Europe, the Middle East, and Africa, we believed the technology would have a competitive advantage in the United States. The bottom line was a hard lesson learned in the adaptability of existing competitors to scale and leverage investment in core systems. In the end, regardless of the strength of the technology, it could not be deployed in a profitable manner and the investment was terminated. The decision to discontinue this investment does not impact our existing payment processing revenue or customers, and we believe we can continue to grow this business.

UniLink, NBS' operating subsidiary in Australia, is a payment and commerce services provider to higher education, serving over 70 percent of all higher education institutions Down Under. Australia presents a growth opportunity in K-12 education as well. In 2018, we completed the acquisition of PCSchool, a student information system serving nearly 150 private and faith-based schools in Australia and New Zealand. We also saw strong growth in the deployment of the FACTS payment plan service in Australia, and we expect a fully integrated solution with PCSchools will enhance FACTS' growth in the market.

We began building momentum in the church and not-for-profit spaces in January 2018 with the acquisition of 80 percent of the outstanding membership interests of Aware3, a mobile-first technology company focused on these spaces. Aware3's product provides a solution that increases engagement, online giving, and communication with church members. In addition, Aware3 is integrated with FACTS Giving, our donor management tool allowing schools and not-for-profits to manage donor relationships and modernize fundraising in a mobile-first way.

We are pleased with our revenue growth and momentum in NBS. With the termination of spend on backend payment processing technology, we expect our earnings growth to recover to historical levels that are consistent with topline revenue growth.

Telecommunications:
"Give Me a Honk on the Pipes."

In virtually any industry, a high-quality product coupled with superior customer service will create demand. In the telecommunications industry, specifically as it relates to fiber optic service delivery, this really means: Speed + Connectivity + Network Quality = DEMAND. We have seen this translate into tremendous growth for ALLO Communications in 2018.

Nelnet acquired ALLO on Dec. 31, 2015. ALLO stands out from other telecommunications providers because of its superior network and technology and hassle-free customer service. In 2004, ALLO began creating GIG communities (offering internet speeds of one gigabit per second or more) by overbuilding rural Nebraska communities with an all-fiber optic network. These fiber networks provide communities with the fastest internet speeds, unmatched broadband, and superior video and telephone services to meet the bandwidth demands of residents and businesses. Nelnet's investment in ALLO is both good for business and good for the underserved communities in which it operates, as it helps provide critical connectivity infrastructure.

ALLO plans to complete all major construction in Lincoln, Neb. in the first quarter of 2019, after three years of building out its complete fiber network. This is a large milestone for the company and we're proud to be able to offer these services to all residents and businesses in the community.

Fiber sets ALLO apart from the competition. As cloud computing, streaming services, and the internet of things have become conventional, the need for internet speed and bandwidth is almost insatiable. The fiber light signal moves faster, carries more data, maintains speed over long distances, and is less susceptible to interference from things such as power lines.

These capabilities dramatically improve how a community's businesses, schools, medical offices, and government operate, as well as how people live and communicate, impacting a community's growth and ability to be economically vibrant. Every customer in our service area has an opportunity to get one-GIG speeds up and down. We have transformed our service areas from lagging in comparison to other communities in their respective states to top eight rankings nationally for upload and download speeds.

City speeds based on average speeds for all results. ISP speed based on Speed Score.

City	Download (Mbps)	Upload (Mbps)	Fastest ISP	ISP's Speed Score
Kansas City, MI	159.19	127.03	Google Fiber	228.36
Austin, TX	143.66	70.65	Google Fiber	197.44
Lubbock, TX	141.48	26.98	Sudenlink	136.82
Raleigh, NC	137.70	75.62	Google Fiber	197.19
San Antonio, TX	133.86	49.86	Grande Communications	150.30
Lincoln, NE	**132.89**	**105.29**	**Allo**	**173.34**
Henderson, NV	131.63	23.48	Cox	123.06
San Francisco, CA	131.56	69.28	Sonic	253.96

*According to the 2018 Speedtest U.S. Fixed Broadband Performance Report by Ookla

What has this meant in 2018? – Greater than 80 percent growth in households served and more than 70 percent growth in revenue. We like the trajectory and the opportunity we see with ALLO and the communities we serve. We're excited to see where this momentum takes ALLO in 2019.

Revenue from ALLO was nearly $45 million in 2018, compared with $26 million in 2017. Households passed increased almost 51,000, to 122,396 at the end of 2018, and households served increased from 20,428 to nearly 37,400. Our fiber optic network includes more than 240,000 miles of fiber cabling.

ALLO's management uses earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA) to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. In 2018, ALLO had negative EBITDA of $4 million, compared with negative EBITDA of $9 million for 2017.[2]

We have developed the infrastructure and service delivery model to continue to grow. In the fourth quarter of 2017, ALLO announced plans to develop Hastings, Neb. and Fort Morgan, Colo., which will increase our households passed to almost 153,000 by the end of 2019. ALLO plans to continue to increase market share and revenue in its existing markets and we are currently evaluating opportunities to expand to additional communities.

[2]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. 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. We report EBITDA for ALLO because we believe that it provides useful additional information for investors regarding a key metric we use 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 ALLO's net loss under GAAP can be found in our Annual Report on Form 10-K for the year ended Dec. 31, 2018, filed with the Securities and Exchange Commission on Feb. 27, 2019.

Asset Generation and Management:
"You Know I'm Living on a Fixed Income Now."

The primary function of our Asset Generation and Management Division is to originate or purchase loan assets and finance them by issuing bonds secured by the loans. Bonds are often equated with being fixed-income securities, which are generally excellent investments for fixed-income funds, banks, and insurance companies.

We had an unexpected and amazing year in this division, with $3.7 billion in FFEL Program loan purchases from over 600 distinct sellers. The portfolio purchases ranged in size from $1,000 to over $1 billion. This was an unanticipated side benefit of the Great Lakes transaction. As we prepared to consolidate all of the Great Lakes serviced FFEL Program and private education loans onto Nelnet's platform, we approached the loan holders with an offer to purchase their portfolios. Hundreds accepted our offer.

With all of the loan acquisition activity came financing activity. We executed on five different term securitizations totaling $3 billion, our most active year securitizing since 2013. Despite a year marked by periods of extreme macroeconomic volatility, we managed to achieve relatively consistent pricing across our five transactions. Our strong investor partnerships allow us to outperform other issuers when markets are especially challenging.

We made significant portfolio investments outside of government guaranteed student loans. We purchased unsecured consumer loans from three different originators totaling $120 million. We also made our first significant purchase of private education loans since 2016, totaling $68 million.

In the fall, we relaunched our U-fi consumer loan origination platform with significant customer experience improvements. We are sticking our toe back into the online lending business, and are proud to have originated our first loan in October 2018. We plan on taking the origination of new loans slowly as market conditions warrant. The bottom line is we have all the systems, people, and processes up and running and stand ready to capitalize on market opportunities, credit cycles, and our customers' needs. This is particularly important if we are successful in launching Nelnet Bank.

In June, we filed an application for an Industrial Bank Charter with the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions for Nelnet Bank. We feel that insured deposits are the most stable source of funding for student loans during any credit cycle, especially while the students are in school. After consulting with the FDIC, we felt that we were not quite ready to proceed and withdrew the application. We believe that near the end of 2019 we will be fully ready to proceed, and if all of the stars line up we intend on filing our application again in the fourth quarter.

We are cautiously and methodically preparing for the right market opportunities in our Asset Generation and Management division and stand ready to capitalize on the momentum we created in 2018.

Hudl:
"Whoa, Nelly!"

Talk about momentum. Since 2010, Nelnet has invested significantly in Hudl, a sports software company revolutionizing how teams around the world analyze game and practice film. In 2010, we invested $100,000; in 2014, we invested $726,000; in 2015, we invested $40.6 million; and in 2017, we invested $10.4 million. Our investments in Hudl total $51.8 million to date.

Hudl continued to experience solid growth in 2018 by elevating its technology offerings to address the needs of the entire athletic department and broadening its offerings to elite clubs around the globe. In early 2018, the company acquired Netherlands-based Incatec, a startup focused on delivering "intelligent cameras" to elite soccer clubs in Europe. These cameras use multiple sensors on a single unit to capture panoramic video of an entire soccer pitch, stitch the video feeds together, and then generate an automated broadcast-like view of the action in real time. Hudl refocused the team on delivering that same functionality for high school basketball and volleyball teams in the United States, addressing one of the biggest challenges for these teams – reliably capturing high-quality video. The new product, aptly named Hudl Focus, had an impressive beta in 2018 and will be released broadly in 2019.

Recently, the company announced the relaunch and rebranding of one of its core products, Hudl Sportscode, the global standard for video analysis at the elite level. Globally, more than 3,000 teams spanning top collegiate and professional organizations use the product, including all 20 English Premier League teams, 29 NBA teams, and more than 70 percent of NCAA Division I men's and women's basketball teams.

The company remains headquartered in Lincoln, Neb., and has grown its Lincoln presence to more than 450 "Hudlies." In total, the company has grown to more than 1,300 associates across 20 countries.

As Hudl continues to grow and opportunities arise, there is a potential that Hudl will raise additional capital. If the capital raise is in the form of equity, it will be the first observable price change of Hudl since accounting rules have changed, resulting in us having to record our Hudl investment at the new observable price. The difference between our cost basis and the fair value established from the equity raise offering price would run through our income statement.

The momentum that Hudl is experiencing remains awesome in our opinion. Time will tell if we are right.

"See Your Future. Be Your Future."

In 2018, we added a new independent director, Preeta Bansal, to our board of directors. Preeta brings a wealth of experience and knowledge from her work in federal and state government, including regulatory agencies, private law practice, and global banking. With her accomplishments, it is a privilege to have her join our company. As a Lincoln, Neb. native, we are grateful to have her back in our community and look forward to the guidance and wisdom she will bring to our board.

Each year, we believe it is important to share Nelnet's "fair value approach" with our shareholders. We feel it is a fundamental component to existing and potential shareholders' understanding of how we lead our company and where we intend to go in the future.

It is our goal for each Nelnet shareholder to record a gain or loss in market value proportional to the gain or loss in per-share fundamental value recorded by the company. To achieve this goal, we strive to maintain a one-to-one relationship between the company's fundamental value and the market price. As that implies, we would rather see Nelnet's stock price at a fair level than at an artificial level. Our fair value approach may not be preferred by all investors, but we believe it aligns with Nelnet's long-term approach to both our business model and market value.

Nelnet's Corporate Performance (Annual Percentage Change)

	Nelnet Per Share Book Value With Dividends Included	Nelnet Per Share Market Value With Dividends Included	S&P 500 With Dividends Included
2004	49.2%	20.2%	10.9%
2005	41.5%	51.1%	4.9%
2006	6.3%	(32.7%)	15.8%
2007	(1.6%)	(52.5%)	5.5%
2008	6.6%	13.3%	(37.0%)
2009	21.0%	20.7%	26.5%
2010	23.7%	41.6%	15.1%
2011	22.6%	4.9%	2.1%
2012	16.7%	27.5%	16.0%
2013	26.1%	42.8%	32.4%
2014	21.1%	10.9%	13.7%
2015	16.0%	(26.6%)	1.4%
2016	15.4%	52.7%	12.0%
2017	8.8%	9.1%	21.8%
2018	9.9%	(3.2%)	(4.4%)
CAGR	**18.2%**	**7.1%**	**7.8%**

We are very proud of the work that is being done by all of our talented associates and want to welcome all of the new associates who joined the Nelnet family of companies in 2018, including those from Great Lakes, TMS, Aware3, and PCSchools. As our friend Butter taught us, our people are our most valuable resource, and continuing to foster an environment where they can succeed remains our priority. We recognize that financial success comes from living out our core values and we strive to keep these values in front of our associates each day.

Nelnet's Core Values:

- Provide superior customer experiences
- Create an awesome work environment
- Pursue opportunities for diversification and growth
- Communicate openly and honestly
- Give back to the communities in which we live and work

Mike's dad, Jay Dunlap, always said in any business there needs to be a balance among the company's customers, associates, shareholders, and the community. This wisdom formed the basis of Nelnet's core values. In honor of our dear friend, this year I want to call out Butter's favorite core value: Create an awesome work environment. We will.

Thank you for your continued investment in our company.

Dream, Learn, Grow.

Sincerely,

Jeffrey Noordhoek, Chief Executive Officer

Forward-Looking and Cautionary Statements

This letter to shareholders contains forward-looking statements within the meaning of federal securities laws. 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," "believe," "continue," "could," "expect," "forecast," "future," "intend," "may," "plan," "potential," "should," "would," "will," and similar expressions, as well as statements in future tense, are intended to identify forward-looking statements. These statements are based on management's current expectations as of the date of this letter and are subject to known and unknown risks and uncertainties that may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements. Such risks include, but are not limited to: risks related to the company's loan portfolio, such as interest rate basis and repricing risk and changes in levels of student loan repayment or default rates; the use of derivatives to manage exposure to interest rate fluctuations; the uncertain nature of expected benefits from FFEL Program, private education, and consumer loan purchases and initiatives to purchase additional FFEL Program, private education, and consumer loans; financing and liquidity risks, including risks of changes in the securitization and other financing markets for student loans; the uncertain nature of the expected benefits from the acquisition of Great Lakes and the ability to successfully integrate technology, shared services, and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the Department; 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; risks and uncertainties from changes in the educational credit and services marketplace resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFEL Program loan interest income and fee-based revenues due to the discontinuation of FFEL Program loan originations in 2010 and the resulting initiatives by the company to adjust to a post-FFEL Program environment; risks and uncertainties related to the ability of ALLO 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; cybersecurity risks, including potential disruptions to systems, disclosure of confidential information, and/or damage to reputation resulting from cyber breaches; the risk that an application for an industrial bank charter to launch Nelnet Bank may not result in the grant of a charter; and changes in general economic and credit market conditions, including the availability of any relevant money-market index rate such as LIBOR or the relationship between the relevant money-market index rate and the rate at which the company's assets and liabilities are priced. For more information, see the "Risk Factors" sections and other cautionary discussions of risks and uncertainties included in documents filed or furnished by the company with the Securities and Exchange Commission (SEC), including the most recent Form 10-K filed by the company with the SEC. All forward-looking statements in this letter are as of the date of this letter. Although the company may voluntarily update or revise its forward-looking statements from time to time 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.

10-K

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	**84-0748903**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
121 SOUTH 13TH STREET, SUITE 100 **LINCOLN, NEBRASKA**	**68508**
(Address of principal executive offices)	(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.

NELNET, INC.
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 LIBOR 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 brands 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.

<u>*Servicing federally-owned student loans for the Department*</u>

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.

<u>Internet services</u>

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 13th 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.

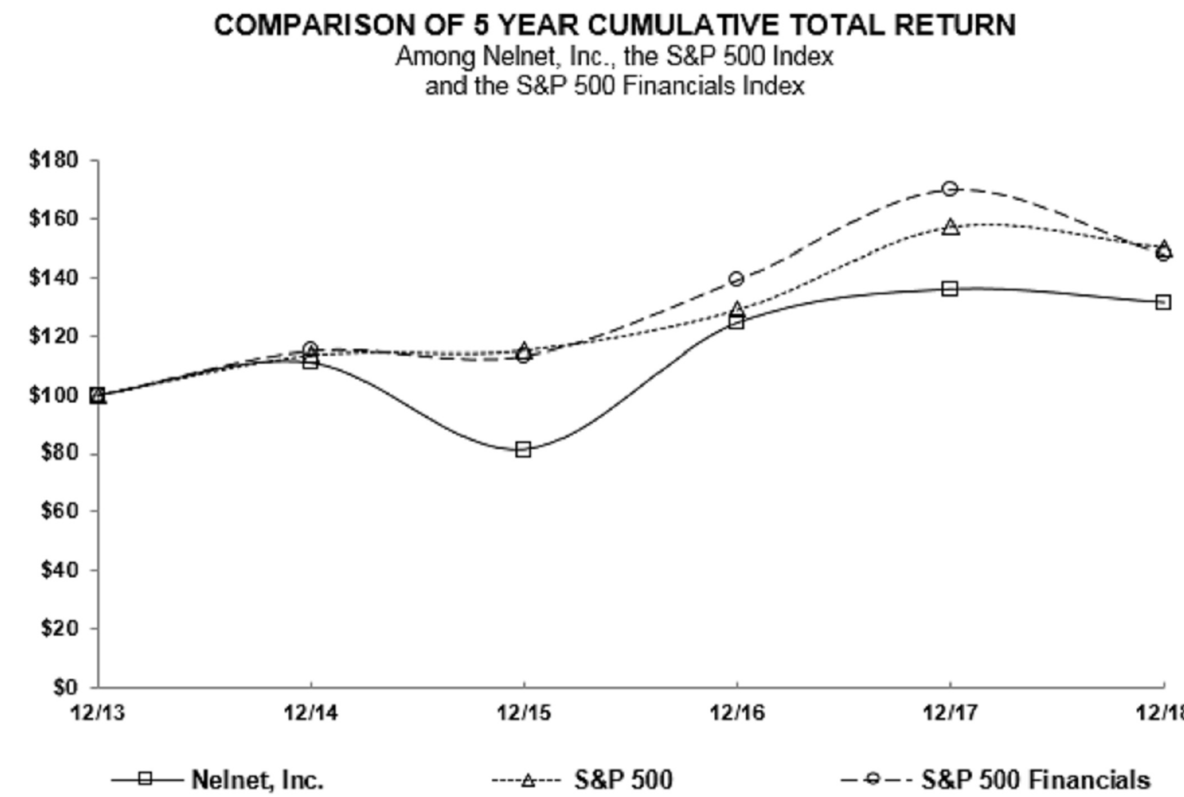
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

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 net income from the acquisition of Great Lakes;
- The increase in core spread on the Company's loan portfolio;
- The decrease in the Company's effective tax rate due to the Tax Cuts and Jobs Act, effective January 1, 2018;
- 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 increase in expenses for the continued build-out of the Company's ALLO fiber communications network in Lincoln, Nebraska;
- The decrease in the average balance of loans due to the run-off of the FFELP loan portfolio;
- The increase in the provision for loan losses related to the Company's portfolio of consumer loans;
- The impairment 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

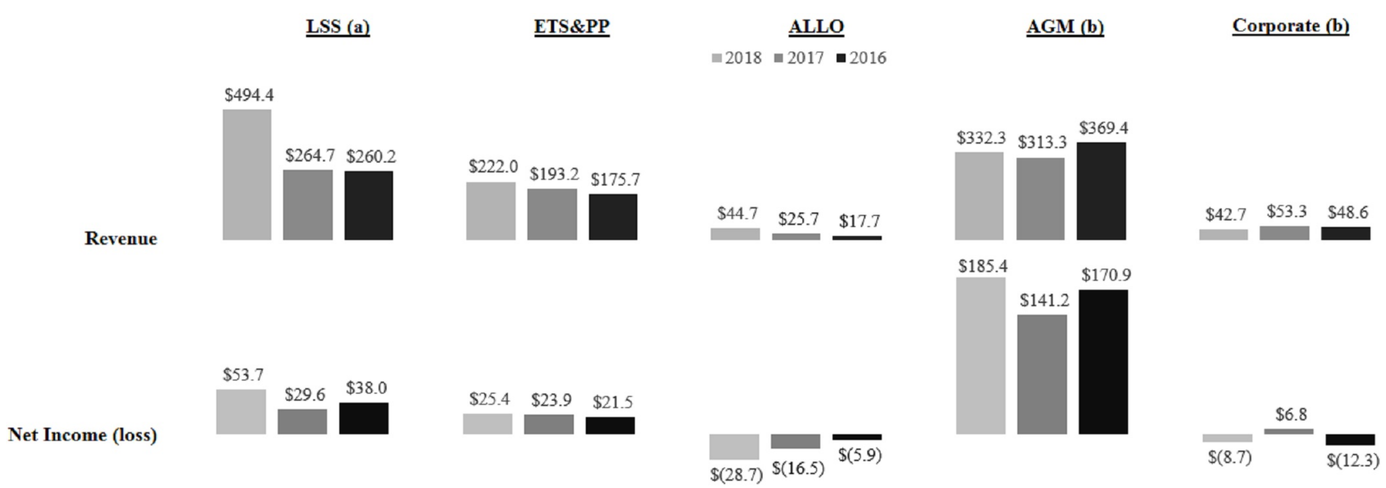
The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of 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 costs 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 December 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.

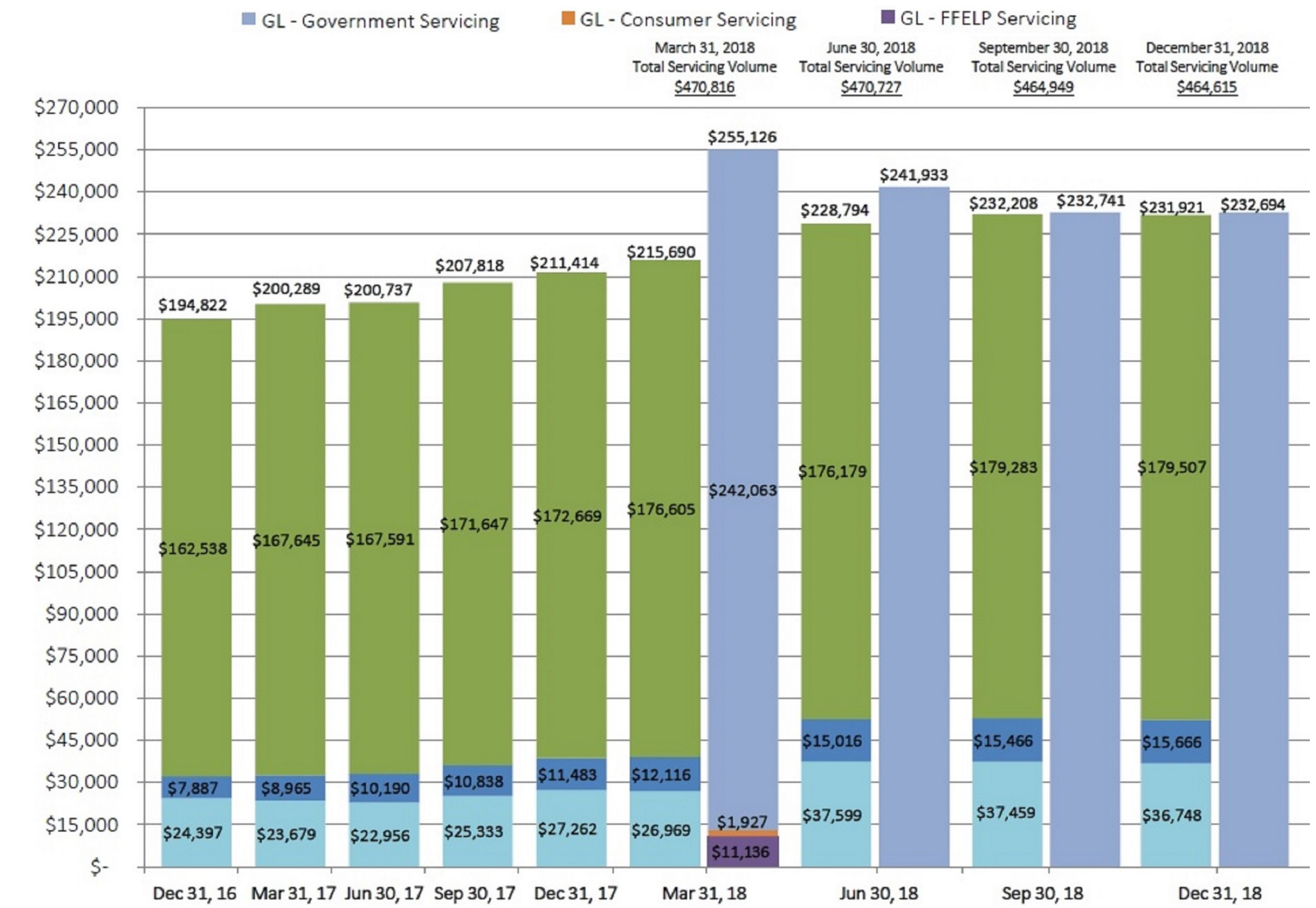
(d) On December 31, 2017, the Company sold Peterson's.

(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)



	Dec 31, 16	Mar 31, 17	Jun 30, 17	Sep 30, 17	Dec 31, 17	Mar 31, 18	Jun 30, 18	Sep 30, 18	Dec 31, 18
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.

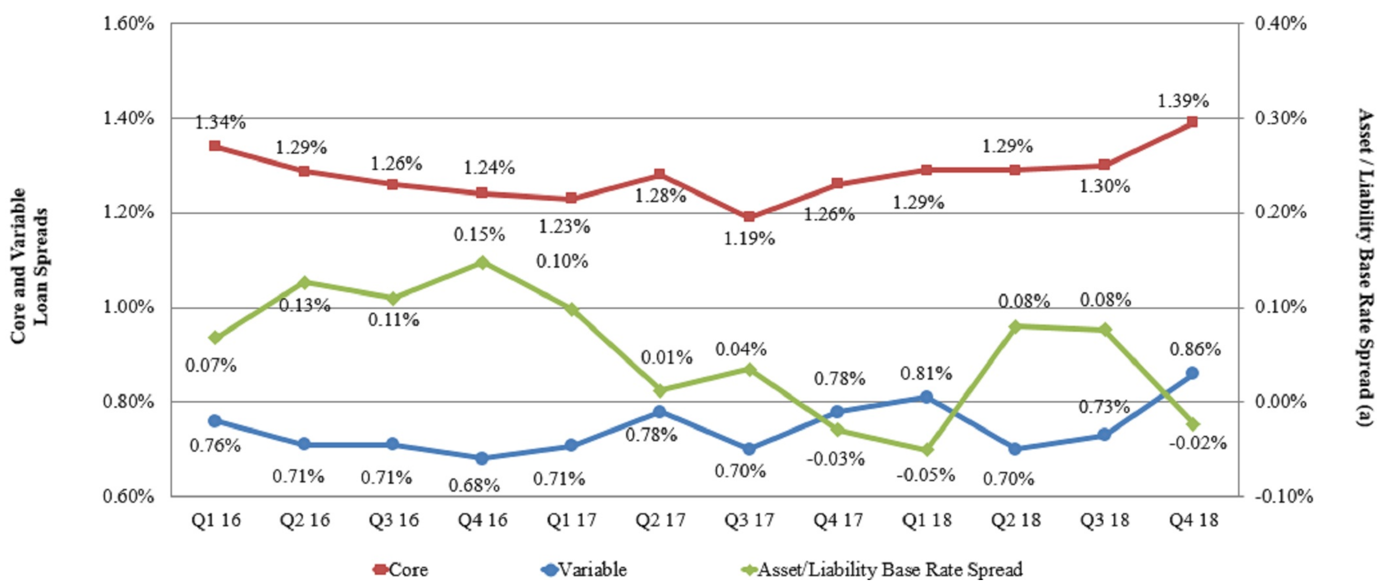
(c) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to 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 funds such loans has a significant impact on loan spread. This table (the right axis) shows the difference between the Company's liability base rate and the one-month LIBOR rate by quarter. See Item 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 reflected 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:

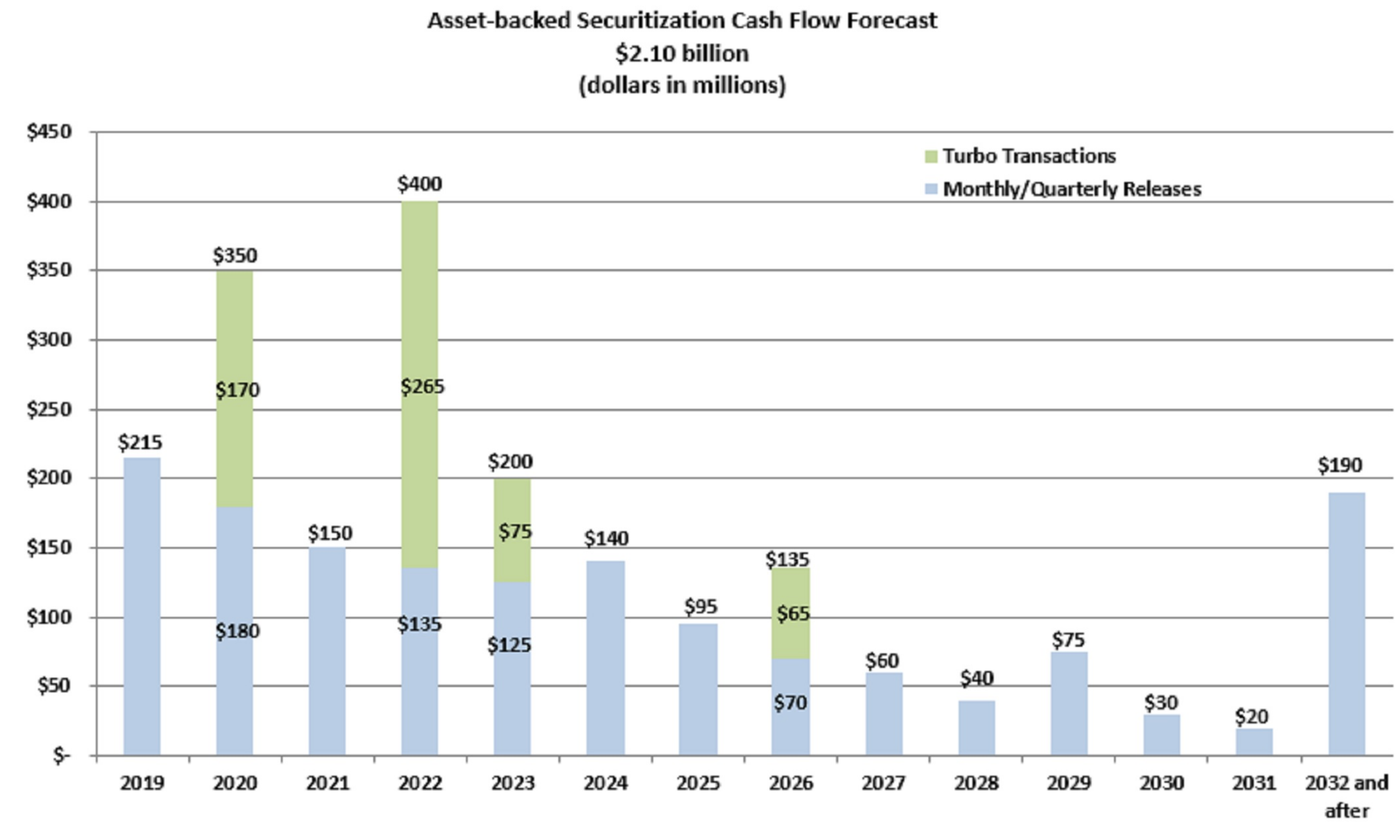
	As of December 31, 2018		
	Carrying amount		Final maturity
Bonds and notes issued in asset-backed securitizations	$	21,099,490	11/25/24 - 2/25/67
FFELP warehouse facilities		986,886	5/20/20 / 5/31/21
	$	22,086,376	

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.

<u>Prepayments</u>: 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.

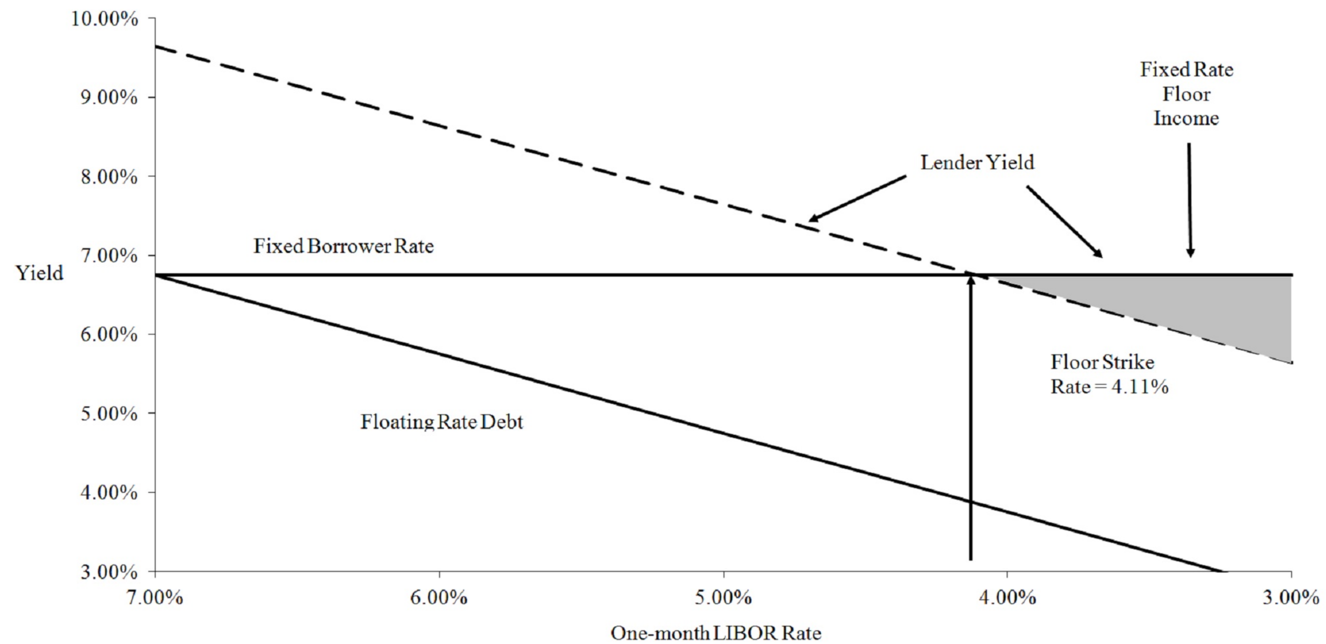
	Year ended December 31,		
	2018	2017	2016
Fixed rate floor income, gross	$ 56,811	106,434	169,979
Derivative settlements (a)	64,901	10,838	(17,643)
Fixed rate floor income, net	$ 121,712	117,272	152,336

(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:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2018 and 2017	F-3
Consolidated Statements of Income for the years ended December 31, 2018, 2017, and 2016	F-4
Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017, and 2016	F-5
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017, and 2016	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016	F-7
Notes to Consolidated Financial Statements	F-9

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 10.14 to the registrant's Annual Report on Form 10-K for the 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 10.15 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 10.16 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.
10.21+	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 10.55 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 Exhibit 10.56 to the registrant's Annual Report 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

(Dollars in thousands)
(Dollars in thousands, except share amounts, unless otherwise noted)

	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."
- Reclassifying "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:

<u>Revenue Recognition</u>

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.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollars in thousands, except share amounts, unless otherwise noted)

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.

<u>Equity Investments</u>

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.

<u>Other Comprehensive Income</u>

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.

(Dollars in thousands, except share amounts, unless otherwise noted)

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

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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.

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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.

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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

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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

<u>Assets Recognized from the Costs to Obtain a Contract with a Customer</u> - 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

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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.

(Dollars in thousands, except share amounts, unless otherwise noted)

3. Loans Receivable and Allowance for Loan Losses

Loans receivable consisted of the following:

	As of December 31, 2018	As of December 31, 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.

	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.

(Dollars in thousands, except share amounts, unless otherwise noted)

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.

(Dollars in thousands, except share amounts, unless otherwise noted)

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 investments, 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.

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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.

<u>Basis Swaps</u>

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).

(Dollars in thousands, except share amounts, unless otherwise noted)

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.

(Dollars in thousands, except share amounts, unless otherwise noted)

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.

	Year ended December 31,	
	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

(Dollars in thousands, except share amounts, unless otherwise noted)

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

(Dollars in thousands, except share amounts, unless otherwise noted)

(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.

(Dollars in thousands, except share amounts, unless otherwise noted)

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	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:

	Useful life	As of December 31, 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

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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.

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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.

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	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

(Dollars in thousands, except share amounts, unless otherwise noted)

	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

(Dollars in thousands, except share amounts, unless otherwise noted)

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 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.

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.

<u>Loan Purchases</u>

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.

<u>Loan Servicing</u>

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.

<u>*Funding - Participation Agreement*</u>

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.

<u>*Operating Cash Accounts*</u>

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.

<u>*529 Plan Administration Services*</u>

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.

<u>*Lease Arrangements*</u>

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.

<u>*Trustee Services*</u>

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.

<u>*Other Fees Paid to Union Bank*</u>

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.

<u>*Other Fees Received from Union Bank*</u>

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.

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Notes to Consolidated Financial Statements
(Dollars in thousands, except share amounts, unless otherwise noted)

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

(Dollars in thousands, except share amounts, unless otherwise noted)

	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.

(Dollars in thousands, except share amounts, unless otherwise noted)

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

NELNET, INC. AND SUBSIDIARIES
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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

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollars in thousands, except share amounts, unless otherwise noted)

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 49th 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.

PROXY

121 SOUTH 13TH STREET, SUITE 100 p 402.458.2370
LINCOLN, NE 68508 www.nelnet.com

April 12, 2019

Dear Shareholder:

On behalf of the Board of Directors, we are pleased to invite you to Nelnet, Inc.'s Annual Shareholders' Meeting on Thursday, May 23, 2019 at the Courtyard Marriott, 808 R Street, Lincoln, Nebraska at 8:30 a.m., Central Time. The notice of the meeting and proxy statement on the following pages contain information about the meeting.

Your participation in the Annual Meeting is important. We hope that you will be able to attend the meeting and encourage you to read our annual report and proxy statement. At the meeting, members of the Company's management team will discuss the Company's results of operations and business plans and will be available to answer your questions. Regardless of whether you plan to attend, we urge you to vote your proxy at your earliest convenience.

Thank you for your support of Nelnet, Inc.

Sincerely,

Mike Dunlap

Michael S. Dunlap
Executive Chairman of the Board of Directors

Nelnet, Inc.

121 South 13th Street, Suite 100, Lincoln, Nebraska 68508

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 12, 2019

TIME AND DATE 8:30 a.m., Central Time, on Thursday, May 23, 2019

PLACE Courtyard Marriott
808 R Street
Lincoln, Nebraska 68508

ITEMS OF BUSINESS

(1) To elect three Class II directors nominated by the Board of Directors to serve for three-year terms until the 2022 Annual Meeting of Shareholders

(2) To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2019

(3) To conduct an advisory vote to approve the Company's executive compensation

(4) To approve a new Executive Officers Incentive Compensation Plan

(5) To approve an amendment to the Company's Articles of Incorporation to modify the restrictions for trusts which may hold Class B common stock, with ten votes per share, without conversion into Class A common stock, with one vote per share

(6) To transact such other business as may be properly introduced

RECORD DATE You can vote if you were a shareholder as of the close of business on March 28, 2019

OTHER INFORMATION The Letter to Shareholders from the Chief Executive Officer and our 2018 Annual Report on Form 10-K, which are not part of the proxy soliciting materials, are enclosed.

PROXY VOTING The Board of Directors solicits your proxy and asks you to vote your proxy at your earliest convenience to be sure your vote is received and counted. Instructions on how to vote are contained in our proxy statement and in the Notice of Internet Availability of Proxy Materials. **Whether or not you plan to attend the meeting, we ask you to vote over the Internet as described in those materials as promptly as possible in order to make sure that your shares will be voted in accordance with your wishes at the meeting. Alternatively, if you requested a copy of the proxy/voting instruction card by mail, you may mark, sign, date, and return the proxy/voting instruction card in the envelope provided.** The Board of Directors encourages you to attend the meeting in person. If you attend the meeting, you may vote by proxy or you may revoke your proxy and cast your vote in person. We recommend you vote by proxy even if you plan to attend the meeting.

By Order of the Board of Directors,

William J. Munn
Corporate Secretary
Nelnet, Inc.

NELNET, INC.
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Nelnet, Inc.
121 South 13th Street
Suite 100
Lincoln, Nebraska 68508

PROXY STATEMENT

General Information

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Nelnet, Inc. (the "Company") for the 2019 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Thursday, May 23, 2019, at 8:30 a.m., Central Time, at the Courtyard Marriott, 808 R Street, Lincoln, Nebraska 68508. The Annual Meeting will be held for the purposes set forth in the notice of such Annual Meeting on the cover page hereof.

Important Notice Regarding the Availability of Proxy Materials for the 2019 Annual Meeting of Shareholders to be held on May 23, 2019

Our notice of annual meeting and proxy statement, 2018 annual report on Form 10-K, letter to shareholders, electronic proxy card, and other annual meeting materials are available on the Internet at www.proxyvote.com. We intend to begin mailing our Notice of Internet Availability of Proxy Materials to shareholders on or about April 12, 2019. At that time, we also will begin mailing paper copies of our proxy materials to shareholders who requested them. Additional information on how these materials will be distributed is provided below.

Under U.S. Securities and Exchange Commission (the "SEC") rules, we are allowed to mail a notice to our shareholders informing them that our proxy statement, annual report on Form 10-K, electronic proxy card, and related materials are available for viewing, free of charge, on the Internet. Shareholders may then access these materials and vote their shares over the Internet, or request delivery of a full set of proxy materials by mail or email. These rules give us the opportunity to serve shareholders more efficiently by making the proxy materials available online and reducing the environmental impact and costs associated with printing and physical delivery. We are utilizing this process for the 2019 Annual Meeting. We intend to begin mailing the required notice, called the Notice of Internet Availability of Proxy Materials (the "Notice"), to shareholders on or about April 12, 2019. The proxy materials will be posted on the Internet, at www.proxyvote.com, no later than the day we begin mailing the Notice. If you receive a Notice, you will not receive a paper or email copy of the proxy materials unless you request one in the manner set forth in the Notice.

The Notice contains important information, including:

- The date, time, and location of the Annual Meeting
- A brief description of the matters to be voted on at the meeting
- A list of the proxy materials available for viewing at www.proxyvote.com and the control number you will need to use to access the site
- Instructions on how to access and review the proxy materials online, how to vote your shares over the Internet, and how to get a paper or email copy of the proxy materials if that is your preference

You may vote in person at the Annual Meeting or you may vote by proxy. To obtain directions to attend the Annual Meeting and vote in person, please call 402-458-3038. Giving the Board of Directors your proxy means that you authorize representatives of the Board to vote your shares at the Annual Meeting in the manner you specify. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. If your share ownership is registered directly, you may refer to voting instructions contained in this proxy statement and in the Notice. If your share ownership is beneficial (that is, your shares are held in the name of a bank, broker, or other nominee, referred to as being held in "street name"), your broker will issue you a voting instruction form that you use to instruct them how to vote your shares. Your broker must follow your voting instructions. Although most brokers and nominees offer mail, telephone, and Internet voting, availability and specific procedures will depend on their voting arrangements.

Your vote is important. For this reason, the Board of Directors is requesting that you permit your common stock to be voted by proxy at the Annual Meeting. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the Annual Meeting. Please read it carefully.

VOTING

Who Can Vote

You may vote if you owned Nelnet, Inc. Class A common stock, par value $0.01 per share, or Class B common stock, par value $0.01 per share, as of the close of business on March 28, 2019 (the "record date"). At the close of business on March 28, 2019 28,636,511 and 11,459,641 shares of the Company's Class A and Class B common stock, respectively, were outstanding and eligible to vote. The Class A common stock is listed on the New York Stock Exchange under the symbol "NNI." The Class B common stock is not listed on any exchange or market. At the Annual Meeting, each Class A and Class B shareholder will be entitled to one vote and 10 votes, respectively, in person or by proxy, for each share of Class A and Class B common stock, respectively, owned of record as of the record date. The stock transfer books of the Company will not be closed. The Secretary of the Company will make a complete record of the shareholders entitled to vote at the Annual Meeting available for inspection by any shareholder beginning two business days after the Notice of the Annual Meeting is given and continuing through the Annual Meeting, at the Company's headquarters in Lincoln, Nebraska at any time during regular business hours. Such records will also be available for inspection at the Annual Meeting.

As a matter of policy, the Company keeps private all proxies, ballots, and voting tabulations that identify individual shareholders. Such documents are available for examination only by certain representatives associated with processing proxy voting instructions and tabulating the vote. No vote of any shareholder is disclosed, except as may be necessary to meet legal requirements.

How You Vote

You may vote your shares prior to the Annual Meeting by following the instructions provided in the Notice, this proxy statement, and the voter website, www.proxyvote.com. If you requested a paper copy of the proxy materials, voting instructions are also contained on the proxy card enclosed with those materials.

- If you are a *registered shareholder*, there are three ways to vote your shares before the meeting:

  By Internet (www.proxyvote.com): Use the Internet to transmit your voting instructions until 11:59 p.m. EDT on May 22, 2019. Have your Notice of Internet Availability of Proxy Materials with you when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

  By mail: You can vote by mail by requesting a paper copy of the materials, which will include a proxy card. There is no charge for requesting a paper copy of materials. To be valid, proxy cards must be received before the start of the Annual Meeting. If you want to receive a paper or e-mail copy of the proxy materials, please choose one of the following methods to make your request:

  - By internet: www.proxyvote.com
  - By telephone: 1-800-579-1639
  - By e-mail*: sendmaterial@proxyvote.com

  * If requesting materials by e-mail, please send a blank e-mail with your 16-Digit Control Number in the subject line.

  By telephone (1-800-690-6903): Use any touch-tone phone to transmit your voting instructions until 11:59 p.m. EDT on May 22, 2019. Have your proxy card with you when you call and follow the instructions.

- If your shares are held in *street name*, your broker, bank, or other holder of record may provide you with a Notice of Internet Availability of Proxy Materials. Follow the instructions on the Notice to access our proxy materials and vote online or to request a paper or e-mail copy of our proxy materials. If you receive these materials in paper form, the materials will include a voting instruction card so you can instruct your broker, bank, or other holder of record how to vote your shares.

You may vote your shares at the Annual Meeting. If you are a *registered shareholder*, you can vote at the meeting any shares that were registered in your name as the shareholder of record as of the record date. If your shares are held in *street name*, you are not a holder of record of those shares and cannot vote them at the Annual Meeting unless you have a legal proxy from the holder of record. If you plan to attend and vote your street name shares at the Annual Meeting, you should request a legal proxy from your broker, bank, or other holder of record and bring it with you to the meeting along with proof of identification.

If you plan to vote your shares at the Annual Meeting, please pick up a ballot at the registration table upon your arrival. You may then submit your ballot to a meeting usher at the time designated during the meeting. *Ballots will not be distributed during the meeting*. Shares may not be voted after the final vote at the meeting.

Even if you plan to attend the Annual Meeting, we encourage you to vote your shares by proxy.

What Items Require Your Vote

There are five proposals that will be presented for your consideration at the meeting:

- Electing the three Class II director nominees named in this proxy statement to the Board of Directors for three-year terms
- Ratifying the appointment of KPMG LLP as the Company's independent registered public accounting firm ("independent auditor") for 2019
- Approving on an advisory basis the Company's executive compensation
- Approving a new Executive Officers Incentive Compensation Plan
- Approving an amendment to the Company's Articles of Incorporation to modify the restrictions for trusts which may hold Class B common stock, with ten votes per share, without conversion into Class A common stock, with one vote per share

Each of the proposals have been submitted on behalf of the Company's Board of Directors.

How You Can Change Your Vote

If you are a *registered shareholder*, you can revoke your proxy and change your vote prior to the Annual Meeting by:

- Sending a written notice of revocation to our Corporate Secretary at 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508 (the notification must be received by the close of business on May 22, 2019)
- Voting again by Internet prior to 11:59 p.m. EDT on May 22, 2019 (only the latest vote you submit will be counted)
- Submitting a new properly signed and dated paper proxy card with a later date (your proxy card must be received before the start of the Annual Meeting)

If your shares are held in *street name*, you should contact your broker, bank, or other holder of record about revoking your voting instructions and changing your vote prior to the meeting.

If you are eligible to vote at the Annual Meeting, you also can revoke your proxy or voting instructions and change your vote at the Annual Meeting by submitting a written ballot before the final vote at the meeting. Your attendance at the Annual Meeting will not automatically revoke your proxy; you must specifically revoke your proxy.

Quorum Needed To Hold the Meeting

In order to conduct the Annual Meeting, the Company's Articles of Incorporation and Bylaws provide that shares constituting a majority of the voting power of all the shares of the Company's stock entitled to vote must be present in person or by proxy. This is called a quorum. If you return valid proxy instructions or vote in person at the Annual Meeting, your shares will be considered part of the quorum. **Abstentions and broker "non-votes" will be counted as present and entitled to vote for purposes of determining a quorum. New York Stock Exchange rules allow banks, brokers, and other nominees to vote in their discretion the shares held by them for a customer on matters that the New York Stock Exchange considers to be routine, even though the bank, broker, or nominee has not received voting instructions from the customer. A broker "non-vote" occurs when a bank, broker, or other nominee has not received voting instructions from the customer and the bank, broker, or other nominee cannot vote the shares because the matter is not considered to be routine under New York Stock Exchange rules.**

Under New York Stock Exchange rules, the election of directors, the advisory vote to approve executive compensation, the approval of the new Executive Officers Incentive Compensation Plan, and the approval of the amendment to the Articles of Incorporation will not be considered to be "routine" matters, and banks, brokers, and other nominees who are members of the New York Stock Exchange will not be permitted to vote shares held by them for a customer on these matters without instructions from the beneficial owner of the shares.

Counting Your Vote

If you provide specific voting instructions, your shares will be voted as instructed. If you hold shares in your name and submit a valid proxy without giving specific voting instructions, your shares will be voted as recommended by our Board of Directors. If you hold your shares in your name and do not return a valid proxy and do not vote in person at the Annual Meeting, your shares will not be voted. If you hold your shares in the name of a bank, broker, or other nominee, and you do not give that nominee instructions on how you want your shares to be voted, the nominee has the authority to vote your shares in the nominee's discretion on the ratification of the appointment of KPMG LLP as independent auditor. However, as discussed above, the nominee will not be permitted to vote your shares without your instructions on the election of directors, the advisory vote to approve executive compensation, the approval of the new Executive Officers Incentive Compensation Plan, and the approval of the amendment to the Company's Articles of Incorporation.

Giving the Board your proxy also means that you authorize their representatives to vote in their discretion on any other matter that may be properly presented at the Annual Meeting. As of the date of this proxy statement, the Company does not know of any other matters to be presented at the Annual Meeting.

What Vote is Needed

Our Articles of Incorporation provide that directors are elected by a majority of the votes cast by the shares entitled to vote at the Annual Meeting. Although abstentions and broker "non-votes" will be counted for purposes of determining whether there is a quorum (as discussed above), they will not be counted as votes cast in the election of directors and thus will not have the effect of votes for or against any director.

With respect to the election of the Class II directors, shareholders of the Company, or their proxy if one is appointed, have cumulative voting rights under the Nebraska Model Business Corporation Act. That is, shareholders, or their proxy, may vote their shares for as many directors as are to be elected, or may cumulate such shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of their shares, or may distribute votes on the same principle among as many or as few nominees as they may desire. If a shareholder desires to vote cumulatively, he or she must vote in person or give his or her specific cumulative voting instructions to the designated proxy that the number of votes represented by his or her shares are to be cast for one or more designated nominees. Cumulative voting is not available for internet voting.

The Nebraska Model Business Corporation Act and our Bylaws provide that a majority of votes cast at the meeting is required to approve Proposals 2 and 3 (ratifying the appointment of KPMG LLP and approving on an advisory basis the Company's executive compensation, respectively). Although abstentions and broker "non-votes" will be counted for purposes of determining whether there is a quorum (as discussed above), they will not be counted as votes cast with respect to Proposals 2 and 3 and thus will not have the effect of votes for or against Proposals 2 and 3.

With respect to Proposal 4 (approval of a new Executive Officers Incentive Compensation Plan), New York Stock Exchange rules provide that approval of such proposal requires the affirmative vote of a majority of the votes cast. Holders of shares of Class A common stock and holders of shares of Class B common stock will vote together on this proposal as a single class. The New York Stock Exchange treats abstentions as votes cast, and thus abstentions will be treated as not being affirmative votes and thus will have the same effect as a vote against approval of this proposal. Broker "non-votes" will not be counted as votes cast with respect to this proposal, and thus will not have the effect of votes for or against this proposal.

With respect to Proposal 5 (approval of an amendment to the Articles of Incorporation to modify the restrictions for trusts which may hold Class B common stock, with ten votes per share, without conversion into Class A common stock, with one vote per share), the Nebraska Model Business Corporation Act provides that a majority of votes cast at the meeting is required to approve this proposal, with the Class A common shares and the Class B common shares voting together as a single class or voting group. Although abstentions and broker "non-votes" will be counted for purposes of determining whether there is a quorum (as discussed above), they will not be counted as votes cast with respect to this proposal and thus will not have the effect of votes cast for or against this proposal.

Voting Recommendations

The Company's Board of Directors recommends that you vote:

- "FOR" the election of each of the Class II director nominees to the Board of Directors for a three-year term
- "FOR" the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2019
- "FOR" the approval of the compensation of the Company's named executive officers, as disclosed in this proxy statement
- "FOR" the approval of the new Executive Officers Incentive Compensation Plan
- "FOR" the approval of the amendment to the Company's Articles of Incorporation to modify the restrictions for trusts which may hold Class B common stock, with ten votes per share, without conversion into Class A common stock, with one vote per share

A proxy, when properly executed and not revoked, will be voted in accordance with the authorization and instructions contained therein. Unless a shareholder specifies otherwise, all shares represented will be voted in accordance with the recommendations of the Company's Board of Directors.

Voting Results

The preliminary voting results will be announced at the Annual Meeting. The final voting results will be reported in a current report on Form 8-K to be filed within four business days after the Annual Meeting date.

Cost of This Proxy Solicitation

The Company will pay the cost of soliciting proxies, including the preparation, assembly, and furnishing of proxy solicitation and other required annual meeting materials. Directors, officers, and regular employees of the Company may solicit proxies by telephone, electronic communications, or personal contact, for which they will not receive any additional compensation in respect of such solicitations. The Company will also reimburse brokerage firms and others for all reasonable expenses for furnishing proxy solicitation and other required annual meeting materials to beneficial owners of the Company's stock.

PROPOSAL 1 - ELECTION OF DIRECTORS

The Company's Board of Directors consists of nine directors who are divided into three classes, designated as Class I, Class II, and Class III. In accordance with the Company's Articles of Incorporation, the number of directors constituting the entire Board is fixed exclusively by the Board from time to time. The classes of directors serve for staggered three-year terms, with their current terms ending at the annual meeting of shareholders in the following years: Class I directors - 2021; Class II directors - 2019; and Class III directors - 2020.

Shareholders are asked to elect three Class II directors to serve on the Board of Directors for a three-year term ending at the 2022 annual meeting of shareholders. The nominees for these Class II directorships are James P. Abel, William R. Cintani, and Kimberly K. Rath. Each nominee is currently serving on the Board as a Class II director and was most recently elected to the Board by the shareholders at the 2017 annual meeting of shareholders, at which annual meeting the shareholders also approved an amendment to the Articles of Incorporation to classify the Board into three classes, with the directors in each class serving staggered three-year terms of office implemented by the directors in Class I, Class II, and Class III having initial terms of office expiring at the Company's annual meeting of shareholders in 2018, 2019, and 2020, respectively. In making these nominations, the Board and the Nominating and Corporate Governance Committee considered each nominee's specific experience, qualifications, and skills as described below.

Upon the recommendation of the Nominating and Corporate Governance Committee of the Board, the Board has nominated each of the Class II director nominees named below to serve on the Board of Directors as Class II directors.

The Board of Directors recommends that shareholders vote FOR the election of each Class II director nominee (named below) to the Board of Directors.

In the event that before the election any Class II director nominee becomes unable to serve or for good cause unwilling to serve, if elected, the shares represented by proxy will be voted for any substitute nominees designated by the Board, unless the proxy does not indicate that the shares are to be voted for all Class II director nominees, or, if the Board does not designate any substitute nominees, the shares represented by proxy may be voted for a reduced number of nominees. The Board of Directors knows of no reason why any of the persons nominated for election as Class II directors might be unable or unwilling to serve if elected, and each nominee has consented to and expressed an intention to serve if elected. There are no arrangements or understandings between any of the nominees and any other person pursuant to which any of the nominees was selected as a nominee.

The following sets forth certain information about (i) each of the three nominees for election as Class II directors to serve for a three-year term expiring at the 2022 annual meeting of shareholders, and (ii) each of the current Class I and Class III directors whose term of office continues beyond the 2019 Annual Meeting. The information includes, with respect to each such person: (a) his or her age, (b) the year during which he or she was first elected a director of the Company, (c) his or her principal occupation(s) and any other directorships with publicly-held companies (if applicable) during the past five years, and (d) the qualifications of such person that led to the conclusion that such person should serve as a director of the Company.

Class II Director Nominees to Hold Office for a Term Expiring at the 2022 Annual Meeting of Shareholders

James P. Abel, 68
Director since
August 2003

Chief Executive Officer, NEBCO, Inc.

- Chief Executive Officer, NEBCO, Inc., a company with interests in the manufacture of concrete building materials, road construction, insurance, mining, railroading, farming, and real estate, 2004 - present; President and Chief Executive Officer, 1983 - 2004
- Chairman of the Board of Directors, Ameritas Mutual Holding Company and Ameritas Holding Company; and Director, Ameritas Life Insurance Corp. Ameritas Mutual Holding Company is the parent company and owns Ameritas Holding Company, which owns 100 percent of the stock of Ameritas Life Insurance Corp. These entities offer a wide range of insurance and financial products and services to individuals, families, and businesses.

Mr. Abel's qualifications include his experience on boards of directors of other private companies and his demonstrated executive leadership abilities and management experience as Chief Executive Officer of a complex diversified organization, as well as his knowledge of operations and experience with mergers and acquisitions, all of which give him critical insights into the operational requirements of the Company.

William R. Cintani, 66
Director since
May 2012

Chairman and Chief Executive Officer, Mapes Industries

- Chairman and Chief Executive Officer, Mapes Industries, a diversified manufacturer of specialty architectural products with distribution across the United States and Canada, 1993 - present

Mr. Cintani's qualifications include more than 40 years of managing a diverse, nationwide manufacturing business with distribution in all 50 states and Canada. Mr. Cintani's service on numerous civic, philanthropic, and service boards has provided him with a wide array of experience in both corporate governance and operations. His practical knowledge and board experience provide the Company with a resource for all aspects of finance, operations, IT, and strategic planning. In addition, Mr. Cintani served 10 years as a member of the board of directors for certain of the Company's asset-backed securities special purpose corporations.

Kimberly K. Rath, 58
Director since
October 2007

Co-Chairperson and President, Talent Plus, Inc.

- Co-Chairperson, Talent Plus, Inc., a global human resources consulting firm, August 2013 - present; President, June 2016 - present
- Co-Founder, Talent Plus, Inc., 1989 - present

Ms. Rath's qualifications include over 30 years of experience in the field of human resources, with expertise in executive development, employee engagement, and human capital management. Ms. Rath also has 30 years of experience leading an international executive management consulting and training organization, working with major global companies. Ms. Rath serves as an executive strategic advisor to many leaders across the globe in both private and public sectors.

Class III Directors Continuing in Office for a Term Expiring at the 2020 Annual Meeting of Shareholders

Kathleen A. Farrell, 55
Director since
October 2007

Dean and Professor of Finance, College of Business Administration, University of Nebraska-Lincoln

- Dean, College of Business Administration, University of Nebraska - Lincoln, December 2017 - present; Professor of Finance, August 2009 - present; Interim Dean, January 2017 - December 2017; Chair, Finance Department, August 2014 - December 2016; Senior Associate Dean of Academic Programs, August 2011 - July 2014; Associate Dean of Academic Programs, August 2010 - August 2011; Associate Professor of Finance, 2001 - July 2009; Assistant Professor of Finance, August 1993 - 2001

Dr. Farrell's qualifications include her expertise in corporate finance, executive turnover, and executive compensation, and her prior experience as an auditor at a national public accounting firm. Dr. Farrell has achieved designation as a Certified Public Accountant (inactive), has over 25 years of experience teaching university courses in the areas of banking and finance, and has conducted extensive research on these topics. Dr. Farrell has also published articles on these topics in numerous scholarly journals.

David S. Graff, 36
Director since
May 2014

Chief Executive Officer, Agile Sports Technologies, Inc. (doing business as Hudl)

- Chief Executive Officer, Hudl, May 2006 - present. Hudl provides online video analysis and coaching tools software for professional, college, high school, club, and youth teams and athletes, and as of 2018, Hudl software was used by hundreds of thousands of teams around the world, serving more than 30 different sports, including the National Hockey League, National Football League, National Basketball Association, and English Premier League.

Mr. Graff's qualifications include his experience and expertise in computer science, marketing, and sales. In addition, as co-founder of Hudl, Mr. Graff provides the Board of Directors and the Company significant expertise in business development and innovation. Mr. Graff serves on the Advisory Board for the Jeffrey S. Raikes School of Computer Science and Management at the University of Nebraska. In 2010, Mr. Graff was featured on Inc. Magazine's 30 Under 30 list along with the other Hudl co-founders, and in 2016 was named one of Fast Company's Most Creative People. In addition, Mr. Graff served as a member of the board of directors for certain of the Company's asset-backed securities special purpose corporations.

Thomas E. Henning, 66
Director since
August 2003

President and Chief Executive Officer, Assurity Group, Inc. and its subsidiary, Assurity Life Insurance Company

- President and Chief Executive Officer, Assurity Group, Inc. and its subsidiary, Assurity Life Insurance Company, which offers a variety of disability income and critical illness protection, life insurance, and annuity products, 1990 - present
- Director, Great Western Bancorp, Inc. ("GWB") and Great Western Bank, August 2015 - present. GWB is a publicly traded full service regional bank holding company.
- Director, Federal Home Loan Bank Topeka, March 2007 - October 2015. The Federal Home Loan Bank Topeka is part of the 12-member Federal Home Loan Bank system. The bank serves the states of Oklahoma, Kansas, Nebraska, and Colorado and provides liquidity to member institutions to assist in financing real estate.

Mr. Henning's qualifications include almost 30 years of experience as President and Chief Executive Officer of a large insurance company, his prior experience as President of a regional bank, his financial expertise, including being a Chartered Financial Analyst, his experience in risk assessment and management, and his vast knowledge and experience in leadership and management. Mr. Henning also completed a comprehensive program of study by the National Association of Corporate Directors ("NACD") and has been named a NACD Fellow.

Class I Directors Continuing in Office for a Term Expiring at the 2021 Annual Meeting of Shareholders

Michael S. Dunlap, 55
Director since
January 1996

Executive Chairman, Nelnet, Inc.

- Executive Chairman, Nelnet, Inc., January 2014 - present; Chairman, January 1996 - December 2013; Chief Executive Officer, May 2007 - December 2013 and December 2001 - August 2003; Co-Chief Executive Officer, August 2003 - May 2007
- Chairman, Farmers & Merchants Investment Inc. ("F&M"), the parent of Union Bank and Trust Company ("Union Bank"), January 2013 - present; Co-President and Director, January 2007 - January 2013 (F&M is an affiliate of the Company)

Mr. Dunlap's qualifications include more than 30 years of experience in the areas of banking and financial services, leadership, strategic operations, and management, including as one of our co-founders and our Chairman since the Company's inception, as well as his experience as a member of the boards of directors of numerous other organizations. Mr. Dunlap's knowledge of every part of our business and his intense focus on innovation and excellence are keys to our Board's success.

Preeta D. Bansal, 53
Director since
November 2018

Founder, Chairperson, and Chief Executive Officer, Social Emergence Corporation

- Founder, Chairperson, and Chief Executive Officer, Social Emergence Corporation, a not-for-profit, social benefit organization, 2015 - present
- Lecturer, Senior Advisor, and Visiting Scholar, Massachusetts Institute of Technology, 2014 - present
- Global General Counsel for Litigation and Regulatory Affairs, HSBC Holdings plc, one of the largest banking and financial services institutions in the world, 2012 - 2013
- General Counsel and Senior Policy Advisor, Office of Management and Budget, Executive Office of the President of the United States, 2009 - 2011
- Partner, Skadden, Arps, Slate, Meagher & Flom LLC, an international law firm, 2003 - 2009
- Commissioner, United States Commission on International Religious Freedom, 2003 - 2009 (Chair, 2004 - 2005)
- Visiting Professor, University of Nebraska College of Law, 2001 - 2003
- Solicitor General of the State of New York, 1999 - 2001

Ms. Bansal's qualifications include over 30 years of experience in banking, financial services, government, regulation, public policy, and academia as a distinguished lawyer and global business leader. Ms. Bansal provides to the Board of Directors and the Company valuable insight and leadership on various business, compliance, regulatory, and policy issues.

Michael D. Reardon, 66
Director since
December 2003

Chairman, Provision Networks, LLC

- Chairman, Provision Networks, LLC, a telecommunications company, August 2015 - present; Chief Executive Officer, January 2004 - August 2015

Mr. Reardon's qualifications include over 35 years of experience starting and building companies from the ground up, providing strategy, leadership, business development, and management expertise, and dealing with financial and operational issues in challenging environments. Mr. Reardon also has experience leading technology related companies. Through his roles as an executive officer and Chairman of such companies, and his prior experience on the boards of directors and board committees of other public companies, Mr. Reardon provides valuable and unique insights.

CORPORATE GOVERNANCE

Code of Business Conduct and Ethics for Directors, Officers, and Employees

The Company has a written code of business conduct and ethics that applies to all of the Company's directors, officers, and employees, including the Company's Executive Chairman, Chief Executive Officer, President, Chief Operating Officer, and Chief Financial Officer (who is also the Company's principal accounting officer), and is designed to promote ethical and legal conduct. Among other items, the code addresses the ethical handling of actual or potential conflicts of interest, compliance with laws, accurate financial reporting, and procedures for promoting compliance with, and reporting violations of, the code. This code is available on the Company's investor relations website at www.nelnetinvestors.com under "Corporate Governance" and is available in print to any shareholder who requests it. Any future amendments to or waivers of the code, to the extent applicable to any executive officer or director, will be posted at this location on the Company's website.

Board Composition and Director Independence

The Board of Directors is composed of a majority of independent directors as defined by the rules of the New York Stock Exchange. A director does not qualify as an independent director unless the Board has determined, pursuant to applicable legal and regulatory requirements, that such director has no material relationship with the Company (either directly or as a partner, shareholder, or officer of an organization that has a relationship with the Company). The Nominating and Corporate Governance Committee reviews compliance with the definition of "independent" director annually. Mr. Dunlap beneficially owns 77.1% of the combined voting power of the Company's shareholders. Because of his beneficial ownership, Mr. Dunlap can effectively elect each member of the Board of Directors and has the power to defeat or remove each member of the Board of Directors.

The Board has evaluated commercial, consulting, charitable, familial, and other relationships with each of its directors, director nominees, and entities with respect to which they are an executive officer, partner, member, and/or significant shareholder. As part of this evaluation, the Board noted that none of the current directors received any consulting, advisory, or other compensatory fees from the Company, other than those described under "Certain Relationships and Related Transactions" and "Director Compensation Table for Fiscal Year 2018." Based on this independence review and evaluation, and on other facts and circumstances the Board deemed relevant, the Board, in its business judgment, has determined that all of the Company's current directors are independent, with the exception of Mr. Dunlap, who is currently an employee of the Company.

The Company's Nominating and Corporate Governance Committee is responsible for reviewing and approving all new transactions, and any material amendments or modifications to existing transactions, between the Company and related parties, and taking such actions as the Committee deems necessary and appropriate in relation to such transactions, including reporting to the Board of Directors with respect to such transactions as the Committee deems necessary and appropriate. See "Certain Relationships and Related Transactions."

Governance Guidelines of the Board

The Board's governance is guided by the Company's Corporate Governance Guidelines. The Board's current guidelines are available on the Company's investor relations website at www.nelnetinvestors.com under "Corporate Governance" and are available in print to any shareholder who requests them. Among other matters, the guidelines provide for the following:

- A majority of the members of the Board must be independent directors.
- The Board undertakes an annual self-review.
- The Board and each Board Committee has the authority to engage independent or outside counsel, accountants, or other advisors, as it determines to be necessary or appropriate. All related fees and costs of such advisors are paid by the Company.
- Board members have open communication access to all members of management and counsel.
- Directors who are not employees or officers of the Company or any of its subsidiaries ("Non-Employee Directors") meet in executive session, without the presence of management. Mr. Henning currently presides at these executive sessions. Anyone who has a concern about the Company may communicate that concern directly to these Non-Employee Directors. Such communication may be mailed to the Corporate Secretary at Nelnet, Inc., 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508 or anonymously submitted via the Company's investor relations website at www.nelnetinvestors.com under "Corporate Governance" - "Anonymous Reporting." All such communications will be forwarded to the appropriate Non-Employee Directors for their review. The Non-Employee Directors may take any action deemed appropriate or necessary, including the retention of independent or outside counsel, accountants, or other advisors, with respect to any such communication addressed to them. No adverse action will be taken against any individual making any such communication in good faith to the Non-Employee Directors.

Board Diversity

In considering whether to recommend any candidate for election to the Board, including candidates recommended by shareholders, the Nominating and Corporate Governance Committee will apply the criteria set forth in Nelnet's Corporate Governance Guidelines. These criteria include the candidate's independence, wisdom, integrity, understanding and acceptance of the Company's corporate philosophy, business or professional knowledge and experience, record of accomplishment, and willingness to commit time and energy to the Company. Our Corporate Governance Guidelines also specify that the value of diversity on the Board should be considered by the Nominating and Corporate Governance Committee in the director identification and nomination process. The Board is committed to a strong and diverse membership and a thorough process to identify those individuals who can best contribute to the Company's continued success. As part of this process, the Nominating and Corporate Governance Committee will continue to take all reasonable steps to identify and consider for Board membership all candidates who satisfy the business needs of the Company at the time of appointment.

The Committee seeks nominees with a broad diversity of experience, professional skills, and backgrounds. The Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Company believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge, and abilities that will allow the Board to fulfill its responsibilities. Nominees are not discriminated against on the basis of race, gender, religion, national origin, sexual orientation, disability, or any other basis proscribed by law.

The Board's Role in Risk Oversight

Our Board of Directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company in fostering a culture of risk-aware and risk-adjusted decision-making that allows the Company to avoid adverse financial and operational impacts. The involvement of the full Board of Directors in setting the Company's business strategy is a key part of its assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for the Company.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk management. In particular, the Risk and Finance Committee assists the Board of Directors in fulfilling its responsibilities with respect to oversight of the Company's enterprise-wide risk management framework and oversight of the Company's strategies relating to capital management. The Audit Committee focuses on the integrity of the Company's financial statements, system of internal controls, and policies for risk assessment and risk management. The Nominating and Corporate Governance Committee assists the Board of Directors in fulfilling its oversight responsibility with respect to regulatory, compliance, related-party transactions, and public policy issues that affect the Company, and works closely with the Company's legal and policy services groups. The Compliance Committee assists the Board of Directors in fulfilling its responsibility to oversee the Company's Compliance Management Program, which is designed to ensure compliance with consumer protection laws, regulations, and corporate policies. In addition, the Audit Committee and the Risk and Finance Committee oversee various aspects of the Company's initiatives, procedures, controls, plans, and other measures related to cybersecurity risks, including measures designed to prevent, detect, and respond to cybersecurity threats, with the Board of Directors receiving frequent updates with respect to such measures and related cybersecurity risk management activities. Finally, in setting compensation philosophy and strategy, the Compensation Committee strives to create incentives that encourage an appropriate level of risk-taking behavior consistent with the Company's business strategy.

Board Leadership Structure

Mr. Dunlap serves as Executive Chairman of the Board and Jeffrey R. Noordhoek serves as Chief Executive Officer. While the Board of Directors and management do not believe either a combined Chairman and CEO or separate roles necessarily guarantee better governance or the absence of risk, they believe the Company's current leadership structure is appropriate for our business at this time. The Board believes that its current leadership structure best serves the objectives of the Board's oversight of management, the ability of the Board to carry out its roles and responsibilities on behalf of the shareholders, and the Company's overall corporate governance. The Board also believes that the current separation of the Chairman and CEO roles allows the CEO to focus his time and energy on operating and managing the Company, while leveraging the experience and perspectives of the Executive Chairman. It also allows the Executive Chairman to focus on leadership of the Board in addition to providing management direction on company-wide issues. The Board periodically reviews the leadership structure and may make changes in the future.

In addition, Mr. Henning is currently serving as the independent Lead Director of the Board. The Board believes having a lead independent director is an important governance practice, given that the Executive Chairman is not an independent director under our Corporate Governance Guidelines and applicable rules. Mr. Dunlap, as Executive Chairman, provides leadership to the Board and works with the Board to define its structure and activities in the fulfillment of its responsibilities. In conjunction with Mr. Henning as the independent Lead Director, Mr. Dunlap sets the Board agendas with Board and management input, facilitates communication among directors, works with Mr. Henning to provide appropriate information flow to the Board, and presides at meetings of the Board of Directors and shareholders. Mr. Henning works with Mr. Dunlap and other Board members to provide strong, independent oversight of the Company's management and affairs. Among other things, Mr. Henning is involved in the development of Board meeting agendas as well as the quality, quantity, and timeliness of information sent to the Board, serves as the principal liaison between Mr. Dunlap and the independent directors, and chairs an executive session of the Non-Employee Directors at most regularly scheduled Board meetings. This structure allows the Company to optimize the roles of Chairman, CEO, and independent Lead Director and follow sound governance practices.

Board Committees

The Board uses committees to assist it in the performance of its duties. During 2018, the standing committees of the Board were the Audit Committee, Compensation Committee, Compliance Committee, Nominating and Corporate Governance Committee, Risk and Finance Committee, and Executive Committee. During 2018, all Board committees, with the exception of the Executive Committee, were composed entirely of independent directors, and each committee other than the Executive Committee operates pursuant to a formal written charter, approved by the Board, which sets forth the committees' functions and responsibilities. Each committee charter is posted on the Company's investor relations website at www.nelnetinvestors.com under "Corporate Governance" - "Governance Documents" and is available in print to any shareholder who requests it. The purposes of each committee and their current members are set forth below.

Audit Committee

The Audit Committee is composed of Ms. Farrell and Messrs. Cintani and Henning. The Committee held seven meetings in 2018. Each member of the Audit Committee is (1) "independent" in accordance with the rules and regulations of the New York Stock Exchange and the rules and regulations of the SEC and (2) sufficiently financially literate to enable him or her to discharge the responsibilities of an Audit Committee member. The Board has determined that all of the members of the Audit Committee have accounting and related financial management expertise which qualifies each of them as an "audit committee financial expert," as defined in the applicable rules and regulations of the SEC.

The Audit Committee provides assistance to the Board of Directors in its oversight of the integrity of the Company's financial statements, the Company's system of internal controls, the Company's policy standards and guidelines for risk assessment and risk management, the qualifications and independence of the Company's independent auditor, the performance of the Company's internal and independent auditors, and the Company's compliance with other regulatory and legal requirements. The Audit Committee discusses with management and the independent auditor the Company's annual audited financial statements, including the Company's disclosures made under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its filings with the SEC, and recommends to the Board of Directors whether such audited financial statements should be included in the Company's annual report on Form 10-K. The Audit Committee also selects the independent auditors for the next year and presents such selection to the shareholders for ratification.

Compensation Committee

The Compensation Committee is composed of Mses. Rath and Bansal, and Messrs. Abel and Reardon. The Committee held five meetings in 2018. The members of the Compensation Committee are "independent" in accordance with the rules and regulations of the New York Stock Exchange and the rules and regulations of the SEC, and at least two members of the Committee are "Non-Employee Directors" as defined in Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Compensation Committee oversees the Company's compensation and benefit policies. The Company's compensation policies are designed with the goal of maximizing shareholder value over the long term. The Compensation Committee believes that this goal is best realized by utilizing a compensation program which serves to attract and retain superior executive talent by providing management with performance-based incentives and closely aligning the financial interests of management with those of the Company's shareholders. The level of compensation is based on numerous factors, including achievement of results and financial objectives established by the Compensation Committee and the Board of Directors. See "Executive Compensation."

Compliance Committee

The Compliance Committee is composed of Mses. Farrell and Bansal, and Messrs. Abel and Graff. The Committee held four meetings in 2018. The Compliance Committee has principal oversight responsibility with respect to the Company's Compliance Management Program, including approval of applicable corporate policies, ensuring adequate resources are available for training and communications, ensuring the Program is designed to adequately address consumer complaints and other compliance issues, and receiving periodic reporting from management regarding compliance activities.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is composed of Ms. Rath and Messrs. Abel, Graff, and Reardon. The Committee held four meetings in 2018. The members of the Nominating and Corporate Governance Committee are "independent" as determined in accordance with the rules and regulations of the New York Stock Exchange and the rules and regulations of the SEC. The Nominating and Corporate Governance Committee is responsible for identifying and recommending qualified nominees to serve on the Company's Board of Directors, identifying members of the Board to serve on each Board committee, overseeing the evaluation by the Board of itself and its committees, identifying individuals to serve as officers of the Company and recommending such individuals to the Board, as well as developing and overseeing the Company's internal corporate governance processes. The Nominating and Corporate Governance Committee reviews related party transactions in accordance with the written policies and procedures adopted by the Board of Directors for the Committee's review of related party transactions, and takes such actions as the Committee deems necessary and appropriate in relation to such transactions, including reporting to the Board of Directors with respect to such transactions as the Committee deems necessary and appropriate.

The Company's Corporate Governance Guidelines establish criteria for specific qualities and skills to be considered by the Nominating and Corporate Governance Committee as necessary for the Company's directors to possess. These criteria include, among other items, independence, diversity, integrity, understanding the Company's corporate philosophy, valid business or professional knowledge, proven record of accomplishment with excellent organizations, ability to challenge and stimulate management, and willingness to commit time and energy. The Nominating and Corporate Governance Committee has been given the responsibility to take all reasonable steps to identify and evaluate nominees for director and has adopted a policy requiring it to consider written proposals for director nominees received from shareholders of the Company. No such proposals were received during 2018 from a beneficial owner of more than 5% of Nelnet's stock (other than current management). There is no difference in the manner in which the Committee evaluates director nominees based on whether the nominee is recommended by a shareholder. All of the nominees identified in this proxy statement have been recommended by the Committee.

When seeking candidates for director, the Nominating and Corporate Governance Committee solicits suggestions from incumbent directors, management, shareholders, and others. The Committee has authority under its charter to retain a search firm for this purpose. If the Committee believes a candidate would be a valuable addition to the Board of Directors, it recommends his or her candidacy to the full Board of Directors.

The Company's Bylaws include provisions setting forth the specific conditions under which persons may be nominated by shareholders for election as directors at an annual meeting of shareholders. The provisions include the condition that nominee proposals from shareholders must be in writing and that shareholders comply with the time-frame requirements described under "Other Shareholder Matters - Shareholder Proposals for 2020 Annual Meeting" for shareholder proposals not included in the Company's Proxy Statement. A copy of such provisions is available upon written request to: Nelnet, Inc., 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508, Attention: Corporate Secretary. The Company's Bylaws are also posted on the Company's investor relations website at www.nelnetinvestors.com under "Corporate Governance" - "Governance Documents."

Risk and Finance Committee

The Risk and Finance Committee is composed of Mses. Farrell and Bansal, and Messrs. Cintani, Graff, and Henning. The Committee held four meetings in 2018. The Risk and Finance Committee has principal oversight responsibility with respect to the Company's enterprise-wide risk management framework, including the significant strategies, policies, procedures, and systems used to identify, assess, measure, and manage the major risks facing the Company and oversight of the Company's material financial matters, including capital management, funding strategy, investments, and acquisitions that are material to the Company's business.

Executive Committee

The Executive Committee is composed of Ms. Farrell and Messrs. Dunlap and Henning. The Executive Committee held no formal meetings in 2018. The Executive Committee exercises all of the powers of the full Board in the management of the business and affairs of the Company during the intervals between meetings of the full Board, subject only to limitations as the Board may impose from time to time, or as limited by applicable law.

Meetings of the Board

The Board of Directors held six meetings in 2018. All directors attended at least 75% of the meetings of the Board and committees on which they serve.

Attendance at Annual Meetings of Shareholders

The Company does not have a policy regarding director attendance at the annual meetings of shareholders. All directors attended the prior year's annual meeting of shareholders.

Director Compensation Overview

The Company's compensation program for Non-Employee Directors is designed to reasonably compensate Non-Employee Directors for their service on the Board of Directors and its committees, in amounts commensurate with their roles and involvement, and taking into consideration the significant amount of time they devote in fulfilling their duties in view of the Company's size, complexity, and risks, as well as the experience and skill levels required of members of the Board. The Company intends to compensate its Non-Employee Directors in a manner that attracts and retains high quality Board members, and ensures that their interests are aligned with the shareholders. The Compensation Committee reviews the compensation program for Non-Employee Directors on an annual basis and makes recommendations regarding the program to the Board.

In addition to the various components of the Company's compensation program for Non-Employee Directors discussed under the "Director Compensation Elements," "Director Compensation Table for Fiscal Year 2018," and "Share Ownership Guidelines for Board Members" captions below, the Company has a policy prohibiting members of the Board of Directors from short sales of the Company's common stock, buying or selling call or put options or other derivatives related to the Company's common stock, or entering into other transactions that have the effect of hedging the economic value of any of their direct or indirect interest in the Company's common stock, including through the use of financial instruments such as prepaid variable forwards, equity swaps, collars, and exchange funds. The Company also has a policy requiring members of the Board who wish to buy or sell the Company's stock to do so only through Rule 10b5-1 stock trading plans.

Director Compensation Elements

Non-Employee Directors are compensated for Board meeting and committee meeting attendance, earning $1,000 for each Board and committee meeting attended. For 2018, the Company also paid an annual retainer of $100,000 to Non-Employee Directors. An additional annual retainer of $10,000 is paid to Non-Employee Directors who serve as members on each of the Audit Committee, Compensation Committee, Compliance Committee, Nominating and Corporate Governance Committee, Risk and Finance Committee, or Executive Committee, as applicable. In 2018, the Chair of the Audit Committee was paid an additional $12,500 annual retainer fee. Mr. Dunlap, who is an employee of the Company, does not receive any consideration for participation in Board or committee meetings.

The Company has a Directors Stock Compensation Plan for Non-Employee Directors that was approved by the Board of Directors and shareholders pursuant to which Non-Employee Directors can elect to receive their annual retainer fees in the form of cash or in shares of the Company's Class A common stock. Currently, up to 500,000 shares may be issued under the plan. If a Non-Employee Director elects to receive Class A common stock, the number of shares of Class A common stock that will be granted will be 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. Any dividends paid in respect of deferred shares during the deferral period will also be deferred in the form of additional shares and paid out at termination of service on the Board of Directors. This plan may be amended or terminated by the Board of Directors at any time, but no amendment or termination will adversely affect a Non-Employee Director's rights with respect to previously deferred shares without the consent of the Non-Employee Director.

Director Compensation Table for Fiscal Year 2018

The following table sets forth summary information regarding compensation of Non-Employee Directors for the fiscal year ended December 31, 2018.

	2018 Compensation			
Director name	Fees paid in cash ($) (a)	Stock awards ($)	All other compensation ($)	Total ($)
James P. Abel	18,000	152,944 (b)	—	170,944
Preeta D. Bansal	4,000	76,513 (c)	2,093 (d)	82,606
William R. Cintani	16,000	141,207 (b)	22,000 (e)	179,207
Kathleen A. Farrell	20,000	164,742 (b)	—	184,742
David S. Graff	16,000	152,944 (b)	—	168,944
Thomas E. Henning	16,000	167,646 (b)	—	183,646
Kimberly K. Rath	8,750 (f)	141,207 (b)	30,250 (g)	180,207
Michael D. Reardon	134,000	—	—	134,000

(a) Amounts represent cash paid to Non-Employee Directors for attendance at Board and committee meetings. The amount for Mr. Reardon also includes his annual retainer fees ($120,000), which he elected to receive in cash.

(b) Each of the Non-Employee Directors, with the exception of Mr. Reardon, elected to receive their annual retainer fees for 2018 in the form of the Company's Class A common stock or deferred shares in accordance with the provisions of the Directors Stock Compensation Plan. As such, the amounts under "Stock awards" represent the grant date fair value of the stock computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("FASB ASC Topic 718"), based on the closing market price of the Company's Class A common stock on the date of issuance, June 22, 2018, of $60.50 per share. The Company uses the closing market price of the Company's Class A common stock on the date the annual retainer fees are payable to calculate the number of shares to be issued under this plan. Additional information about the Company's accounting for stock-based compensation under FASB ASC Topic 718 can be found in Note 2 - "Summary of Significant Accounting Policies and Practices - Compensation Expense for Stock Based Awards" and Note 18 - "Stock Based Compensation Plans - Non-employee Directors Compensation Plan" of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

(c) The Company's Board of Directors appointed Ms. Bansal as a Class I member of the Board effective November, 8, 2018. At that time, Ms. Bansal elected to receive her pro rata annual retainer fees (for the period November 8, 2018 through May 23, 2019) in the form of the Company's Class A common stock. As such, the amount under "Stock awards" represents the grant date fair value of the stock based on the closing market price of the Company's Class A common stock on the date of issuance, November 8, 2018, of $55.89 per share.

(d) Ms. Bansal received health, dental, and vision insurance coverage benefits from the Company during 2018, since Ms. Bansal does not currently participate in another similar group insurance plan. Such insurance coverage was provided on generally the same terms and conditions that apply to employees and that are available to directors of the Company. This amount represents the dollar value of insurance premiums paid by the Company in 2018 related to these benefits.

(e) Amount represents contributions by the Company to charitable organizations on behalf of Mr. Cintani during 2018. The Company offers a matching gift program in which all employees with at least six months of service and all members of the Board of Directors are eligible to participate. Under this program, for every dollar ($100 minimum) that an employee or Board member contributes in cash and securities to an eligible charitable organization or educational institution, the Company will make matching donations of additional funds, subject to terms and conditions applicable in an equal manner to all employees and Board members. The total maximum dollar amount payable under the program is $25,000 per director or employee per calendar year.

(f) Amount reflects a reduction in cash paid to Ms. Rath for her attendance at Board and committee meetings during 2018 in an amount corresponding to the $5,250 in tuition reimbursements received by Ms. Rath during 2018 pursuant to her participation in the Company's tuition reimbursement program as discussed in footnote (g) below.

(g) Amount includes (i) $25,000 in contributions by the Company to charitable organizations on behalf of Ms. Rath during 2018 pursuant to the Company's matching gift program described in footnote (e) above; and (ii) $5,250 in tuition reimbursements by the Company during 2018 pursuant to Ms. Rath's participation in the Company's tuition reimbursement program, in which all employees with at least one year of service and all members of the Board of Directors are eligible to participate, for qualified tuition expenses related to an area of business at the Company. The amount of Ms. Rath's tuition reimbursements by the Company was deducted from the fees paid in cash for Ms. Rath's attendance at Board and committee meetings during 2018, and thus there was no incremental increase in Ms. Rath's total compensation as a result of her participation in the tuition reimbursement program.

Share Ownership Guidelines for Board Members

The Compensation Committee of the Board of Directors believes that Board members should have a significant equity interest in the Company. In order to promote equity ownership and further align the interests of Board members with the Company's shareholders, the Committee has recommended and the Board has adopted Share Ownership Guidelines for Board members. Under these guidelines, each Non-Employee Director is encouraged to own shares of the Company's Class A common stock with a value of 50% of the amount obtained by multiplying the base annual retainer fee ($100,000) by the number of years the Director has served on the Board. As of February 28, 2019, all Non-Employee Directors owned an amount of shares in excess of that suggested by the guidelines.

EXECUTIVE OFFICERS

Under the Company's Bylaws, each executive officer holds office for a term of one year or until his or her successor is elected and qualified. The executive officers of the Company are elected by the Board of Directors at its annual meeting immediately following the annual meeting of shareholders.

The following sets forth the executive officers of the Company, including their names, their ages, their positions with the Company, and if different, their business experience during the last five years.

See "Proposal 1 - Election of Directors" for biographical information regarding Mr. Dunlap.

Name and Age	Position and Business Experience
Terry J. Heimes, 54	• Chief Operating Officer, Nelnet, Inc., January 2014 - present • Chief Financial Officer, Nelnet, Inc., March 2001 - December 2013
James D. Kruger, 56	• Chief Financial Officer, Nelnet, Inc., January 2014 - present • Controller, Nelnet, Inc., October 1998 - December 2013
William J. Munn, 51	• Corporate Secretary, Chief Governance Officer, and General Counsel, Nelnet, Inc., September 2006 - present
Jeffrey R. Noordhoek, 53	• Chief Executive Officer, Nelnet, Inc., January 2014 - present • President, Nelnet, Inc., January 2006 - December 2013
Timothy A. Tewes, 60	• President, Nelnet, Inc., January 2014 - present • President and Chief Executive Officer, Nelnet Business Solutions, Inc., a subsidiary of Nelnet, Inc., May 2007 - December 2013

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

In this section, we provide a detailed description of our executive compensation philosophy and program for our named executive officers (the "Named Executive Officers") for fiscal 2018:

Name	Title
Michael S. Dunlap	Executive Chairman
Jeffrey R. Noordhoek	Chief Executive Officer
Terry J. Heimes	Chief Operating Officer
James D. Kruger	Chief Financial Officer
Timothy A. Tewes	President

Executive Summary

This Compensation Discussion and Analysis describes the key principles and measures that underlie the Company's executive compensation policies for the Named Executive Officers. The Company's stated compensation philosophy is clear and consistent, that it pays for performance. Its Named Executive Officers are accountable for the Company's performance and the business segment or segments they manage, and are compensated based on that performance.

For 2018, the Company had net income, excluding derivative market value and foreign currency transaction adjustments, of $227.1 million, or $5.55 per share. Net income, excluding derivative market value and foreign currency transaction adjustments, and the corresponding per share measure are non-GAAP financial measures, and there is no comprehensive, authoritative guidance for the presentation of these measures. For information on how these measures are calculated from the Company's financial statements, reconciliations to the most directly comparable financial measures for 2018 under GAAP, and other information about these measures, please refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments on pages 35-36 of the Company's 2018 Annual Report on Form 10-K filed with the SEC on February 27, 2019. The Company has delivered strong financial results supported by achievement of its key objectives of growing its core businesses, driving diversification around its core, and improving customer experiences. The Company believes that its executive compensation program contributes to a high-performance culture where executives deliver results that drive sustained growth.

The following discussion summarizes the Company's executive compensation program, compensation philosophy, objectives, and process considered in determining compensation for its Named Executive Officers.

Compensation Committee Governance and Processes

The Company's Board of Directors has designated the Compensation Committee to assist the Board in discharging its responsibilities relating to:

- determining and administering the compensation of the Named Executive Officers and other executive officers of the Company
- administering certain compensation plans, including stock, incentive, and commission compensation plans
- assessing the effectiveness of succession planning relative to key executive officers of the Company
- reviewing, approving, and overseeing certain other benefit plans

The Compensation Committee consists solely of independent members (as defined by the rules of the New York Stock Exchange) of the Board of Directors, and operates under a written charter adopted by the Board. Compensation Committee policy requires that all of the Company's compensation plans and practices shall comply with applicable laws, rules, and regulations.

As discussed below, the Compensation Committee works with members of management to develop executive compensation objectives and programs. The Compensation Committee or a subcommittee of the Compensation Committee reviews and approves the Company's compensation framework and specific executive compensation determinations. The Compensation Committee also coordinates with the Board of Directors to monitor the performance of the Named Executive Officers throughout the year to ensure that the compensation being provided meets the performance incentive objectives of the Company's compensation framework.

Role of Management in Recommending Executive Compensation

The Executive Director of People Services, the Chief Executive Officer, and the Chief Operating Officer, referred to herein as the internal committee, are directed by the Compensation Committee to develop, recommend, and administer in a consistent manner, compensation objectives and programs for the Compensation Committee and the Board of Directors to consider and approve. As part of this process, each year the internal committee, with the assistance of other members of management, reviews and updates as necessary the Company's compensation philosophy and strategy statement, and develops a proposed executive compensation framework. The internal committee is also tasked with ensuring that the objectives of the programs are aligned with the Company's long-term strategy. The Executive Chairman makes compensation recommendations for himself and the other Named Executive Officers for the Compensation Committee's review and approval.

Objectives of Executive Compensation

The general compensation philosophy of the Company, as an organization that values the long-term success of its shareholders, customers, and employees (referred to by the Company as associates), is that the Company will pay competitive and equitable compensation that is designed to encourage focus on the long-term performance objectives of the Company and is differentiated based on both the individual's performance and the performance of their respective business segment. In carrying out this philosophy, the Company structures its overall compensation framework with the general objectives of encouraging ownership, savings, wellness, productivity, and innovation. In addition, total compensation is intended to be market competitive compared to select industry surveys, internally consistent, and aligned with the philosophy of a performance-based organization. The Company believes this approach will enable it to attract, retain, develop, and motivate the talent required for the Company's long-term success, encourage the creation of shareholder value, and recognize high levels of associate performance.

To build a strong work environment and culture, the Company structures its total compensation to be comprised of:

Element	Purpose	Characteristics
Base salary	Competitive cash compensation to retain and attract executive talent.	Fixed cash compensation based upon the scope and complexity of the role, individual experience, performance, and market competitiveness. Reviewed annually and adjusted as warranted.
Annual performance-based incentive bonuses	Drive the achievement of key short-term business results and recognize individual contributions to these results.	Primary mode to differentiate compensation based on performance. Annual incentives based on a combination of financial metrics and individual goals. Potential cash-equity mix through performance-based incentive program stock election framework.
Restricted stock awards	Promote long-term focus on shareholder value, serve as an important retention tool, and encourage equity stake in the Company.	Equity-based compensation subject to vesting periods, or other restrictions on sale, generally for three to ten years.
Health, retirement, and other benefits	Designed to provide competitive health insurance options and income replacement upon retirement, death, or disability.	Benefits for Named Executive Officers are the same as those available to all associates.

The annual and long-term performance measures used by the Compensation Committee in reviewing and determining executive compensation are reflected in the Executive Officers' Incentive Compensation Plan described below.

Summary of Executive Compensation Policies and Practices

What we do	What we don't do
Pay for performance	No employment contracts
Periodically utilize external, independent compensation consulting firm(s)	No significant additional perks to executive officers
Mitigate undue risk in compensation programs	No individual change in control/severance compensation arrangements
Provide guidelines for stock ownership	No stock options
Maintain minimum vesting periods for stock awards	
Consider market data across industries to obtain a general sense of current compensation practices and decisions	
Prohibit hedging and short sales of stock	
Provide for clawback of incentive-based compensation	

Compensation Policies and Practices - Risk Management

The Compensation Committee and the internal committee review incentive compensation arrangements to ensure that the arrangements do not encourage associates to take unnecessary and excessive risks. This risk assessment process includes a review of program policies and practices; program analysis to identify risk and risk control related to the programs; and determinations as to the sufficiency of risk identification, the balance of potential risk to potential reward, risk control, and the support of the programs and their risks to the Company's strategy. A balance between Company and business segment performance is required to protect against unnecessary risks being taken. Based on their review and evaluation of the Company's compensation policies and practices for its associates, the Compensation Committee, the internal committee, and the Company's Enterprise Risk Management team believe that the Company's policies and practices do not create inappropriate or unintended significant risks that are reasonably likely to have a material adverse effect on the Company.

Prohibition on Hedging and Short Sales

The Company has a policy prohibiting members of the Board of Directors and all associates, including senior management, from short sales of the Company's common stock or buying or selling call or put options or other derivatives related to the Company's common stock. The policy also prohibits these persons from entering into other transactions that have the effect of hedging the economic value of any of their direct or indirect interest in the Company's common stock, including through the use of financial instruments such as prepaid variable forwards, equity swaps, collars, and exchange funds.

Clawback Policy

The Company has a Clawback Policy, which gives the Board of Directors or any appropriate committee of the Board (such as the Compensation Committee), the discretion to recover incentive awards paid to any current or former executive officers of the Company if the financial results used to determine the amount of the incentive awards are materially restated and/or such person engaged in fraud or intentional misconduct.

The policy was adopted in advance of final rules or regulations to be issued by the SEC and/or the New York Stock Exchange to implement the incentive-based compensation recovery requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Board has reserved the right to revise or restate the policy to any extent necessary to comply with such final rules or regulations, and application may be made on a retroactive basis, if necessary, to comply with such final rules or regulations.

Say on Pay

The Company has determined, consistent with the preference expressed by the Company's shareholders at the 2017 annual meeting of shareholders and the related prior recommendation by the Board of Directors, that it is important for the shareholders to have an opportunity to cast an advisory vote on executive compensation on an annual basis as a means to express their views regarding the Company's executive compensation philosophy, plans, programs, policies, and decisions, all as disclosed in the Company's proxy statement. Accordingly, shareholders will have the opportunity to cast an advisory vote on executive compensation at this year's annual meeting. See Proposal 3 in this proxy statement with respect to a shareholder advisory vote on the compensation of the Company's Named Executive Officers as disclosed in this proxy statement. Although the shareholder vote on this proposal is non-binding, the Compensation Committee will consider the outcome of the vote when making future compensation decisions for Named Executive Officers.

Consideration of Prior Say on Pay Votes

In making executive compensation determinations, the Compensation Committee has also considered the results of last year's advisory shareholder vote approving the compensation of the Company's Named Executive Officers as disclosed in the proxy statement for the 2018 annual meeting of shareholders. At the 2018 annual meeting, the Company's shareholders overwhelmingly approved such executive compensation by 99.9 percent of the votes cast. These voting results, and similar previous say on pay voting results, have strongly communicated the shareholders' endorsement of the Compensation Committee's decisions and policies to date. The Board of Directors and Compensation Committee reviewed these final vote results and determined that, given the significant level of support from the shareholders, no significant changes to the Company's executive compensation plans, practices, and policies were necessary at this time based on the say on pay vote results. The Compensation Committee will continue to consider the results from this year's and future advisory shareholder votes regarding the Company's executive compensation programs.

Use of Compensation Consultant

To assist in establishing and maintaining a competitive overall compensation program, the Compensation Committee periodically engages a nationally recognized compensation consulting firm to review the compensation levels and practices for the most highly compensated executive officers of the Company, and compare those to the compensation levels and practices for executives holding comparable positions within select industries and companies. Through comparisons of the base salaries, the annual performance-based incentives, other benefit programs, and total compensation for the Company's Executive Chairman, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, and other executives, the consultant's analysis is used to develop a complete executive compensation package that is designed to be competitive in the marketplace. The study is also used by the Compensation Committee to identify potential gaps or inconsistencies in total compensation and to identify appropriate compensation levels and compensation design features and trends. The study is conducted as part of the Compensation Committee's oversight of the Company's continuing efforts to attract, retain, and motivate top executive talent that will drive the Company's performance results.

In 2016, the Compensation Committee engaged Towers Watson as its independent compensation consultant to review executive compensation at the Company. In connection with the 2016 engagement of Towers Watson, the Compensation Committee determined that Towers Watson does not perform any other services for the Company or have any relationship that would raise a conflict of interest or impair the independence of Towers Watson with respect to its 2016 services or its expected future services for the Compensation Committee. In making this determination, the Compensation Committee discussed and considered the following factors: (i) the fact that Towers Watson does not perform any other services for the Company; (ii) the amount of fees received by Towers Watson from the Company as a percentage of the total revenue of Towers Watson; (iii) the policies and procedures of Towers Watson that are designed to prevent conflicts of interest; (iv) any business or personal relationship between any individual Towers Watson consultant involved in the engagement by the Compensation Committee and a member of the Compensation Committee; (v) any stock of the Company owned by an individual Towers Watson consultant involved in the engagement; and (vi) any business or personal relationship between Towers Watson or any individual Towers Watson consultant involved in the engagement and any executive officer of the Company.

When developing the proposed compensation framework for the Compensation Committee to consider each year, the internal committee also reviews broad-based third party surveys of executive compensation to obtain a general sense of current compensation levels and practices in the marketplace. These reviews are based on information from various publicly available databases and publications. The purpose of these reviews is to ensure compensation is aligned with the market for comparable jobs so the Company can continue to attract, retain, motivate, and reward qualified executives. In addition, the internal committee considers the average salary adjustments anticipated in the marketplace each year, and develops proposed target increases for the Company's Named Executive Officers accordingly. In this way, the Company seeks to ensure that any changes to compensation are appropriate and reflect material changes in the market.

The Compensation Committee currently plans to engage Willis Towers Watson in 2019 to review the Company's executive compensation.

Elements of Executive Compensation

The Company's Named Executive Officers are compensated with a combination of annual base salary, annual performance-based incentive bonus payments, and, with respect to the Named Executive Officers other than Mr. Dunlap, the issuance of shares of the Company's Class A common stock, which are typically restricted from sale for some period of time. Mr. Dunlap has historically not received equity compensation because he already owns a significant amount of the Company's common stock and controls the majority of voting rights of the Company, and thus already has significant interests aligned with the other shareholders of the Company. In determining levels of compensation, the Compensation Committee and the internal committee work together to establish targeted total compensation for each executive and then allocate that compensation among base salary and performance-based incentive compensation.

Each element of compensation is designed to be competitive with comparable companies and to align management's incentives with the long-term interests of the Company's shareholders. The Compensation Committee considers the Executive Chairman's recommendations and determines the amount of each element of compensation by reviewing the current compensation mix for each of the Named Executive Officers in view of the Company's performance, the Company's long-term objectives, and the scope of that executive's responsibilities. The Compensation Committee seeks to achieve an appropriate balance between base salaries, annual performance-based bonus incentives, and longer-term equity incentives for all of the Company's Named Executive Officers. See "Objectives of Executive Compensation" above for a summary of the various elements of executive compensation. Further details are provided below.

Base Salaries

Base salaries for the Company's Named Executive Officers are based on an evaluation of individual responsibilities of each person, market comparisons from publicly available compensation surveys to obtain a general sense of current compensation levels and practices in the marketplace, and an assessment of each individual's performance. Changes in base salaries of Named Executive Officers depend on projected changes in the external market as well as individual contributions to the Company's performance.

Base salaries for Messrs. Dunlap, Noordhoek, and Heimes were increased by 3% for 2018, and base salaries for Messrs. Tewes and Kruger were increased by 6.8% for 2018, primarily as a result of strong individual performances and Company results in the prior year, increased responsibilities for these officers resulting from the Company’s initiatives to pursue additional strategic investments and acquisitions to diversify the Company both within and outside of its historical core education-related businesses and to reposition the Company for the eventual runoff of all Federal Family Education Loan Program (“FFELP”) student loans, and to make adjustments that the Compensation Committee determined to be appropriate to maintain the competitiveness of the base salary levels for the corresponding officer positions. Specific increased responsibilities included those related to the successful acquisition and integration of Great Lakes Educational Loan Services, Inc. and the acquisition of Tuition Management Solutions; the continued work on the Company's analyses of and responses to the Department of Education's (the "Department") contract procurement proposals for servicing all loans owned by the Department; the continued build-out in Lincoln, Nebraska and other communities of ALLO Communication's ("ALLO") fiber network and growth of market share in ALLO's existing communities; expanded activities related to consumer loan servicing that build on the Company's experience, systems, and technology solutions for servicing student loans; the development of new payment products and services and market share growth in the Company's Education Technology, Services, and Payment Processing operating segment; and continued real estate investments focused on the development of commercial properties in the Midwest, and particularly in Lincoln, Nebraska, where the Company's headquarters are located.

Executive Officers Incentive Compensation Plan

Historically, the performance-based incentive bonus pools were determined and funded based on the Company's financial performance, while allowing for subjective modifications by the Compensation Committee to account for unique results during the year. In 2014, the Board of Directors established an Executive Officers Incentive Compensation Plan (the "Plan"), which was intended to provide the Company's executive officers with an opportunity to earn incentive compensation based on certain performance measures that could be established by the Compensation Committee, and was designed to allow compensation under the Plan to qualify as tax-deductible "performance-based compensation" under the previous provisions of Section 162(m) of the Internal Revenue Code. On December 22, 2017, Section 162(m) was amended as part of the Tax Cuts and Jobs Act such that the “performance-based compensation” exception to the limitation on tax deductibility under Section 162(m) was repealed effective for tax years beginning after December 31, 2017. The Plan provided that, in the event that the Compensation Committee determined that it was advisable to make compensation payments to executive officers covered by Section 162(m) that did not qualify as “performance-based compensation,” the Compensation Committee could make such payments without satisfying the requirements of Section 162(m). The Plan was in effect for 2018, but expired pursuant to its terms on January 1, 2019. See "Proposal 4 - Approval of a New Executive Officers Incentive Compensation Plan" for the shareholders to approve a new Executive Officers Incentive

Compensation Plan, which is similar to the previous Plan except that it removes certain references and specific requirements applicable to the previous "performance-based compensation" framework under Section 162(m) and thus is more flexible than the previous Plan.

The Plan, which was administered by the Compensation Committee or a subcommittee of the Compensation Committee, was approved by the Company's shareholders at the 2014 annual meeting of shareholders. The performance measures upon which incentive compensation under the Plan could be based are generally described as follows:

- Levels of earnings per share; net income; income before income taxes; net interest income; earnings per share or net income excluding derivative market value and foreign currency adjustments; revenues from fee-based businesses (including measures related to the diversification of revenues from fee-based businesses and increases in revenues through both organic growth and acquisitions); student loan assets; and total assets;
- Return on equity, return on assets or net assets, return on capital (including return on total capital or return on invested capital), and ratio of common equity to total assets;
- Share price or shareholder return performance (including, but not limited to, growth measures and total shareholder return, which may be measured in absolute terms and/or in comparison to a group of peer companies or an index);
- Student loan servicing and other education finance or service customer measures (including loan servicing volume and service rating levels under the student loan servicing contract with the Department);
- Cash flow measures (including, but not limited to, cash flows from operating activities, cash flow return on investment, assets, equity, or capital, and generation of long-term cash flows (including net cash flows from the Company's securitized student loan portfolio));
- Market share;
- Operating performance and efficiency targets;
- Employee engagement, productivity, and satisfaction measures;
- Levels of, or increases or decreases in, operating margins, operating expenses, and/or nonoperating expenses;
- Business segment performance measures (including growth in customer base, revenues, and segment profitability, as well as management of operating expense levels);
- Consummation of acquisitions, dispositions, projects, or other specific events or transactions (including specific events or transactions intended to enhance the long-term strategic positioning of the Company);
- Performance of investments; and
- Regulatory compliance measures.

The Plan provided that in no event shall the amount paid under the Plan to a participating executive officer with respect to any calendar year exceed the lesser of (i) 150% of that officer's base salary for that year; or (ii) $1,000,000. In each Plan Year, the Compensation Committee selected those executive officers who would participate in the Plan and be eligible to earn incentive compensation based on certain performance measures as the Compensation Committee deemed appropriate. The Company's Named Executive Officers have broad corporate responsibilities; therefore, their particular objectives for the year are tied to the overall company-wide performance.

While the Company strives for overall consistency in executive compensation, the Named Executive Officers' potential incentive bonus amounts can vary by business segment due to differences in roles, business models, and business performance. Incentives are generally positioned to be within a median range of the marketplace based on available broad based data.

The Company's 2018 annual performance-based incentive bonuses were paid, at the Named Executive Officers' option (other than Mr. Dunlap, who received his incentive in cash), as either 100 percent cash, 100 percent stock, or 50 percent cash/50 percent stock. Those electing stock also received an additional number of shares representing 15 percent of the amount of their bonus they elected to receive in stock, in order to promote increased and continued share ownership. All shares issued as part of the incentive bonus awards were issued pursuant to the Company's Restricted Stock Plan discussed below, and were fully vested but may not be transferred for three years from the date of issuance.

Performance of Named Executive Officers for 2018

In 2018, the Executive Chairman (Mr. Dunlap), Chief Executive Officer (Mr. Noordhoek), Chief Operating Officer (Mr. Heimes), Chief Financial Officer (Mr. Kruger), and President (Mr. Tewes) were selected by the Compensation Committee to participate in and be eligible for incentive compensation awards under the Plan for the year ended December 31, 2018. The Compensation Committee and a subcommittee of the Compensation Committee comprised of two outside directors within the meaning of the previous provisions of Section 162(m) of the Internal Revenue Code related to performance-based compensation (the "Subcommittee") established performance goals for these individuals in early 2018 utilizing certain of the performance measures under the Plan referred to above and described in more detail below, and in early 2019 the Compensation Committee and the Subcommittee reviewed the level of attainment of the performance goals for these individuals for 2018 under the terms of the Plan in establishing incentive awards for each. For 2018, the Compensation Committee and the Subcommittee considered (i) the Company's earnings per share, as adjusted for certain items; achievements in strategic positioning and growth of the Company's core segments' operating results, including diversification; positive response, position, or award with respect to the Department's proposed new student loan servicing contract(s); increase in the number of ALLO customers; implementation of a new payment processing platform; the preparation and filing of an application for an industrial bank charter to establish Nelnet Bank in Utah; the origination or acquisition of private education and consumer loans; and the development and implementation of certain technology projects, including a multi-asset class origination and servicing system and various cloud strategies, goals with respect to which the eligible Named Executive Officers could earn incentive compensation based on a formula, and (ii) business segment performance; loan acquisitions and future cash flow from the Company's loan portfolio; cash position and liquidity; successful build-out of ALLO's fiber optic communications network in Lincoln, Nebraska; improved stabilization and enhancements to operating systems and infrastructure; real estate investments; and individual achievement, goals with respect to which the eligible Named Executive Officers could earn additional discretionary incentive compensation. Under the Plan, the eligible Named Executive Officers could qualify for total incentives up to 150% of their base salary (not to exceed $1,000,000). The formulaic criteria used to establish performance goals and measure performance were:

1. The Company's consolidated earnings per share for the year ended December 31, 2018, adjusted for mark to market on derivatives and foreign currency transaction adjustments ("Adjusted EPS"): In early 2018, the Compensation Committee and the Subcommittee established tiered Adjusted EPS goals whereby (i) Adjusted EPS of up to $5.00 per share would qualify for an incentive of 0-125% of salary, and (ii) Adjusted EPS of greater than $5.00 per share would qualify for an incentive of 100-150% of salary. Based on the final Adjusted EPS for 2018 of $5.55 per share as reported in the Company's 2018 Annual Report on Form 10-K, the participating Named Executive Officers qualified for an incentive of 100-150% of salary. (Adjusted EPS is a non-GAAP financial measure. For information on how this measure is calculated from the Company's financial statements and other information about this measure, please refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments on pages 35-36 of the Company's 2018 Annual Report on Form 10-K filed with the SEC on February 27, 2019.)

2. Strategic Positioning and Growth of Core Segments' Operating Results: In early 2018, the Compensation Committee and the Subcommittee established goals whereby achievement of a majority of the following would qualify for an incentive of up to 50% of salary: (i) Loan Servicing and Systems operating segment revenues of at least $280 million and pre-tax earnings of at least $48 million for 2018; (ii) Education Technology, Services, and Payment Processing operating segment net revenues of at least $160 million and pre-tax earnings of at least $37 million for 2018; (iii) a positive response and positioning in regards to the contract procurement process for the Department to acquire a servicing system for all student loans owned by the Department; (iv) an increase of 25,000 residential and business access lines in Lincoln, Nebraska and/or achieving 50,000 residential and business access lines overall in the Company's ALLO communications business (with access lines being lines reaching from customer premises to a connection with ALLO's fiber optic network distribution system); (v) successful development of a new payment processing platform, including boarding beta test merchants and processing more than $3.5 billion in payments; (vi) prepare and file an application for an industrial bank charter to establish Nelnet Bank in Utah; and (vii) originate or acquire $300 million in private education or consumer loan assets. Based on Loan Servicing and Systems operating segment revenues of $440 million and pre-tax earnings of $70 million and Education Technology, Services, and Payment Processing operating segment net revenues of $162 million and pre-tax earnings of $33 million (which included an $8 million impairment charge resulting from the Company's

decision to terminate its investment in a proprietary payment processing platform) for 2018 as reported in the Company's 2018 Annual Report on Form 10-K, ALLO's significant residential and business access line growth in Lincoln and its other markets, finishing 2018 with over 55,000 residential and business access lines in total, the preparation and filing of an application for an industrial bank charter to establish Nelnet Bank in Utah (which application was later withdrawn after constructive consultation with the FDIC, and may be refiled when the Company is ready to proceed), and the successful continued development of the Company's new multi-asset class origination and servicing system, the participating Named Executive Officers qualified for an incentive of up to 50% of salary.

The Subcommittee concluded, based on the eligible Named Executive Officers' performance with respect to both formulaic and objective criteria, that incentives of up to 200% of their respective base salaries had been earned under the criteria. Considering the Plan's maximum limit on incentive payments to any participant with respect to any calendar year of the lesser of 150% of base salary or $1,000,000, and other factors, the subcommittee of the Compensation Committee awarded the participating Named Executive Officers incentives equal to 125% of their respective base salaries, as reflected in the Summary Compensation Table below. Such annual performance incentive bonus amount for Mr. Noordhoek was $895,134. The total 2018 bonus amount for Mr. Noordhoek appearing in the Summary Compensation Table below exceeded $1,000,000 as a result of Mr. Noordhoek's election to be paid all of his 2018 annual performance incentive bonus in stock, and thus Mr. Noordhoek received an additional number of shares issued under the Restricted Stock Plan representing 15 percent of his annual performance incentive bonus, pursuant to the cash/stock bonus payment election framework discussed above, in order to promote increased and continued share ownership.

Restricted Stock Plan

The Company maintains a Restricted Stock Plan to reward performance by associates, including the Named Executive Officers other than Mr. Dunlap. This plan permits the Compensation Committee to reward a recipient with an award of shares of the Company's Class A common stock, which, in the Compensation Committee's sole discretion, may have vesting requirements or other restrictions. These awards are designed to recognize and reward associates, and to connect the associates' financial interests directly to the Company's performance, thereby encouraging associates to focus their efforts as owners of the Company. As discussed above, shares issued in payment of annual performance-based incentive bonuses and other equity compensation awards are issued under the Restricted Stock Plan. The Company does not grant stock options, since management and the Compensation Committee believe that awards of shares of restricted stock are a better method of encouraging the Named Executive Officers to focus on the long-term value of the Company.

Employee Share Purchase Plan

The Company also has an Employee Share Purchase Plan ("ESPP") that assists all associates, including the Named Executive Officers, in becoming owners and increasing their ownership of the Company. Under the ESPP, associates may purchase shares of the Company's Class A common stock through payroll deductions, at a discount of 15% to the lower of the average market price of the Company's stock on the first and last trading days of each calendar quarter.

Termination or Change-in-Control Compensation

Other than with respect to provisions in restricted stock award agreements for certain previous grants of restricted stock to Messrs. Kruger and Tewes whereby any unvested shares of restricted stock will become fully vested upon a termination of employment as a result of death, disability, or retirement after reaching the age to receive full social security benefits, which provisions are generally included in all agreements for restricted stock awards granted to associates, the Company does not have any contracts, agreements, plans, or arrangements with the Named Executive Officers that provide for payment in connection with any termination of employment or change-in-control of the Company.

Share Ownership Guidelines and Trading Requirements

The Compensation Committee believes that the Named Executive Officers should have a significant equity interest in the Company. In order to promote equity ownership and further align the interests of management with the Company's shareholders, the Board of Directors has adopted Share Ownership Guidelines for management associates at certain levels. Under these guidelines, each Named Executive Officer is encouraged to own at least 15,000 shares of Company stock. As of February 28, 2019, all of the Named Executive Officers met these guidelines, and are thereby subject to downside risk in the Company's equity performance.

The Company has adopted a policy requiring officers who wish to buy or sell the Company's stock to do so only through Rule 10b5-1 stock trading plans. This requirement is designed to enable officers to diversify a portion of their holdings in an orderly manner as part of their retirement and tax planning or other financial planning activities. The use of Rule 10b5-1 stock trading plans serves to reduce the risk that investors will view routine portfolio diversification stock sales by executive officers as a signal

of negative expectations with respect to the future value of the Company's stock. In addition, the use of Rule 10b5-1 stock trading plans reduces the potential for concerns about trading on the basis of material non-public information that could damage the reputation of the Company.

Other Compensation

In addition to base salaries and annual performance-based incentive compensation, the Company provides the Named Executive Officers with certain other customary benefits, including health, dental, and vision coverage to assist the Company in remaining competitive for superior talent and to encourage executive retention. A critical aspect of the Company's health benefits program is its focus on associate health and wellness. The Company encourages all associates, including the Named Executive Officers, to take a proactive approach to their personal health and wellbeing. The Company has implemented wellness programs which encourage and reward associates for healthy habits by offering the opportunity to lower their insurance premiums.

The Company owns a controlling interest in an aircraft due to the frequent business travel needs of the Named Executive Officers and the limited availability of commercial flights in Lincoln, Nebraska, where the Company's headquarters are located. Union Financial Services, Inc. ("UFS"), which is owned by Mr. Dunlap and the estate of Stephen F. Butterfield, former Vice Chairman of the Board of Directors, owned the remaining interest in the aircraft during 2018. On December 31, 2018, UFS sold its remaining ownership interest in the plane to the Company and an entity owned by Mr. Dunlap. Consistent with guidance issued in 2010 from the Federal Aviation Administration, the Company can be reimbursed for the pro rata cost of owning, operating, and maintaining the aircraft when used for routine personal travel by certain individuals whose positions with the Company require them to routinely change travel plans within a short time period. Accordingly, the Company allows certain members of executive management to utilize its interest in the aircraft for personal travel when it is not required for business travel. The value of the personal use of the aircraft is computed based on the Company's aggregate incremental costs, which include variable operating costs such as fuel costs, mileage costs, trip-related maintenance and hangar costs, on-board catering, landing/ramp fees, and other miscellaneous variable costs. Any amounts regarding the value of any personal use of the aircraft by a Named Executive Officer are included in the separate table for all other compensation under the Summary Compensation Table below.

The Company also offers the Named Executive Officers other perquisites, including indoor parking and use of Company-sponsored suites at local venues for personal use when not occupied for business purposes.

Tax Treatment of Compensation

The Compensation Committee considers and evaluates the impact of applicable tax laws with respect to the Company's executive compensation policies, plans, and arrangements. For example, Section 162(m) of the Internal Revenue Code, as amended by the Tax Cuts and Jobs Act enacted on December 22, 2017, imposes a $1,000,000 limitation on a public company's income tax deductibility in any tax year with respect to compensation paid to any individual who served as the chief executive officer or the chief financial officer at any time during the taxable year and the three other most highly compensated executive officers of the company (other than the chief executive officer or the chief financial officer) for the taxable year, and once an executive becomes covered by Section 162(m), any compensation paid to him or her in future years (including post-employment) becomes subject to the Section 162(m) limitation on tax deductibility. Prior to the enactment of the Tax Cuts and Jobs Act and the amendments to Section 162(m) thereunder, which became effective for the Company on January 1, 2018, the $1,000,000 limitation did not apply to certain "performance-based" compensation paid under a shareholder approved plan (such as the Plan) that met the previous requirements of Section 162(m) and related regulations. The Tax Cuts and Jobs Act provides limited transition relief from its repeal of the "performance-based" compensation exemption with respect to compensation provided pursuant to a written binding contract which was in effect on November 2, 2017 and which was not modified in any material respect on or after such date. As a result of the written binding contracts in place on November 2, 2017 between the Company and its executive officers, the Company believes that the "performance-based" compensation paid under the plan to its executive officers for the tax year ended December 31, 2018 will be fully deductible for federal income tax purposes, although no assurance can be given that such compensation will ultimately be fully deductible, due to ambiguities and uncertainties as to the application and interpretation of the scope of the transition relief under the Tax Cuts and Jobs Act. However, as the Plan expired on January 1, 2019, all compensation paid to any of our covered executive officers in excess of $1,000,000 will not be deductible for federal income tax purposes in tax years beginning after December 31, 2018.

For the year ended December 31, 2018, the Company believes that none of the compensation paid to the Named Executive Officers will be subject to the Section 162(m) limitation on deductibility. However, due to ambiguities and uncertainties with respect to the interpretation of the provisions of the Tax Cuts and Jobs Act, including ambiguities and uncertainties as to the application and interpretation of the scope of the transition relief described above, no assurance can be given that compensation originally intended to satisfy the requirements for full deductibility under Section 162(m) will, in fact, be fully deductible.

The Compensation Committee believes that the Section 162(m) limitation on tax deductibility is only one of several relevant considerations in setting executive compensation. The Compensation Committee also believes that the Section 162(m) limitation on tax deductibility should not prevent the Compensation Committee from designing and maintaining executive compensation arrangements that, considering all relevant factors, are necessary to attract, retain, and motivate talented, high-performing executives who are critical to the Company's success. Accordingly, the Compensation Committee retains the flexibility to provide for compensation to the Company's executives that the Compensation Committee determines to be in the best interests of the Company and its shareholders, even if that compensation is not fully deductible under Section 162(m).

Matching Gift Program

The Company offers a matching gift program in which all associates with at least six months of service and all members of the Board of Directors are eligible to participate. Under this program, for every dollar ($100 minimum) that an associate or Board member contributes in cash or securities to an eligible charitable organization or educational institution, the Company will make matching donations of additional funds, subject to terms and conditions applicable in an equal manner to all associates and Board members. The total maximum dollar amount payable under the program is $25,000 per associate or Board member per calendar year. Any amounts matched by the Company for the Named Executive Officers per the provisions of the program are included in the summary compensation table below.

Conclusion

By ensuring market competitive compensation that is aligned with a performance-based organization philosophy, the Company expects to attract, motivate, and retain the executive talent required to achieve the Company's long-term goals. This is critical, as management and the Compensation Committee know that the Company's success hinges on having engaged executives who are committed to the Company.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the above Compensation Discussion and Analysis with management. Based on this review and discussion, and such other matters deemed relevant and appropriate by the Compensation Committee, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Respectfully submitted,

Kimberly K. Rath, Chair
James P. Abel
Preeta D. Bansal
Michael D. Reardon

Compensation Committee Interlocks and Insider Participation

Each of the following Non-Employee Directors served as a member of the Compensation Committee during 2018: Mses. Rath and Bansal, and Messrs. Abel and Reardon. None of these individuals is formerly an officer of the Company. During 2018, no executive officer of the Company was a member of the board of directors of any other company where the relationship would be construed to constitute a compensation committee interlock within the meaning of the rules of the SEC.

Mr. Abel is Chief Executive Officer of NEBCO, Inc., a family-owned company based in Lincoln, Nebraska with interests in the manufacture of concrete building materials, road construction, insurance, mining, railroading, farming, and real estate. During 2018, the Company's communications subsidiary, ALLO, paid a subsidiary of NEBCO $0.6 million for construction rock products related to the construction and expansion of ALLO's fiber optic network in Lincoln, Nebraska.

Summary Compensation Table for Fiscal Years 2018, 2017, and 2016

The following table sets forth summary information with respect to the compensation paid and bonuses granted for services rendered by the Company's Chief Executive Officer and Chief Financial Officer, as well as each of the Company's other three most highly compensated executive officers during the year ended December 31, 2018 (collectively, the "Named Executive Officers"). The information presented in the table relates to the fiscal years ended December 31, 2018, 2017, and 2016. Salaries and bonuses are paid at the discretion of the Board of Directors.

		Annual compensation			
Name and principal position	**Year**	**Salary ($)**	**Bonus ($) (a)**	**All other compensation ($) (b)**	**Total ($)**
Michael S. Dunlap	2018	530,450	663,063	21,522	1,215,035
Executive Chairman	2017	515,000	643,750	50,199	1,208,949
	2016	500,000	562,500	27,583	1,090,083
Jeffrey R. Noordhoek	2018	716,107	1,029,447	38,203	1,783,757
Chief Executive Officer	2017	695,250	999,436	43,956	1,738,642
	2016	675,000	816,338	40,524	1,531,862
Terry J. Heimes	2018	716,107	962,290	38,078	1,716,475
Chief Operating Officer	2017	695,250	869,063	36,645	1,600,958
	2016	675,000	759,375	29,539	1,463,914
James D. Kruger	2018	550,000	687,500	33,860	1,271,360
Chief Financial Officer	2017	515,000	643,750	39,573	1,198,323
	2016	500,000	646,916	36,991	1,183,907
Timothy A. Tewes	2018	550,000	687,500	38,880	1,276,380
President	2017	515,000	643,750	20,327	1,179,077
	2016	500,000	646,916	32,511	1,179,427

(a) Amounts represent bonuses paid in 2019, 2018, and 2017 for services rendered during the 2018, 2017, and 2016 calendar years, respectively. The Company's annual performance-based incentive bonuses were paid, at the executives' option (other than to the Executive Chairman, who received his incentive in cash), as either 100 percent cash, 100 percent stock, or 50 percent cash/50 percent stock. Those electing stock also received an additional number of shares representing 15 percent of the amount of their bonus they elected to receive in stock, to promote increased and continued share ownership. All shares issued as part of the incentive bonus award were issued pursuant to the Company's Restricted Stock Plan and were fully vested, but may not be transferred for three years from the date of issuance. The stock issuances for annual performance bonuses were not made as equity incentive plan awards contemplating future service or performance. See "Grants of Plan-Based Awards Table for Fiscal Year 2018" below for information relating to the shares issued in 2018 with respect to 2017 annual incentive bonus payments.

(b) "All other compensation" includes the following:

		All other compensation							
	Year	Employer matching contributions under 401(k) Plan ($)	Premiums on life insurance ($)	Matching gift program ($) (1)	Dividends on restricted stock ($) (2)	Personal use of company aircraft ($) (3)	Personal use of company suite at sporting events ($) (3)	Other ($) (4)	Total ($)
Michael S. Dunlap	2018	11,000	390	—	—	10,132	—	—	21,522
	2017	10,800	420	—	—	33,441	5,538	—	50,199
	2016	10,600	420	100	—	16,463	—	—	27,583
Jeffrey R. Noordhoek	2018	11,000	390	25,000	—	1,813	—	—	38,203
	2017	10,800	420	25,000	—	2,492	5,244	—	43,956
	2016	10,600	420	25,000	—	3,119	1,385	—	40,524
Terry J. Heimes	2018	11,000	390	24,375	—	1,813	—	500	38,078
	2017	10,800	420	23,100	—	—	2,325	—	36,645
	2016	10,600	420	15,000	—	3,119	—	400	29,539
James D. Kruger	2018	11,000	390	18,780	1,990	—	—	1,700	33,860
	2017	10,800	420	18,780	3,382	—	4,591	1,600	39,573
	2016	10,600	420	19,380	4,891	—	—	1,700	36,991
Timothy A. Tewes	2018	11,000	390	25,000	1,990	—	—	500	38,880
	2017	10,800	420	4,000	3,382	725	500	500	20,327
	2016	10,600	420	16,100	4,891	—	—	500	32,511

(1) See "Compensation Discussion and Analysis - Matching Gift Program" above for a description of this program.

(2) The Company's cash dividend payments on its Class A and Class B common stock include dividend payments on unvested shares of Class A common stock issued pursuant to the Company's Restricted Stock Plan. Dividends paid to the Named Executive Officers on unvested restricted stock are included in the table above.

(3) See "Compensation Discussion and Analysis - Other Compensation" above for a description of these arrangements.

(4) Executive officers may receive other perquisites and other personal benefits, the aggregate annual dollar amounts of which are below the current SEC threshold of $10,000 for reporting.

Grants of Plan-Based Awards Table for Fiscal Year 2018

The following table sets forth summary information relating to each grant of an award made to the Company's Named Executive Officers in the fiscal year ended December 31, 2018 under the Company's Restricted Stock Plan.

Name	Grant date	Approval of grant by Compensation Committee	Number of shares of stock	Grant date fair value of stock awards ($)
Michael S. Dunlap	—	—	—	—
Jeffrey R. Noordhoek	March 9, 2018 (a)	February 1, 2018	18,132	999,436 (b)
Terry J. Heimes	—	—	—	—
James D. Kruger	—	—	—	—
Timothy A. Tewes	—	—	—	—

(a) On March 9, 2018, the Company issued stock to pay fiscal year 2017 bonuses for those employees who elected to receive stock instead of cash for such bonuses. The stock issuances were not made as equity incentive plan awards. All 2017 bonuses (paid in 2018) were paid in fully vested shares of Class A common stock issued pursuant to the Company's Restricted Stock Plan.

(b) The Company determined the value of these awards based on the average of the closing market prices for the Company's Class A common stock on February 28, 2018 through March 6, 2018, which was $55.12.

Outstanding Equity Awards at Fiscal Year-End Table (As of December 31, 2018)

The following table sets forth summary information relating to the outstanding unvested equity awards for the Company's Named Executive Officers as of December 31, 2018.

	Stock awards	
Name	Number of shares of stock that have not vested	Market value of shares of stock that have not vested ($) (b)
Michael S. Dunlap	—	—
Jeffrey R. Noordhoek	—	—
Terry J. Heimes	—	—
James D. Kruger	2,419 (a)	126,610
Timothy A. Tewes	2,419 (a)	126,610

(a) Amount represents (i) 718 shares of restricted Class A common stock issued to each of Mr. Kruger and Mr. Tewes on March 10, 2014 pursuant to the Company's Restricted Stock Plan, which vested on March 10, 2019 and (ii) 1,701 shares of restricted Class A common stock issued to each of Mr. Kruger and Mr. Tewes on March 13, 2015 pursuant to the Company's Restricted Stock Plan, of which 852 shares vested on March 10, 2019, and 849 shares are scheduled to vest on March 10, 2020.

(b) Based on the closing market price of the Company's Class A common stock on December 31, 2018 ($52.34).

Stock Vested Table for Fiscal Year 2018

The following table sets forth summary information relating to the stock vested for the Company's Named Executive Officers during the fiscal year ended December 31, 2018.

	Stock awards	
Name	Number of shares acquired on vesting	Value realized on vesting ($) (b)
Michael S. Dunlap	—	—
Jeffrey R. Noordhoek	—	—
Terry J. Heimes	—	—
James D. Kruger	2,457 (a)	136,020
Timothy A. Tewes	2,457 (a)	136,020

(a) Amount includes 885, 720, and 852 shares of restricted Class A common stock issued on March 8, 2013, March 10, 2014, and March 13, 2015, respectively, pursuant to the Company's Restricted Stock Plan.

(b) The closing market price of the Company's Class A common stock as of March 12, 2018 (the next market trading day from the March 10, 2018 vesting date for the shares) was $55.36 per share.

Stock Option, Stock Appreciation Right, Long-Term Incentive, and Defined Benefit Plans

The Company does not have any stock option, stock appreciation right, long-term incentive, or defined benefit plans covering its Named Executive Officers.

Potential Payments Upon Termination or Change-in-Control

Other than with respect to provisions in restricted stock award agreements for certain previous grants of restricted stock to James D. Kruger and Timothy A. Tewes whereby any unvested shares of restricted stock will become fully vested upon a termination of employment as a result of death, disability, or retirement after reaching the age to receive full social security benefits, which provisions are generally included in all agreements for restricted stock awards granted to employees, the Company does not have any contracts, agreements, plans, or arrangements with the Named Executive Officers that provide for payment in connection with any termination of employment or change-in-control of the Company. As set forth above under "Outstanding Equity Awards at Fiscal Year-End Table (As of December 31, 2018)," the market value of the 2,419 shares of unvested restricted stock held by each of Messrs. Kruger and Tewes as of December 31, 2018 was $126,610, based on the closing market price of the Company's Class A common stock on December 31, 2018 of $52.34. On March 10, 2019, a total of 1,570 of such shares for each of Messrs. Kruger and Tewes vested pursuant to the normal time-based employment service vesting provisions of the underlying restricted stock award agreements.

Pay Ratio Disclosure

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of the SEC's Regulation S-K, the Company is providing the following information about the relationship of the annual total compensation of the employees of the Company and its consolidated subsidiaries and the annual total compensation of Jeffrey R. Noordhoek, the Company's Chief Executive Officer (the "CEO").

For 2018, the Company's last completed fiscal year:

- the median of the annual total compensation of all employees of the Company and its consolidated subsidiaries (other than the CEO) was $44,153; and
- the annual total compensation of the CEO, as disclosed above in the "Summary Compensation Table for Fiscal Years 2018, 2017, and 2016", was $1,783,757.

Based on this information, for 2018 the ratio of the annual total compensation of the CEO to the median of the annual total compensation of all employees was 40 to 1. This ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of the SEC's Regulation S-K. Given the different methodologies that various public companies may use to compute estimates of their pay ratios, the Company's estimated pay ratio may not be comparable with the estimated pay ratios of other public companies.

To identify the median of the annual total compensation of all employees of the Company and its consolidated subsidiaries, as well as to determine the annual total compensation of the median employee and the CEO, the methodology and the material assumptions, adjustments, and estimates that the Company used were as follows:

1. The Company determined that, as of December 31, 2018, the last Monday of 2018 that was a business day, the total number of employees of the Company and its consolidated subsidiaries (excluding the CEO) was 5,991, with 5,972 (99.7%) of these employees located in the United States, and 19 (less than 1%) of these employees located in Australia. Accordingly, the total numbers of U.S. employees and non-U.S. employees, before taking into consideration the adjustments permitted by SEC rules (as described below), were 5,972 and 19, respectively. These employees included all full-time, part-time, seasonal, and temporary employees of the Company and its consolidated subsidiaries. The Company selected the last Monday of 2018 that was a business day as the date within the last three months of the Company's last completed fiscal year that the Company would use to identify the median employee because it enabled the Company to make such identification for 2018 in a reasonably efficient and economical manner from its existing internal payroll reporting system.

2. The employee population used to identify the median employee, after taking into consideration the adjustments permitted by SEC rules, consisted of all of the 5,972 employees (excluding the CEO) located in the U.S as of December 31, 2018. The Company re-identified a median employee for 2018 due to the significant increase in the Company's employee population resulting from the Company's acquisition on February 7, 2018 of Great Lakes Educational Loan Services, Inc. ("Great Lakes"), which at that time had approximately 1,800 employees. As permitted by SEC rules, the Company chose to exclude all non-U.S. employees, consisting of all of the 19 employees who are employed in Australia, from the employee population used to identify the median employee, given the small number of employees in that jurisdiction and the estimated additional costs of obtaining, analyzing, and including their compensation information for purposes of identifying the median employee and determining the annual total compensation of the median employee. Based on the total numbers of U.S. employees and non-U.S. employees (before taking into consideration the adjustments permitted by SEC rules) as set forth above, the Company excluded a total of less than 5% of the total workforce of the Company and its consolidated subsidiaries (19 employees) from the employee population used to identify the median employee, as permitted by SEC rules.

3. To identify the median employee from the employee population, the Company compared the amounts of salary and wages of the employees for 2018 that are taxable for U.S. federal income tax purposes and reportable to the U.S. Internal Revenue Service on Form W-2, as reflected in the Company's existing internal payroll system reports as of December 31, 2018, and this compensation measure was consistently applied to all employees included in the calculation. In making this determination, the Company annualized the compensation of all permanent employees (full-time or part-time) included in the employee population who were hired during 2018 but did not work for the Company or a consolidated subsidiary for the entire fiscal year, including the employees of Great Lakes.

4. After the Company identified the median employee, the Company combined all of the elements of such employee's compensation for 2018 in accordance with the requirements of Item 402(c)(x) of the SEC's Regulation S-K, resulting in annual total compensation of $44,153.

5. With respect to the annual total compensation of the CEO, the Company used the amount disclosed in the "Total" column of the 2018 row for Mr. Noordhoek in the "Summary Compensation Table for Fiscal Years 2018, 2017, and 2016" included in this Proxy Statement and incorporated by reference under Item 11 of Part III of the Company's 2018 Annual Report on Form 10-K.

SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS

Stock Ownership

The authorized common stock of the Company consists of 660,000,000 shares, $0.01 par value. The authorized common stock is divided into two classes, consisting of 600,000,000 shares of Class A common stock and 60,000,000 shares of Class B common stock. The Company also has authorized 50,000,000 shares of preferred stock, $0.01 par value.

The following table sets forth information as of February 28, 2019, regarding the beneficial ownership of each class of the Company's common stock by:

- each person, entity, or group known by the Company to beneficially own more than five percent of the outstanding shares of any class of common stock
- each of the Named Executive Officers
- each incumbent director and each nominee for director
- all executive officers and directors as a group

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. Under these rules, a person is deemed to beneficially own a share of the Company's common stock if that person has or shares voting power or investment power with respect to that share, or has the right to acquire beneficial ownership of that share within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security. With respect to the shares for which certain non-employee directors have elected to defer delivery pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan as indicated in certain footnotes to the following table, such shares are reported as beneficially owned by the respective director since, pursuant to such deferral election provisions, such shares shall be distributed to such director as the lump sum payment of deferred shares at the time of the termination of the director's service on the Board (which the director has the unilateral right to cause within 60 days if the director were to resign from the Board within such time period), or as the initial installment of up to five annual installments commencing at the time of termination of the director's service on the Board, as elected by the director.

Each share of Class B common stock is convertible at any time at the holder's option into one share of Class A common stock. The number of shares of Class B common stock for each person in the table below assumes such person does not convert any Class B common stock into Class A common stock. Unless otherwise indicated in a footnote, the address of each five percent beneficial owner is c/o Nelnet, Inc., 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508. Unless otherwise indicated in a footnote, the persons named in the tables below have sole voting and investment power with respect to all shares of common stock shown as being beneficially owned by them.

Beneficial Ownership - As of February 28, 2019

Name	Number of shares beneficially owned			Percentage of shares beneficially owned (1)			Percentage of combined voting power of all classes of stock (2)
	Class A	Class B	Total	Class A	Class B	Total	
Michael S. Dunlap	6,630,228 (3)	10,389,437 (4)	17,019,665	23.1%	90.7%	42.3%	77.1%
Shelby J. Butterfield	510 (5)	3,765,353 (6)	3,765,863	*	32.9%	9.4%	26.3%
Angela L. Muhleisen	6,144,235 (7)	1,102,738 (8)	7,246,973	21.4%	9.6%	18.0%	12.0%
Union Bank and Trust Company	4,573,296 (9)	1,102,738 (10)	5,676,034	15.9%	9.6%	14.1%	10.9%
Dan D. Muhleisen	4,580,299 (11)	—	4,580,299	15.9%	—	11.4%	3.2%
Dimensional Fund Advisors LP	2,462,778 (12)	—	2,462,778	8.6%	—	6.1%	1.7%
Deborah Bartels	1,916,487 (13)	—	1,916,487	6.7%	—	4.8%	1.3%
The Vanguard Group	1,673,652 (14)	—	1,673,652	5.8%	—	4.2%	1.2%
Whitetail Rock Capital Management, LLC	—	5,943,449 (15)	5,943,449	—	51.9%	14.8%	41.5%
Union Financial Services, Inc.	—	1,586,691 (16)	1,586,691	—	13.8%	3.9%	11.1%
Terry J. Heimes	203,689 (17)	—	203,689	*	—	*	*
James D. Kruger	154,134 (18)	—	154,134	*	—	*	*
Jeffrey R. Noordhoek	499,944 (19)	—	499,944	1.7%	—	1.2%	*
Timothy A. Tewes	54,131 (20)	—	54,131	*	—	*	*
James P. Abel	64,228 (21)	—	64,228	*	—	*	*
Preeta D. Bansal	1,369	—	1,369	*	—	*	*
William R. Cintani	21,663 (22)	—	21,663	*	—	*	*
Kathleen A. Farrell	34,619 (23)	—	34,619	*	—	*	*
David S. Graff	13,575	—	13,575	*	—	*	*
Thomas E. Henning	63,975 (24)	—	63,975	*	—	*	*
Kimberly K. Rath	42,872 (25)	—	42,872	*	—	*	*
Michael D. Reardon	15,000 (26)	—	15,000	*	—	*	*
Executive officers and directors as a group (14 persons)	7,681,782	10,389,437	18,071,219	26.7%	90.7%	45.0%	77.8%

* Less than 1%.

(1) Based on 28,729,948 shares of Class A common stock and 11,459,641 shares of Class B common stock outstanding as of February 28, 2019.

(2) These percentages reflect the different voting rights of the Company's Class A common stock and Class B common stock under the Company's Articles of Incorporation. Each share of Class A common stock has one vote and each share of Class B common stock has ten votes on all matters to be voted upon by the Company's shareholders.

(3) Mr. Dunlap is deemed to have sole voting and investment power over 2,049,574 shares of Class A common stock. Mr. Dunlap may be deemed to have shared voting and investment power over a total of 4,580,654 shares of Class A common stock, which includes (i) a total of 7,358 shares held by or for each of Mr. Dunlap's three adult sons, and (ii) a total of 4,573,296 shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank and Trust Company ("Union Bank") (some of which shares may under certain circumstances be pledged as security by Union Bank's customers under the terms of the accounts) with respect to which Union Bank may be deemed to have or share voting or investment power. Mr. Dunlap controls Union Bank through F&M. Mr. Dunlap disclaims beneficial ownership of the shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank, except to the extent that he actually has or shares voting power or investment power with respect to such shares. With respect to the number of shares of Class A common stock reported as beneficially owned by Mr. Dunlap that are held by Union Bank, the number of shares set forth in the table reflects the number of shares held by Union Bank as of December 31, 2018, as reported in a Schedule 13G/A filed by Union Bank with the SEC on February 13, 2019. The total of 4,573,296 shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank may also be deemed to be beneficially owned by Union Bank and Angela L. Muhleisen (a sister of Mr. Dunlap) and are also included in the total number of shares beneficially owned by each of them as set forth in this table. Such number of shares held by Union Bank includes a total of 142,112 shares held by Union Bank as trustee under a post-annuity trust and a charitable remainder unitrust ("CRUT") established by Jeffrey R. Noordhoek, which shares may also be deemed to be beneficially owned by Mr. Noordhoek and are also included in the total number of shares beneficially owned by Mr. Noordhoek as set forth in this table, a total of 402,297 shares held by Union Bank in various managed agency accounts and trusts for Deborah Bartels (a sister of Mr. Dunlap and Ms. Muhleisen), her spouse, and the adult sons of Ms. Bartels and her spouse, which shares may also be deemed to be

beneficially owned by Ms. Bartels, and are also included in the total number of shares beneficially owned by Ms. Bartels as set forth in this table, and 510 shares held by Union Bank in an account for the Estate of Stephen F. Butterfield, for which Shelby J. Butterfield serves as the Personal Representative, which shares may also be deemed to be beneficially owned by Ms. Butterfield, and are also included in the total number of shares believed to be beneficially owned by Ms. Butterfield as set forth in this table.

(4) Mr. Dunlap is deemed to have sole voting and investment power over a total of 1,756,259 shares of Class B common stock, which includes 554,960 shares owned by Mr. Dunlap's spouse, which reflects annuity distributions to Mr. Dunlap's spouse during 2018 of shares from six separate grantor retained annuity trusts ("GRATs") established by Mr. Dunlap's spouse in 2015, and 1,201,299 shares held by Mr. Dunlap, which reflects an annuity distribution to Mr. Dunlap during 2018 from a GRAT established by Mr. Dunlap in 2003, and annuity distributions to Mr. Dunlap during 2018 of shares from four separate GRATs established by Mr. Dunlap in 2011. Mr. Dunlap is deemed to have shared voting and investment power over a total of 8,633,178 shares of Class B common stock, which includes (i) 1,586,691 shares owned by Union Financial Services, Inc., of which Mr. Dunlap is Chairman and owns 50.0% of the outstanding capital stock, (ii) 898,630 shares held by Union Bank as trustee for a GRAT established by Mr. Dunlap in 2003, which reflects an annuity distribution during 2018 to Mr. Dunlap, (iii) a total of 204,108 shares held by Union Bank as trustee for five separate irrevocable trusts for the benefit of Stephen F. Butterfield's children established upon the 2013 expiration of an annuity term of a GRAT previously established by Mr. Butterfield, (iv) a total of 300 shares held by or for each of Mr. Dunlap's three adult sons, (v) a total of 2,442,784 shares held in four separate GRATs established by Mr. Dunlap during 2011 (which reflects annuity distributions during 2018 from such GRATs to Mr. Dunlap), three separate other irrevocable trusts established by Mr. Dunlap during 2011, and three separate post-annuity irrevocable trusts established under two separate other GRATs in connection with the expiration of the annuity terms of such GRATs that were established by Mr. Dunlap in 2011, for which trusts Whitetail Rock Capital Management, LLC ("WRCM"), a majority owned subsidiary of the Company, has been designated to serve as investment adviser as discussed in footnote 15 below, (vi) a total of 2,445,040 shares held in six separate GRATs established by Mr. Dunlap's spouse during 2015 (which reflects annuity distributions during 2018 to Mr. Dunlap's spouse), for which GRATs WRCM has been designated to serve as investment adviser, (vii) a total of 1,002,630 shares held in twelve separate GRATs established in 2015 by Ms. Butterfield and Mr. Butterfield (which reflects annuity distributions during 2018), for which GRATs WRCM has been designated to serve as investment adviser, and (viii) 52,995 shares held by a charitable lead annuity trust ("CLAT") established by Mr. Butterfield in 2016 (which reflects an annuity distribution during 2018), for which CLAT WRCM has been designated to serve as investment adviser. Mr. Dunlap disclaims beneficial ownership of the shares held by Union Financial Services, Inc., except to the extent that he actually has or shares voting power or investment power with respect to such shares. Mr. Dunlap also disclaims beneficial ownership of the total of 204,108 shares held by Union Bank as trustee in the five separate irrevocable trusts for the benefit of Mr. Butterfield's children, the total of 1,002,630 shares held by the twelve GRATs established by Ms. Butterfield and Mr. Butterfield in 2015, and the 52,995 shares held by the CLAT, except to the extent that Mr. Dunlap actually has or shares voting power or investment power with respect to such shares. The 1,586,691 shares owned by Union Financial Services, Inc. are also deemed to be beneficially owned by Union Financial Services, Inc. and are believed to be beneficially owned by Ms. Butterfield as the Personal Representative of the Estate of Stephen F. Butterfield, and are also included in the total number of shares beneficially owned by Union Financial Services, Inc. and Ms. Butterfield as set forth in this table. The 898,630 shares held by Union Bank as trustee for a GRAT established by Mr. Dunlap in 2003 and the total of 204,108 shares held by Union Bank as trustee for five separate irrevocable trusts for the benefit of Mr. Butterfield's children may also be deemed to be beneficially owned by Union Bank and Ms. Muhleisen, and are also included in the total number of shares beneficially owned by each of them as set forth in this table. The total of 1,002,630 shares held in twelve separate GRATs established in 2015 by Ms. Butterfield and Mr. Butterfield, a total of 100,650 shares held in two of the five separate irrevocable trusts for the benefit of Mr. Butterfield's children, and the 52,995 shares held by a CLAT established by Mr. Butterfield in 2016 may also be deemed to be beneficially owned by Shelby J. Butterfield, and are also included in the total number of shares believed to be beneficially owned by Ms. Butterfield as set forth in this table. The total of 5,943,449 shares held in trusts for which WRCM has been designated to serve as investment adviser are also deemed to be beneficially owned by WRCM, and are also included in the total number of shares beneficially owned by WRCM as set forth in this table.

On March 22, 2019, an Amendment No. 5 to Statement on Schedule 13D was filed by Mr. Dunlap to report that he may be deemed to have acquired beneficial ownership of an additional 778,089 shares of Class B common stock transferred effective as of March 14, 2019 from the Estate of Stephen F. Butterfield (the "Butterfield Estate") to the Butterfield Family Trust and 135,332 shares of Class B common stock transferred effective as of March 14, 2019 from the Stephen F. Butterfield Revocable Living Trust to the restated Stephen F. Butterfield Revocable Living Trust, for which Butterfield Family Trust and restated Stephen F. Butterfield Revocable Living Trust WRCM has been designated to serve as investment adviser with respect to shares of the Company's stock held in such trusts. For additional information regarding the Butterfield Estate and the Stephen F. Butterfield Revocable Living Trust, see footnotes 5 and 6 below.

(5) Ms. Butterfield is the Personal Representative of the Butterfield Estate, and as such Ms. Butterfield is believed to have voting and investment power with respect to shares held by the Butterfield Estate. Stephen F. Butterfield passed away on April 16, 2018, and at the time of his passing Mr. Butterfield was Vice Chairman of the Board of Directors and a significant shareholder of the Company. Based on information in the Company's records, the Company believes that, as of February 28, 2019, Ms. Butterfield had shared voting and/or investment power with respect to 510 shares of Class A common stock held in an account at Union Bank for the Butterfield Estate. The business address for Ms. Butterfield is c/o Gallagher & Kennedy, 2575 East Camelback Road, Phoenix, Arizona 85016.

(6) Based on information in a Schedule 13G/A filed by Stephen F. Butterfield with the SEC on February 12, 2018 and information in the Company's records, the Company believes that, as of February 28, 2019, Ms. Butterfield had sole voting and investment power with respect to a total of 887,055 shares of Class B common stock, which included 778,094 shares of Class B common stock held by the Butterfield Estate, 108,761 shares of Class B common stock held by Ms. Butterfield, and a total of 200 shares of Class B common stock held by Ms. Butterfield as UTMA custodian for Mr. and Ms. Butterfield's minor children. Based on the same information, the Company believes that, as of February 28, 2019, Ms. Butterfield had shared voting and investment power with respect to a total of 2,878,298 shares of Class B common stock, which included (i) 1,586,691 shares owned by Union Financial Services, Inc., of which the Butterfield Estate owned 50.0% of the outstanding capital stock as of February 28, 2019, (ii) 135,332 shares held by the Stephen F. Butterfield Revocable Living Trust, of which Ms. Butterfield is a trustee, (iii) a total of 100,650 shares held by Union Bank as trustee for two separate irrevocable trusts for the benefit of Mr. and Ms. Butterfield's minor children established upon the 2013 expiration of an annuity term of a GRAT previously established by Mr. Butterfield, (iv) a total of 691,339 shares held in eight separate GRATs established by Ms. Butterfield in 2015 (which reflects annuity distributions during 2018 from certain of such GRATs to Ms. Butterfield), for which GRATs WRCM has been designated to serve as investment adviser, (v) a total of 311,291 shares held in four separate GRATs established by Mr. Butterfield in 2015 (which reflects annuity distributions during 2018 from such GRATs to the Butterfield Estate), for which GRATs WRCM has been designated to serve as investment adviser, and (vi) 52,995 shares held by a CLAT established by Mr. Butterfield in 2016 (which reflects an annuity distribution by the CLAT in 2018), for which CLAT WRCM has been designated to serve as investment adviser. Ms. Butterfield may disclaim beneficial ownership of the shares held by Union Financial Services, Inc. and the trusts discussed in this footnote, except to the extent that she actually has or shares voting power or investment power with respect to such shares. The 1,586,691 shares owned by Union Financial Services, Inc. are also deemed to be beneficially owned by Union Financial Services, Inc. and Mr. Dunlap, and are also included in the total number of shares beneficially owned by each of them as set forth in this table. The total of 100,560 shares held by Union Bank as trustee for two separate irrevocable trusts established upon the 2013 expiration of an annuity term of a GRAT previously established by Mr. Butterfield may also be deemed to be beneficially owned by Union Bank, Mr. Dunlap, and Ms. Muhleisen, and are also included in the total number of shares beneficially owned by each of them as set forth in this table. The total of 1,055,625 shares held in trusts for which WRCM has been designated to serve as investment adviser are also deemed to be beneficially owned by WRCM and may also be deemed to be beneficially owned by Mr. Dunlap, and are also included in the total number of shares beneficially owned by each of them as set forth in this table.

On March 22, 2019, an Amendment No. 5 to Statement on Schedule 13D was filed by Mr. Dunlap to report that he may be deemed to have acquired beneficial ownership of an additional 778,089 shares of Class B common stock transferred effective as of March 14, 2019 from the Butterfield Estate to the Butterfield Family Trust and 135,332 shares of Class B common stock transferred effective as of March 14, 2019 from the Stephen F. Butterfield Revocable Living Trust to the restated Stephen F. Butterfield Revocable Living Trust, for which Butterfield Family Trust and restated Stephen F. Butterfield Revocable Living Trust WRCM has been designated to serve as investment adviser with respect to shares of the Company's stock held in such trusts.

(7) Ms. Muhleisen is deemed to have sole voting and investment power over 616,639 shares of Class A common stock. Ms. Muhleisen is deemed to have shared voting and investment power over a total of 5,527,596 shares of Class A common stock, which includes (i) 52,344 shares jointly owned by Ms. Muhleisen and her spouse, Dan D. Muhleisen, (ii) 2,448,362 shares owned by Ms. Muhleisen's spouse, (iii) 692,885 shares owned by Ms. Muhleisen's adult daughter, (iv) 684,538 shares owned by Ms. Muhleisen's adult son, (v) a total of 350,000 shares held in two separate irrevocable trusts established by Ms. Muhleisen and her spouse, of which the adult daughter and the adult son of Ms. Muhleisen and her spouse are the initial beneficiaries and for which Union Bank serves as trustee, (vi) a total of 352,170 shares held in four separate irrevocable trusts established upon the expiration of the annuity term of GRATs established by Ms. Muhleisen and her spouse, of which the adult daughter and the adult son of Ms. Muhleisen and her spouse are the beneficiaries and for which Union Bank serves as trustee, and (vii) shares that are owned by entities that Ms. Muhleisen may be deemed to control, consisting of a total of 947,297 shares held by Union Bank for the accounts of miscellaneous other trusts, IRAs, and investment accounts at Union Bank (some of which shares may under certain circumstances be pledged as security by Union Bank's customers under the terms of the accounts) with respect to which Union Bank may be deemed to have or share voting or investment power. Ms. Muhleisen, a sister of Michael S. Dunlap, is a director, chairperson, president, and chief executive officer of and controls Union Bank through F&M. Ms. Muhleisen disclaims beneficial ownership of the shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank, except to the extent that she actually has or shares voting power or investment power with respect to such shares. The address for Ms. Muhleisen is c/o Union Bank and Trust Company, P.O. Box 82529, Lincoln, Nebraska 68501. With respect to the number of shares of Class A common stock beneficially owned by Ms. Muhleisen that are held by Union Bank, the number of shares set forth in the table reflects the number of shares held by Union Bank as of December 31, 2018, as reported in a Schedule 13G/A filed by Union Bank with the SEC on February 13, 2019.

(8) Ms. Muhleisen is deemed to have shared voting and investment power over a total of 1,102,738 shares of Class B common stock that are held by Union Bank as trustee, which includes 898,630 shares held by Union Bank as trustee for a GRAT established by Mr. Dunlap in 2003 (which reflects an annuity distribution from the GRAT to Mr. Dunlap during 2018), and a total of 204,108 shares held by Union Bank as trustee for five separate irrevocable trusts for the benefit of Stephen F. Butterfield's children established upon the 2013 expiration of an annuity term of a GRAT previously established by Mr. Butterfield. Ms. Muhleisen disclaims beneficial ownership of the shares held by Union Bank as trustee for the GRAT and the five separate irrevocable trusts, except to the extent that she actually has or shares voting power or investment power with respect to such shares. The total of 1,102,738 shares of Class B common stock held by Union Bank as trustee for the GRAT established by Mr. Dunlap and the five separate irrevocable trusts for the benefit of Mr. Butterfield's children are also deemed to be beneficially owned by Union Bank and Mr. Dunlap, and are also included in the total number of shares beneficially owned by each of them as set forth in this table. A total of 100,650 shares held by Union Bank as trustee for two of the five separate irrevocable trusts for the benefit of Mr. Butterfield's children may also be deemed to be beneficially owned by Ms. Butterfield, and are also included in the total number of shares beneficially owned by Ms. Butterfield as set forth in this table.

(9) Union Bank is deemed to have sole voting and investment power over 30,000 shares of Class A common stock that are held by the Union Bank profit sharing plan. Union Bank is deemed to have shared voting and investment power over 4,543,296 shares of Class A common stock, which includes (i) 24,000 shares held as trustee for the University of Nebraska Foundation, (ii) a total of 142,112 shares held by Union Bank as trustee under a post-annuity trust and a CRUT established by Mr. Noordhoek, (iii) a total of 3,625,999 shares of Class A common stock held by Union Bank in individual accounts for Ms. Muhleisen, Mr. Muhleisen, their adult daughter, and their adult son; and (iv) a total of 751,185 shares held for the accounts of miscellaneous trusts, IRAs, and investment accounts at Union Bank (some of which shares may under certain circumstances be pledged as security by Union Bank's customers under the terms of the accounts) with respect to which Union Bank may be deemed to have or share voting or investment power. Union Bank disclaims beneficial ownership of such shares except to the extent that Union Bank actually has or shares voting power or investment power with respect to such shares. The address for Union Bank is P.O. Box 82529, Lincoln, Nebraska 68501; Attention: Angela L. Muhleisen, President. The number of shares of Class A common stock set forth in the table for Union Bank reflects the number of shares held by Union Bank as of December 31, 2018, as reported in a Schedule 13G/A filed by Union Bank with the SEC on February 13, 2019.

(10) Union Bank is deemed to have shared voting and investment power over a total of 1,102,738 shares of Class B common stock that are held by Union Bank as trustee for a GRAT established by Mr. Dunlap in 2003 and as trustee for five separate irrevocable trusts for the benefit of Mr. Butterfield's children, as discussed in footnote 8 above. Union Bank disclaims beneficial ownership of such shares except to the extent that Union Bank actually has or shares voting power or investment power with respect to such shares.

(11) Mr. Muhleisen is deemed to have shared voting and investment power over a total of 4,580,299 shares of Class A common stock, which includes (i) 2,448,362 shares owned by Mr. Muhleisen; (ii) 52,344 shares owned jointly by Mr. Muhleisen and his spouse, Angela L. Muhleisen, (iii) 692,885 shares owned by Mr. Muhleisen's adult daughter, (iv) 684,538 shares owned by Mr. Muhleisen's adult son, (v) a total of 350,000 shares held in two separate irrevocable trusts established by Mr. Muhleisen and his spouse, of which the adult daughter and the adult son of Mr. Muhleisen and his spouse are the initial beneficiaries and for which Union Bank serves as trustee, (vi) a total of 352,170 shares held in four separate irrevocable trusts established upon the expiration of the annuity term of GRATs established by Mr. Muhleisen and his spouse, of which the adult daughter and the adult son of Mr. Muhleisen and his spouse are the

beneficiaries and for which Union Bank serves as trustee. All of the shares included as beneficially owned by Mr. Muhleisen are also included in the total number of shares beneficially owned by Angela L. Muhleisen as set forth in this table. Mr. Muhleisen disclaims beneficial ownership of the shares held in the trusts discussed above, except to the extent that he actually has or shares voting power or investment power with respect to such shares. The address for Mr. Muhleisen is 6321 Doecreek Circle, Lincoln, Nebraska 68516.

(12) On February 8, 2019, Dimensional Fund Advisors LP ("Dimensional") filed a Schedule 13G/A indicating that they beneficially owned 8.42% of the Company's Class A common stock as of December 31, 2018, with sole voting power over a total of 2,414,957 shares and sole dispositive power over a total of 2,462,778 shares. The amount set forth in the table reflects the number of shares reported in the Schedule 13G/A. Dimensional acts as investment advisor and manager to certain funds, and indicated that all shares reported in their 13G/A were owned by such funds. The address of Dimensional is Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(13) On February 13, 2019, Deborah Bartels filed a Schedule 13G/A with the SEC indicating that she beneficially owned 6.7% of the Company's Class A common stock as of December 31, 2018, with sole voting and dispositive power over 1,297,040 shares and shared voting and dispositive power over a total of 619,447 shares. The amount set forth in the table reflects the number of shares reported in the Schedule 13G/A and includes (i) 1,297,040 shares held by Ms. Bartels, (ii) a total of 118,807 shares held in managed agency accounts for Ms. Bartels and her spouse by Union Bank, which is controlled by F&M, of which Ms. Bartels' brother, Mr. Dunlap, and sister, Ms. Muhleisen, are directors, executive officers, and significant shareholders; (iii) 217,150 shares held by Ms. Bartels' spouse; (iv) a total of 123,490 shares held by Union Bank as trustee for irrevocable trusts for the benefit of the adult sons of Ms. Bartels and her spouse ("Post-GRAT Trusts") established upon the expiration of the annuity term of GRATs established by Ms. Bartels and her spouse; and (v) a total of 160,000 shares held by Union Bank as trustee for irrevocable trusts established by Ms. Bartels and her spouse, of which the adult sons of Ms. Bartels and her spouse are the initial beneficiaries (the "Dynasty Trusts"). Ms. Bartels disclaims beneficial ownership of the shares held in the Post-GRAT Trusts and the Dynasty Trusts except to the extent that she actually has or shares voting power or dispositive power with respect to such shares. The total of 402,297 shares held in the managed agency accounts, the Post-GRAT Trusts, and the Dynasty Trusts may also be deemed to be beneficially owned by Union Bank, Mr. Dunlap, and Ms. Muhleisen, and are included in the total number of shares beneficially owned by each of them as set forth in this table.

(14) On February 11, 2019, The Vanguard Group ("Vanguard") filed a Schedule 13G/A indicating that they beneficially owned 5.42% of the Company's Class A common stock as of December 31, 2018, with sole voting power over 19,454 shares, shared voting power over 4,051 shares, sole dispositive power over 1,652,585 shares, and shared dispositive power over 21,067 shares. The amount set forth in the table reflects the number of shares reported in the Schedule 13G/A. The address of Vanguard is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

(15) Includes shares held in four separate GRATs and three separate other irrevocable trusts established by Mr. Dunlap in 2011, three separate post-annuity trusts established upon the expiration of the annuity terms of two other separate GRATs established by Mr. Dunlap in 2011, shares held in six separate GRATs established by Mr. Dunlap's spouse in 2015, shares held in eight separate GRATs established by Shelby J. Butterfield in 2015, shares held in four separate GRATs established by Stephen F. Butterfield in 2015, and shares held in a CLAT established by Mr. Butterfield in 2016, which number of shares reflects annuity distributions of shares from certain of the GRATs during 2018 to the grantors of such GRATs pursuant to the terms thereof and an annuity distribution of shares from the CLAT during 2018 to a charitable beneficiary of the CLAT pursuant to the terms thereof. Under the trusts, WRCM has been designated to serve as investment adviser with investment power with respect to assets held by the trusts and voting power with respect to the shares of stock held by the trusts. WRCM is not a beneficiary of any of the trusts, and is a majority owned subsidiary of the Company. The shares deemed to be beneficially owned by WRCM are also deemed to be beneficially owned by Mr. Dunlap, and the shares held in the twelve separate GRATs established by Ms. Butterfield and Mr. Butterfield in 2015 and the CLAT established by Mr. Butterfield in 2016 are also believed to be beneficially owned by Ms. Butterfield. For additional information regarding the shares held in trusts established by Mr. Dunlap and his spouse, and the shares held in trusts established by Ms. Butterfield and Mr. Butterfield, see footnotes 4 and 6, respectively, above.

On March 22, 2019, an Amendment No. 5 to Statement on Schedule 13D was filed by Mr. Dunlap to report that he may be deemed to have acquired beneficial ownership of an additional 778,089 shares of Class B common stock transferred effective as of March 14, 2019 from the Butterfield Estate to the Butterfield Family Trust and 135,332 shares of Class B common stock transferred effective as of March 14, 2019 from the Stephen F. Butterfield Revocable Living Trust to the restated Stephen F. Butterfield Revocable Living Trust, for which Butterfield Family Trust and

restated Stephen F. Butterfield Revocable Living Trust WRCM has been designated to serve as investment adviser with respect to shares of the Company's stock held in such trusts.

(16) On February 13, 2019, Union Financial Services, Inc. filed (on a joint basis with Mr. Dunlap) a Schedule 13D/A with the SEC indicating that it beneficially owned 1,586,691 shares of the Company's Class B common stock, with shared voting and dispositive power over such shares, representing 5.2% of the Company's Class A common stock as of December 31, 2018. The address for Union Financial Services, Inc. is 502 East John Street, Carson City, Nevada 89706. As of February 28, 2019, Mr. Dunlap and the Butterfield Estate each owned 50.0% of the outstanding capital stock of Union Financial Services, Inc., and the 1,586,691 shares of the Company's Class B common stock owned by Union Financial Services, Inc. are also reported as beneficially owned by each of Mr. Dunlap and Ms. Butterfield.

(17) Includes 50,087 shares owned by Mr. Heimes' spouse. A total of 50,000 shares are pledged as collateral for a line of credit agreement, under which no amounts were drawn as of February 28, 2019.

(18) Includes 149,485 shares jointly owned by Mr. Kruger and his spouse, and 2,419 shares issued under the Company's Restricted Stock Plan, of which 1,570 shares vested in March 2019; the remaining shares are scheduled to vest on March 10, 2020.

(19) Includes 294,582 shares held by The Jeffrey R. Noordhoek Amended And Restated Revocable Trust dated August 9, 2016, 126,462 shares held by Union Bank as trustee under an irrevocable trust established upon the expiration of the annuity term of a GRAT established by Mr. Noordhoek in 2003, and 15,650 shares held by Union Bank as trustee under a CRUT established by Mr. Noordhoek. Mr. Noordhoek is deemed to have shared voting and investment power with respect to the shares held in the Post-Annuity Trust and the CRUT. The total of 142,112 shares held by Union Bank as trustee under the post-annuity irrevocable trust and the CRUT may also be deemed to be beneficially owned by Union Bank, Mr. Dunlap, and Ms. Muhleisen, and are included in the total number of shares beneficially owned by each of them as set forth in this table.

(20) Includes 2,419 shares issued under the Company's Restricted Stock Plan, of which 1,570 shares vested in March 2019; the remaining shares are scheduled to vest on March 10, 2020.

(21) Includes 53,503 shares that Mr. Abel has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan. Also includes 500 shares owned by Mr. Abel's spouse.

(22) Includes 17,715 shares that Mr. Cintani has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan.

(23) Includes 27,543 shares that Ms. Farrell has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan.

(24) Includes 40,566 shares that Mr. Henning has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan and 3,102 shares owned by Mr. Henning's spouse.

(25) Includes 42,872 shares that Ms. Rath has elected to defer delivery of pursuant to the deferral election provisions of the Company's Directors Stock Compensation Plan.

(26) Mr. Reardon's shares are owned jointly with his spouse and are held in a margin securities account at a brokerage firm. Positions held in such account, including shares of the Company's Class A common stock, may under certain circumstances be pledged as collateral security for the repayment of debit balances, if any, in such account.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who beneficially own more than ten percent of a registered class of the Company's equity securities, to file with the SEC reports of ownership of Company securities and changes in reported ownership. Based solely on a review of information furnished to the Company and contained in reports filed with the SEC, as well as written representations from reporting persons that all reportable transactions were reported, the Company believes that during the year ended December 31, 2018, the Company's executive officers, directors, and greater than ten percent beneficial owners timely filed all reports they were required to file under Section 16(a) of the Exchange Act, except as noted below.

A Form 4 report for Angela L. Muhleisen filed on October 1, 2018 included the late reporting of four gifts of shares of Class A common stock by Ms. Muhleisen and her spouse to charitable organizations under Section 501(c)(3) of the Internal Revenue Code that occurred in two prior fiscal years, for which two Form 5s were not timely filed due to inadvertent administrative oversights by the Company's staff.

At the time of his passing on April 16, 2018, Stephen F. Butterfield was Vice Chairman of the Board of Directors and a significant shareholder of the Company, and filed reports under Section 16(a) of the Exchange Act as a director and as a more than ten percent beneficial owner of the Company. If, as a result of Mr. Butterfield's passing or otherwise, any person is deemed to be the beneficial owner, pursuant to Section 13(d) of the Exchange Act, of more than ten percent of the Company's Class A common stock (except for certain specified types of institutions and other persons holding securities for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business and without the purpose or effect of changing or influencing control of the Company), a Form 3 would be required to be filed within ten days after acquiring such greater than ten percent beneficial ownership.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures on Transactions with Related Persons

The Company has adopted written policies and procedures for the Nominating and Corporate Governance Committee's review of any transaction, arrangement, or relationship (including any indebtedness or guarantee of indebtedness) or series of similar transactions, arrangements, or relationships in which (i) the Company is a participant, (ii) the aggregate amount involved will or may be expected to exceed $120,000, and (iii) a related person has or will have a direct or indirect material interest. For purposes of this policy, a "related person" means (i) any of our directors, executive officers, or nominees for director, (ii) any stockholder that beneficially owns more than five percent of the Company's outstanding shares of common stock, and (iii) any immediate family member of the foregoing. The Nominating and Corporate Governance Committee approves or ratifies only those transactions that it determines in good faith are in, or are not inconsistent with, the best interests of the Company and its stockholders. The Nominating and Corporate Governance Committee may, in its discretion, submit certain transactions to the full Board of Directors for approval where it deems appropriate.

In determining whether to approve or ratify a transaction, the Nominating and Corporate Governance Committee takes into account the factors it deems appropriate, which may include, among others, the benefits to the Company, the availability of other sources for comparable products or services, the impact on a director's independence in the event the related person is a director, and the extent of the related person's interest in the transaction. The policy also provides for the delegation of its authority to the Chairman of the Nominating and Corporate Governance Committee for any related person transaction requiring pre-approval or ratification between meetings of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee reviews and assesses ongoing relationships with a related person on at least an annual basis to see that they are in compliance with the policy and remain appropriate.

All approved related party transactions are communicated to the full Board of Directors by the Chairman of the Nominating and Corporate Governance Committee, or his designee. Mr. Dunlap beneficially owns shares representing 77.1% of the combined voting power of the Company's shareholders as of February 28, 2019. Because of his beneficial ownership, Mr. Dunlap can effectively elect each member of the Board of Directors, including all members of the Nominating and Corporate Governance Committee, and has the power to defeat or remove each member.

Although there is no formal requirement for executive management of the Company to approve related party transactions, executive management reviews all related party transactions. Upon reviewing related party transactions, executive management takes into account the factors it deems appropriate, which may include, among others, the benefits to the Company, the availability of other sources for comparable products or services, the impact on a director's independence in the event the related person is a director, and the extent of the related person's interest in the transaction.

As Executive Chairman and controlling shareholder of the Company, Mr. Dunlap effectively has control over each member of the Company's executive management, who were initially hired by Mr. Dunlap and can be fired or otherwise penalized at his direction.

During 2018, the Company entered into certain transactions and had business arrangements with Union Bank and Trust Company, Union Financial Services, Hudl, Assurity Life Insurance Company ("Assurity"), and NEBCO, Inc. ("NEBCO"). These transactions were reviewed and approved by the Nominating and Corporate Governance Committee and reviewed by executive management. Union Bank and Trust Company, Union Financial Services, Hudl, Assurity, and NEBCO are related persons as discussed below. We cannot affirm whether or not the fees and terms of each transaction are substantially the same terms as those prevailing at the time for transactions with persons that do not have a relationship with the Company (either directly or as a partner, shareholder,

or officer of an organization that has a relationship with the Company). However, all related party transactions are based on available market information for comparable assets, products, and services and are extensively negotiated.

- *Union Bank and Trust Company* - Union Bank is controlled by Farmers & Merchants Investment Inc. ("F&M"), which owns 81.4% of Union Bank's common stock and 15.4% of Union Bank's non-voting non-convertible preferred stock. Michael S. Dunlap, a significant shareholder, Executive Chairman, and a member of the Board of Directors of the Company, along with his spouse and children, owns or controls a total of 33.0% of the stock of F&M, including a total of 48.6% 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% of F&M stock, including a total of 47.5% 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 the Company, and may share voting and/or investment power with respect to such shares. At February 28, 2019, Union Bank was deemed to beneficially own 14.1% of the Company's common stock. The stock holdings of Union Bank are deemed to be beneficially owned by both Mr. Dunlap and Ms. Muhleisen. At February 28, 2019, Mr. Dunlap beneficially owned 42.3% of the Company's outstanding common stock and Ms. Muhleisen beneficially owned 18.0% of the Company's outstanding common stock.

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

- *Hudl* - Hudl is an online video and coaching tools software company for athletes of all levels, of which Mr. Graff, who has served on the Company's Board of Directors since 2014, is CEO, co-founder, and a director.

- *Assurity* - Assurity is a company which offers a variety of disability income and critical illness protection, life insurance, and annuity products, of which Mr. Henning, who has served on the Company's Board of Directors since 2003, is President and CEO.

- *NEBCO, Inc.* - NEBCO is a family-owned company based in Lincoln, Nebraska with interests in the manufacture of concrete building materials, road construction, insurance, mining, railroading, farming, and real estate, of which Mr. Abel, who has served on the Company's Board of Directors since 2003, is CEO.

Transactions with Union Bank

The Company has entered into certain contractual arrangements with Union Bank. These transactions include:

- Loan purchases - During 2018, the Company purchased $74.7 million (par value) of private education and consumer loans from Union Bank.

  In addition, in 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 - As of December 31, 2018, the Company serviced $405.5 million of loans for Union Bank. Servicing revenue earned by the Company from this portfolio was $0.5 million for the year ended December 31, 2018. As of December 31, 2018, accounts receivable includes approximately $51,000 due from Union Bank for loan servicing.

- Funding - 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 Company uses this facility as a source to fund FFELP 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 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.

- Operating cash - The majority of the Company's cash operating bank accounts are maintained at Union Bank. The Company also invests cash in the Short term Federal Investment Trust ("STFIT") of the Student Loan Trust Division of Union Bank, which the Company uses as operating cash accounts. As of December 31, 2018, the Company had $147.2 million deposited at Union Bank in operating accounts or invested in the STFIT. Interest income earned from cash deposited in these accounts for the year ended December 31, 2018 was $1.0 million.

- 529 Plan administration - 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. In 2018, the Company received fees of $3.2 million from Union Bank related to the Company's administration services provided to the College Savings Plans.

- Lease arrangements - Union Bank leases approximately 4,000 square feet of office space in the Company's corporate headquarters building. During 2018, Union Bank paid the Company approximately $76,000 for rent. 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 2018, the Company paid Union Bank approximately $128,000 for cash management fees.

- Other fees received from Union Bank - During 2018, the Company received approximately $223,000 from Union Bank related to an employee sharing arrangement and for providing payment processing services.

- 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. In 2011, WRCM, an SEC-registered investment advisor and a majority owned subsidiary of the Company, entered into a management agreement with Union Bank, 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. During 2018, the Company earned $4.5 million 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 Michael S. Dunlap 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. As of December 31, 2018, a total of 2,442,784 and 2,445,040 shares, respectively, of the Company's Class B common stock remained in such trusts. In January 2016, WRCM entered into a similar management agreement with Union Bank with respect to several trusts established in December 2015 by Mr. Butterfield and Ms. Butterfield, to which trusts Mr. Butterfield and Ms. Butterfield contributed a total of 1,200,000 shares of the Company's Class B common stock upon the establishment thereof. As of December 31, 2018, a total of 1,002,630 shares of the Company's Class B common stock remained in such trusts. In March 2017, WRCM entered into a similar management agreement with Union Bank with respect to a CLAT established by Mr. Butterfield in December 2016, to which CLAT Mr. Butterfield contributed 70,286 shares of the Company's Class B common stock on January 3, 2017. As of December 31, 2018, 52,995 shares of the Company's Class B common stock remained in such trust. During 2018, the Company earned approximately $172,000 of fees under these agreements.

  As of December 31, 2018, accounts receivable included $0.3 million due from Union Bank related to fees earned by WRCM from the investment services described above.

  Effective as of March 14, 2019, the Butterfield Estate transferred 778,089 shares of the Company's Class B common stock to the Butterfield Family Trust, for which trust Union Bank serves as a trustee and WRCM has been designated to serve as investment adviser with respect to shares of the Company's stock held in such trust. In addition, also effective as of March 14, 2019, the Stephen F. Butterfield Revocable Living Trust transferred 135,332 shares of the Company's Class B common stock to the restated Stephen F. Butterfield Revocable Living Trust, for which restated trust Union Bank serves as a trustee and WRCM has been designated to serve as investment adviser with respect to shares of the Company's stock held in such trust. It is anticipated that, with respect to the shares of the Company's stock held in the Butterfield Family Trust and the restated Stephen F. Butterfield Revocable Living Trust, WRCM will have management agreement arrangements with Union Bank similar to those described above.

  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 (Chief Executive Officer of the Company), Ms. Muhleisen and Mr. Muhleisen, and WRCM have invested $6.2 million, $1.1 million, $5.2 million, and $0.3 million, respectively, 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 total outstanding balance of investments in these funds was $153.1 million. During 2018, the Company paid Union Bank $0.3 million as custodian. WRCM also earns up to 50 percent of the gains from the sale of securities from the funds or securities being called prior to the full contractual maturity.

- Defined contribution plan - Union Bank administers the Company's 401(k) defined contribution plan. Fees paid to Union Bank to administer the plan, approximately $313,000 in 2018, are paid by the plan's participants.

The net aggregate impact on the Company's consolidated statements of income for the year ended December 31, 2018 related to the transactions with Union Bank as described above was income (before income taxes) of $9.2 million.

The Company intends to maintain its relationship with Union Bank, which the Company's management believes provides certain benefits to the Company. 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 the Company's 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 the Company's shareholders that the terms of such transactions and arrangements may not be as favorable to the Company as it could receive from unrelated third parties. Moreover, the Company 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 the Company and/or its minority shareholders.

Transactions with Union Financial Services

During 2018, the Company owned a 65% 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 all of its interest in such aircraft to the Company and an entity owned by Mr. Dunlap. The Company and Mr. Dunlap each purchased a 17.5% interest in the aircraft for $717,500, which reflected what available information indicated was the aircraft's fair market value at the time of sale. The aircraft joint ownership and management agreements provide that each owner of the aircraft must pay for all flight operating expenses for each flight conducted on its behalf and their pro-rata portion, based on actual use percentages, of the cost of maintaining the aircraft. As a result of this transaction, the Company's ownership in the aircraft increased to 82.5%.

Transactions with 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.

The Company holds a promissory note issued by Hudl for approximately $120,000 in certain fees paid by the Company on behalf of Hudl in December 2015 related to the construction of a building for Hudl's corporate headquarters in Lincoln, Nebraska. The promissory note is interest-free and repayment by Hudl is contingent upon its receipt of certain future refunds from the City of Lincoln based on future job creation.

The Company also has three notes payable, which were each issued by TDP Phase Three, LLC ("TDP") in connection with the development of a commercial building in Lincoln, Nebraska that is the new corporate headquarters for Hudl. TDP is an entity established during 2015 for the sole purpose of developing and operating this building. The Company owns 25 percent of TDP. However, because the Company was the developer of and a current tenant in this building, the operating results of TDP are included in the Company's consolidated financial statements. As of December 31, 2018, the first TDP note had $12.0 million outstanding with a maturity date of March 31, 2023 and a fixed interest rate of 3.38%; the second TDP note had $6.4 million outstanding with a maturity date of December 15, 2045; the third TDP note had $1.7 million outstanding with a maturity date of March 31, 2023. Both the second and third notes have a fixed interest rate of 5.22%. Recourse to the Company on the outstanding balance of these notes is equal to its ownership percentage of TDP.

Hudl has a $20.0 million unsecured line of credit with Union Bank, which expires on September 30, 2019.

Transactions with Assurity Life Insurance Company

During the year ended December 31, 2018, Nelnet Business Solutions, a subsidiary of the Company, paid $1.7 million 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 in 2018, and the Company's insurance subsidiary paid claims on such reinsurance to Assurity of $0.9 million in 2018. In addition, Assurity pays Nelnet Business Solutions a partial refund annually based on claim experience, which was approximately $84,000 in 2018.

During the year ended December 31, 2018, the Company made available to its employees certain voluntary insurance products through Assurity. Premiums are paid by participants and are remitted to Assurity by the Company on behalf of the participants. The Company remitted to Assurity approximately $329,000 in premiums related to these products during 2018.

Both the aggregate of the payments made by the Company to Assurity during 2018, and the aggregate of the payments received by the Company from Assurity during 2018, were less than 2% of Assurity's gross revenues for 2018.

Transactions with NEBCO, Inc.

During 2018, the Company's communications subsidiary, ALLO, paid a subsidiary of NEBCO $0.6 million for construction rock products related to the construction and expansion of ALLO's fiber optic network in Lincoln, Nebraska.

Other Employment Relationship

Mr. Cintani, who serves on the Company's Board of Directors, has a son, Brian Cintani, 42, who is employed by the Company as an experienced financial analyst in the Company's capital markets group. During the year ended December 31, 2018, Brian Cintani's total compensation was approximately $155,000. Brian Cintani has been employed by the Company since 2002 and his employment preceded Mr. Cintani's service as a director which began in May 2012.

Other Transactions

Though not required to be disclosed under Item 404(a) of Regulation S-K, below are transactions the Company had with other related parties during 2018.

Unico Group, Inc. ("Unico"), an insurance agency of which Mr. Dunlap and Ms. Muhleisen's children own approximately 4.0%, provided real estate related insurance services to TDP during 2018. TDP paid Unico approximately $8,000 for these services during 2018.

During 2018, the Company paid approximately $1,000 to Union Title Company, LLC, a 77.0% owned subsidiary of F&M, for fees related to the Company's real estate development activity.

The Company has engaged Talent Plus to provide talent acquisition, selection, and development solutions to the Company. The Company paid Talent Plus approximately $51,000 related to these services in 2018. Ms. Rath, who serves on the Company's Board of Directors, is the Chairperson and President of Talent Plus, and with her spouse is a principal owner.

In addition to the foregoing, from time to time, the Company, some of the Company's executive officers, and some of the members of the Company's Board of Directors invest in small or startup companies, often in the Company's local community. In some cases, executive officers of the Company may also serve as members of the Board of Directors of such companies in connection with the investment.

The Company and certain executive officers have invested a total of $2.0 million in Capricorn Healthcare and Special Opportunities, LP ("Capricorn"). Capricorn is located in Palo Alto, California and is a limited partnership that primarily invests in healthcare-related companies. As of December 31, 2018, the investors and amount invested include the Company ($973,000), Mr. Dunlap ($973,000), and Mr. Noordhoek ($97,000).

Neither the Company, the Company's executive officers, nor members of the Company's Board of Directors, individually or in the aggregate, owns a majority interest in any of these companies.

While the Company does not deem these investments to be related party transactions, the Company reports investment activity of this type to the Board of Directors.

AUDIT COMMITTEE REPORT

Report of the Board Audit Committee

The Audit Committee of the Board of Directors (the "Committee") is responsible for the oversight of the integrity of the Company's consolidated financial statements, the Company's system of internal control over financial reporting, the Company's policy standards and guidelines for risk assessment and risk management and compliance with legal and regulatory requirements, the qualifications and independence of the Company's independent auditor, and the performance of the Company's internal and independent auditors. The Committee has the sole authority and responsibility to select, determine the compensation of, evaluate, and, when appropriate, replace the Company's independent auditor. The Committee, with input from management, regularly monitors the performance of the key members of the independent auditors' team, including the lead partner. In the case of rotation of the lead partner, the Committee is involved in the selection of the new lead audit partner, and considers such factors as the individual's professional and relevant industry experience, other current assignments, and the proximity of their office location to the Company's headquarters. The Committee is also responsible under the Sarbanes-Oxley Act of 2002 for establishing procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Committee is currently comprised of three independent directors and operates under a written charter adopted by the Board, a copy of which is available at www.nelnetinvestors.com. The Board has determined that each Committee member is independent under the standards of director independence established under the Company's Corporate Governance Guidelines and the New York Stock Exchange listing requirements and is also independent under applicable independence standards of the Exchange Act and the SEC rules thereunder.

The Committee serves in an oversight capacity and is not part of the Company's managerial or operational decision-making process. Management is responsible for the financial reporting process, including the system of internal controls, for the preparation of consolidated financial statements in accordance with generally accepted accounting principles, and for the report on the Company's internal control over financial reporting. The Company's independent auditor, KPMG LLP, is responsible for auditing the Company's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles and for expressing an opinion on the effectiveness of the Company's internal control over financial reporting. The Committee's responsibility is to oversee the financial reporting process and to review and discuss management's report on the Company's internal control over financial reporting. The Committee relies, without independent verification, on the information provided to it and on the representations made by management, the internal auditor, and the independent auditor.

The Committee held seven meetings during 2018. The Committee, among other things:

- Reviewed and discussed the Company's earnings releases, Quarterly Reports on Form 10-Q, and Annual Report on Form 10-K, including the consolidated financial statements and compliance with legal and regulatory requirements

- Reviewed and discussed, in conjunction with the Risk and Finance Committee, the Company's policies and procedures for risk assessment and risk management and the major risk exposures of the Company and its business units, as appropriate

- Reviewed and discussed the annual plan and the scope of the work of the internal auditor for fiscal 2018 and reviewed all completed reports of the internal auditor

- Reviewed management's progress on addressing internal and certain external audit findings

- Reviewed and discussed the annual plan and scope of the work of the independent auditor

- Reviewed and discussed, in conjunction with the Compliance Committee, reports from management on the Company's policies regarding applicable consumer-oriented legal and regulatory requirements

- Met with KPMG LLP, the internal auditor, and Company management in separate executive sessions

The Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2018 with management, the internal auditor, and KPMG LLP. The Committee reviewed and discussed the critical accounting policies and estimates as set forth in the Company's Annual Report on Form 10-K, management's annual report on the Company's internal control over financial reporting, and KPMG LLP's opinion on the effectiveness of internal control over financial reporting. The Committee also discussed with management and the internal auditor the process used to support certifications by the Company's Chief Executive Officer and Chief Financial Officer that are required by the SEC and the Sarbanes-Oxley Act of 2002 to accompany the Company's periodic filings with the SEC and the processes used to support management's annual report on the Company's internal control over financial reporting.

The Committee discussed with KPMG LLP matters related to the audit of the Company's consolidated financial statements and the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, issued by the Public Company Accounting Oversight Board ("PCAOB"). This review included a discussion with management and KPMG LLP as to the quality (not merely the acceptability) of the Company's accounting principles, the reasonableness of significant estimates and judgments, and the disclosures within the Company's consolidated financial statements, including the disclosures relating to critical accounting policies.

KPMG LLP also provided to the Committee the written disclosures and the letter required by applicable requirements of the PCAOB regarding KPMG LLP's communications with the Committee concerning independence. The Committee discussed with KPMG LLP their independence from the Company. When considering KPMG LLP's independence, the Committee considered if services they provided to the Company beyond those rendered in connection with their audit of the Company's consolidated financial statements, reviews of the Company's interim condensed consolidated financial statements included in its Quarterly Reports on Form 10-Q, and their opinion on the effectiveness of the Company's internal control over financial reporting were compatible with maintaining their independence. The Committee also reviewed and pre- approved, among other things, the audit, audit-related, and tax services performed by KPMG LLP. For tax services, the pre-approval included discussion with KPMG concerning their independence as required by PCAOB Rule 3524 (Audit Committee Pre-approval of Certain Tax Services). The Committee received regular updates on the amount of fees and scope of audit, audit-related, and tax services provided.

Based on the Committee's review and these meetings, discussions, and reports, and subject to the limitations on the Committee's role and responsibilities referred to above and in the Audit Committee Charter, the Committee recommended to the Board that the Company's audited consolidated financial statements for the year ended December 31, 2018 be included in the Company's 2018 Annual Report on Form 10-K for filing with the SEC.

The Committee has also selected KPMG LLP as the Company's independent auditor for the year ending December 31, 2019 and is presenting the selection to the shareholders for ratification.

KPMG has been the Company's independent auditor since 1998. The Committee last went through a Request for Proposal for independent audit and non-audit services effective for the year ended December 31, 2012.

Respectfully submitted,

Thomas E. Henning, Chairman
Kathleen A. Farrell
William R. Cintani

PROPOSAL 2 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee selects the Company's independent registered public accounting firm. This proposal is put before the shareholders because the Board believes that it is good corporate governance practice to seek shareholder ratification of the selection of the independent registered public accounting firm. If the appointment of KPMG LLP is not ratified, the Audit Committee will evaluate the basis for the shareholders' vote when determining whether to continue the firm's engagement.

The Board of Directors of the Company recommends a vote FOR the ratification of the appointment of KPMG LLP as the independent registered public accounting firm for 2019.

The affirmative vote of the majority of votes cast at the Annual Meeting is required to ratify the appointment of KPMG LLP. Unless marked to the contrary, proxies will be voted FOR the ratification of the appointment of KPMG LLP as the independent registered public accounting firm for 2019.

Representatives of KPMG LLP are expected to attend the Annual Meeting and to respond to appropriate questions from shareholders present at the meeting and will have an opportunity to make a statement if they desire to do so.

Independent Accountant Fees and Services

Aggregate fees for professional services rendered by KPMG LLP for the years ended December 31, 2018 and 2017 are set forth below.

	2018	2017
Audit fees	$ 765,120	653,949
Audit-related fees	1,227,594	1,173,580
Tax fees	55,553	139,443
All other fees	1,780	1,780
Total	$ 2,050,047	1,968,752

Audit-related fees were for assurance and other services related to service provider compliance reports, including Service Organization Controls (SOC1) reports on the effectiveness of the Company's controls for student loan servicing and other services provided for its customers, employee benefit plan audits, agreed-upon procedures for Company-sponsored student loan securitization financings and other matters, and consultations concerning financial accounting and reporting standards.

Tax fees were for services related to tax compliance and planning.

All other fees represent the amount paid by the Company for access to an on-line accounting and tax reference tool.

In addition to the services and fees described above, KPMG was engaged to perform audits of and provide tax services for certain private investment funds which are managed by WRCM, for which KPMG received total fees of $77,500 and $82,750 in 2018 and 2017, respectively. Additionally, TDP Phase Three, LLC, an entity of which the Company owns 25 percent and was established for the sole purpose of developing and operating a building, engaged KPMG to perform audits in 2018 and 2017, for which KPMG received total fees of $23,800 and $17,500, respectively.

The Audit Committee's pre-approval policy with respect to audit and permitted non-audit services by the independent auditor is set forth in its charter. The Audit Committee has the sole authority to appoint, retain, and terminate the Company's independent auditor, which reports directly to the Audit Committee. The Audit Committee is directly responsible for the evaluation, compensation (including as to fees and terms), and oversight of the work of the Company's independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attestation services for the Company. All related fees and costs of the independent auditor, as determined by the Audit Committee, are paid promptly by the Company in accordance with its normal business practices. All auditing services and permitted non-audit services performed for the Company by the independent auditor, including the services for 2018 and 2017 described above, are pre-approved by the Audit Committee, subject to applicable laws, rules, and regulations. The Audit Committee may form and delegate to a subcommittee the authority to grant pre-approvals with respect to auditing services and permitted non-auditing services, provided that any such grant of pre-approval shall be reported to the full Audit Committee at its next meeting.

PROPOSAL 3 - ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Section 14A of the Exchange Act requires that the Company provide its shareholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of the Company's Named Executive Officers as disclosed pursuant to the compensation disclosure rules of the SEC, and the Company is therefore providing its shareholders with the opportunity to cast such an advisory vote on executive compensation at this year's Annual Meeting as described below. The Company believes that it is appropriate to seek the views of shareholders on the design and effectiveness of the Company's executive compensation program.

Based on the results of an advisory vote on the frequency of advisory votes on executive compensation at the Company's 2017 annual meeting of shareholders, where the Board of Directors recommended and the shareholders voted in favor of holding an advisory vote on executive compensation every year, the Board of Directors determined that, until the next vote on the frequency of holding advisory votes on executive compensation, the Company will hold a shareholder advisory vote on executive compensation every year. Therefore, the next advisory vote on executive compensation will occur at the Company's 2020 annual meeting of shareholders. Section 14A of the Exchange Act requires that at least once every six years the Company provide its shareholders with the opportunity to vote, on a nonbinding, advisory basis, on whether the frequency of future advisory votes on executive compensation will be every one, two, or three years.

As described in the Compensation Discussion and Analysis section of this Proxy Statement, the Company's objective for its executive compensation program is to attract, motivate, develop, and retain executives who will contribute to the Company's long-term success and the creation of shareholder value. The Company seeks to accomplish this objective in a way that rewards performance and is aligned with its shareholders' long-term interests, and the Company's compensation programs are designed to reward the Named Executive Officers for the achievement of short-term and long-term strategic and operational goals and the achievement of increased shareholder return, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking.

The framework and executive compensation philosophy are established by an independent Compensation Committee of the Board of Directors. The following items reflect our commitment to pay for performance and to maintain a strong executive compensation governance framework:

- Incentive plans that are based upon financial and operational goals that are reviewed annually by the Compensation Committee.
- An annual risk assessment conducted by the Compensation Committee to evaluate whether incentive programs drive behaviors that are demonstrably within the risk management parameters it deems prudent.
- A robust share ownership and retention policy.

The Compensation Discussion and Analysis and the compensation tables and disclosures provided in this Proxy Statement describe the Company's executive compensation program in more detail, and discuss the following key elements of the program:

- We pay for performance, both in setting base salaries and awarding incentives via an Executive Officers Incentive Compensation Plan. This plan is used to assess the participating Named Executive Officers' performance based on numerous criteria, including certain financial measures such as levels of earnings, growth of assets, return on equity and assets, shareholder return, cash flow, market share, operating margins and operating expenses; certain service measures including performance of the Company's operating segments; employee engagement; and strategic positioning (the prior plan expired on January 1, 2019 - see "Proposal 4 - Approval of a New Executive Officers Incentive Compensation Plan" for the shareholders to approve a new plan which is similar to the prior plan except that it removes certain references and specific requirements applicable to the previous "performance-based compensation" framework under Section 162(m) of the Internal Revenue Code and thus is more flexible than the prior plan).
- Periodically, we retain external, independent compensation consultants to review the compensation levels and practices for the Named Executive Officers, compare those levels to executives in comparable positions in select industries and companies, and identify potential gaps or inconsistencies in our compensation practices.

- None of the Named Executive Officers has an employment agreement or severance arrangement. In addition, the Company generally does not provide significant perquisites, tax reimbursements, or change in control benefits to the Named Executive Officers that are not available to other employees, and we do not issue stock options.
- Each of the Named Executive Officers is employed at-will and is expected to demonstrate exceptional personal performance in order to continue serving as a member of the executive team.

The Company believes the compensation program for the Named Executive Officers is instrumental in helping the Company achieve its strong financial performance, and is asking shareholders to approve the compensation of the Company's Named Executive Officers as disclosed in this Proxy Statement, including in the Compensation Discussion and Analysis, the compensation tables, and the narrative disclosures that accompany the compensation tables.

The vote on this proposal is not intended to address any specific element of compensation; rather, the vote relates to the compensation of our Named Executive Officers, as described in this Proxy Statement in accordance with the compensation disclosure rules of the SEC. As an advisory vote, the vote on this proposal is not binding upon the Company, the Board of Directors, or the Compensation Committee. However, the Compensation Committee, which is responsible for designing and administering the Company's executive compensation program, values the opinions expressed by shareholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for Named Executive Officers.

Accordingly, the Company's shareholders are asked to vote on the following resolution at the Annual Meeting:

> "RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company's Proxy Statement for the 2019 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table, and the other related tables and disclosure."

The Board of Directors recommends a vote FOR the approval of the compensation of the Company's Named Executive Officers, as disclosed in this Proxy Statement.

PROPOSAL 4 - APPROVAL OF A NEW EXECUTIVE OFFICERS INCENTIVE COMPENSATION PLAN

Background

The Board of Directors has established a new Executive Officers Incentive Compensation Plan, the purpose of which is to provide the Company's executive officers with opportunities to earn performance-based incentive compensation that aligns their interests with the interests of shareholders, including the achievement of long-term strategic business objectives.

The new Executive Officers Incentive Compensation Plan is intended to replace the previous shareholder-approved Executive Officers Incentive Compensation Plan, which expired pursuant to its terms on January 1, 2019 and was designed so that compensation under that plan could qualify for the previous "performance based compensation" exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code, which exemption was repealed under the Tax Cuts and Jobs Act which became effective on January 1, 2018. The new Executive Officers Incentive Compensation Plan is similar to the previous plan, except that it removes certain references and specific requirements applicable to the previous "performance based compensation" framework under Section 162(m), and thus is more flexible than the previous plan.

The Company is seeking shareholder approval of the new Executive Officers Incentive Compensation Plan in order to ensure compliance with NYSE rules, since it is anticipated that some executive officers who earn incentive compensation under the new plan may either receive or elect to receive payment of all or a portion of that compensation in shares of Class A common stock issued under the Company's shareholder-approved Restricted Stock Plan.

If the Company's shareholders do not approve this proposal, the Compensation Committee will consider other alternatives for providing the Company's executive officers with opportunities to earn performance-based incentive compensation that aligns their interests with the interests of shareholders.

Summary of the Plan

The following is a summary of the principal features of the new Executive Officers Incentive Compensation Plan, a copy of which is attached to this proxy statement as Appendix A. In addition, the Company will furnish a copy of the plan to any shareholder upon written request to the Company's Corporate Secretary.

Administration

The Executive Officers Incentive Compensation Plan is administered by the Compensation Committee of the Board of Directors, and the Compensation Committee has the authority to make determinations as may be required under the terms of the plan. The Compensation Committee may delegate its authority under the Executive Officers Incentive Compensation Plan to a subcommittee of the Compensation Committee.

Eligibility and Participation

The Executive Officers Incentive Compensation Plan provides that each of the Company's executive officers is eligible to be selected by the Compensation Committee to participate in the plan. As of March 31, 2019, the Company had six executive officers.

Performance-Based Awards

The Executive Officers Incentive Compensation Plan provides that the Compensation Committee may establish performance criteria with respect to awards which participants may be eligible to receive with respect to a performance period (which is a calendar year or such other period established by the Compensation Committee), and performance goals may be based on one or more of the following criteria:

- Levels of earnings per share; net income; income before income taxes; net interest income; earnings per share or net income excluding derivative market value and other adjustments as the Committee deems appropriate in the Committee's sole discretion; revenues from fee-based businesses (including measures related to the diversification of revenues from fee-based businesses and increases in revenues through both organic growth and acquisitions); federally insured student loan assets; private education loan assets; consumer loan assets; and total assets;
- Return on equity (including return on tangible equity); return on assets or net assets; return on capital (including return on total capital or return on invested capital); return on investments; and ratio of equity to total assets;
- Student loan servicing and other education finance or service customer measures (including loan servicing volume and service rating levels under contracts with the U.S. Department of Education);
- Success or progress made in efforts to obtain new contracts with the U.S. Department of Education, as well as other loan servicing business;
- Cash flow measures (including cash flows from operating activities, cash flow return on investment, assets, equity, or capital, and generation of long-term cash flows (including net cash flows from the Company's securitized loan portfolios));
- Market share;
- Customer satisfaction levels, and employee engagement, productivity, retention, and satisfaction measures;
- Operating performance and efficiency targets and ratios, as well as productivity targets and ratios;
- Levels of, or increases or decreases in, operating margins, operating expenses, and/or nonoperating expenses;
- Business segment, division or unit profitability and other performance measures (including growth in customer base, revenues, earnings before interest, taxes, depreciation and amortization, and segment profitability, as well as management of operating expense levels);
- Acquisitions, dispositions, projects, or other specific events or transactions (including specific events or transactions intended to enhance the long-term strategic positioning of the Company);
- Performance of investments;
- Regulatory compliance measures; or
- Any other criteria as determined by the Committee in its sole discretion.

The Executive Officers Incentive Compensation Plan provides that any criteria may be used to measure the performance of the Company as a whole and/or any one or more operating segments, divisions, business units, and/or subsidiaries of the Company or any combination thereof, as the Compensation Committee may deem appropriate. The Compensation Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a particular participant and, if they have, to ascertain the amount of the applicable performance-based award, and the Compensation Committee may provide that any evaluation of attainment of a performance goal may include or exclude extraordinary items.

Payment of Awards

Awards for a performance period are to be paid after the Compensation Committee has determined that such awards are payable, and in any event the timing of the payment of awards must comply with Section 409A of the Internal Revenue Code. It is anticipated that some participants may either receive or elect to receive payment of all or a portion of their awards in shares of Class A common stock issued under the Restricted Stock Plan.

Annual Per Participant Limit on Awards

In no event will the amount paid under the Executive Officers Incentive Compensation Plan to a participant with respect to any calendar year exceed 150% of that participant's base salary for that year.

Form of Award

The Compensation Committee, at their discretion, can determine if an award is to be paid in cash, stock, or a combination thereof, or provide the option for the participant to elect to receive their award in cash, stock, or a combination thereof. The payment of any award, or any applicable portion of any award, in stock shall be made pursuant to the Company's Restricted Stock Plan.

Nontransferability

No awards or rights under the Executive Officers Incentive Compensation Plan may be transferred or assigned other than by will or the laws of descent and distribution.

Amendments and Termination

The Board of Directors may terminate the Executive Officers Incentive Compensation Plan at any time and may amend it from time to time. However, no termination or amendment of the Executive Officers Incentive Compensation Plan may adversely affect the rights of a participant to a previously earned award.

Effective Date and Duration

The new Executive Officers Incentive Compensation Plan is effective as of January 1, 2019, subject to approval of this proposal by the Company's shareholders at the Annual Meeting. If such shareholder approval is obtained and the Executive Officers Incentive Compensation Plan becomes effective, the plan will expire on January 1, 2024, which is five years after the effective date of the plan.

Principal Federal Income Tax Consequences

The following discussion summarizes the principal U.S. federal income tax consequences to participants who may receive awards under the Executive Officers Incentive Compensation Plan and to the Company as a result of the payment of such awards. The discussion is based on the provisions of the Internal Revenue Code as of March 31, 2019 and regulations promulgated thereunder as of that date.

An award under the Executive Officers Incentive Compensation Plan will be taxable income to the participant at the time of payment. The participant will have ordinary compensation income equal to the amount of the payment received, and the Company expects that it will generally be entitled to a corresponding tax deduction in the same amount, subject to the limitations of Section 162(m) of the Internal Revenue Code. Under Section 162(m), the Company will generally not be entitled to a tax deduction with respect to any amount that represents compensation in excess of $1 million paid to covered employees. For this purpose, a "covered employee" means the Company's Chief Executive Officer, Chief Financial Officer, and three highest compensated employees other than the Chief Executive Officer and the Chief Financial Officer (based on compensation reported to the Company's shareholders), and any individual who was previously a covered employee at any time on or after January 1, 2017. The Compensation

Committee retains the flexibility to award compensation under the Executive Officers Incentive Compensation Plan that it determines to be in the best interests of the Company and its shareholders, even if such compensation is not deductible for tax purposes.

New Plan Benefits

The Company cannot currently determine the benefits subject to awards that may be granted in the future to executive officers under the Executive Officers Incentive Compensation Plan. Such awards will be subject to the annual per participant limits discussed above and as set forth in Section 6 of the plan document attached to this proxy statement as Appendix A.

Although the levels of future awards under the Executive Officers Incentive Compensation Plan are not currently determinable since such awards will be based in part upon the future performance and the relative compensation objectives for participants, the dollar value of incentive bonus compensation paid in 2019 to the Company's executive officers under the previous Executive Officers Incentive Compensation Plan for services rendered during the year ended December 31, 2018 was as follows:

Michael S. Dunlap Executive Chairman	$	663,063	
Jeffrey R. Noordhoek Chief Executive Officer		1,029,447	(a)
Terry J. Heimes Chief Operating Officer		962,290	(a)
James D. Kruger Chief Financial Officer		687,500	
Timothy A. Tewes President		687,500	
Executive Group		4,191,051	

(a) The executive officer elected to be paid all or a portion of his incentive bonus in shares of Class A common stock issued under the Restricted Stock Plan, and thus the amount reflects an additional number of shares issued under the Restricted Stock Plan representing 15 percent of the amount of his incentive bonus he elected to receive in stock, pursuant to the cash/stock bonus payment election framework discussed in footnote (a) to the Summary Compensation Table in this proxy statement.

Equity Compensation Plan Information

The following table summarizes, as of December 31, 2018, information about compensation plans under which equity securities are authorized for issuance.

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.

The Board of Directors has unanimously approved the new Executive Officers Incentive Compensation Plan, and recommends a vote FOR approval of the new Executive Officers Incentive Compensation Plan.

PROPOSAL 5 - APPROVAL OF AMENDMENT TO THE ARTICLES OF INCORPORATION TO MODIFY THE RESTRICTIONS FOR TRUSTS WHICH MAY HOLD CLASS B COMMON STOCK, WITH TEN VOTES PER SHARE, WITHOUT CONVERSION INTO CLASS A COMMON STOCK, WITH ONE VOTE PER SHARE

Overview

The Board of Directors has unanimously approved and unanimously recommends that the Company's shareholders approve an amendment to the Company's Articles of Incorporation as described below to modify the restrictions for trusts which may hold shares of the Company's Class B Common Stock, par value $0.01 per share ("Class B Shares"), which have ten votes per share on all matters to be voted upon by the Company's shareholders, without automatic conversion of such Class B Shares into shares of the Company's Class A Common Stock, par value $0.01 per share ("Class A Shares"), which have one vote per share on all matters to be voted upon by the Company's shareholders. This amendment is referred to as the "Class B Trust Amendment." The purpose of the proposed Class B Trust Amendment is to make changes to the description of eligible trust beneficiaries, in part utilizing a uniform law "qualified beneficiary" term, in order to simplify and clarify the requirements for beneficiaries of trusts to which transfers of Class B Shares may be made without automatic conversion of such Class B Shares into Class A Shares (with such trusts referred to as "Class B Eligible Trusts"), and thereby facilitate the use of customary estate planning trusts by holders of Class B Shares who do not intend for such shares to be converted, without inordinate time required of the Company in reviewing such trusts to determine the proper classification of such shares upon transfer to such trusts under the current provisions of the Articles of Incorporation.

The description in this proxy statement of the Class B Trust Amendment is qualified in its entirety by reference to, and should be read in conjunction with, the full text of the proposed amendment, which is included in the form of Articles of Amendment to Third Amended and Restated Articles of Incorporation attached to this proxy statement as Appendix B. If the Class B Trust Amendment is approved by the shareholders, the Articles of Amendment in substantially the same form as set forth in Appendix B will be promptly filed with the Nebraska Secretary of State and will become effective upon such filing.

Description of the Amendment

If the Class B Trust Amendment is approved by the shareholders, the first paragraph of Section 4.6 of the Articles of Incorporation will be amended as follows (with text in strikethrough format indicating deletions and underlined text indicating insertions):

> 4.6 Conversion. Class A Common Stock is not convertible. Each share of Class B Common Stock is convertible at any time at the holder's option into one (1) share of Class A Common Stock. Each share of Class B Common Stock shall automatically convert into one (1) share of Class A Common Stock, without any action by the Corporation or further action by the holder thereof, upon the Transfer (as defined below) of such share, other than the following Transfers: (i) to any other holder of Class B Common Stock or to any natural person or business organization that, directly or indirectly, controls, is controlled by or is under common control with such holder ("business organization" shall mean any corporation, limited liability company, partnership or like entity); (ii) to a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B Common Stock; (iii) to any charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or the corresponding provision of any subsequent federal tax law; (iv) to a trust all of the ~~beneficiaries~~ Beneficiaries (as defined below) of which are holders of Class B Common Stock (or are eligible to hold Class B Common Stock without triggering a conversion) each of whom is a natural person~~, natural persons~~ as described in clause (ii) hereof, and/or are entities described in clause (iii) hereof; (v) by will to any transferee described in clause (ii), (iii) or (iv) hereof; (vi) pursuant to the laws of descent and distribution to a spouse, sibling, parent, grandparent and/or descendant, whether natural or adopted, of a holder of Class B Common Stock; or (vii) to the Corporation. Notwithstanding the foregoing, a share of Class B Common Stock shall automatically convert into one (1) share of Class A Common Stock, without any action by the Corporation or further action by the holder thereof, upon any Transfer of such share pursuant to a divorce or separation agreement, decree or order. "Transfer" means a sale, assignment, transfer, gift, encumbrance or other disposition, other than a bona fide pledge for collateral security purposes. "Beneficiaries" means qualified beneficiaries of a trust, expressly intending to exclude any remote beneficiaries and any beneficiaries not otherwise existing or otherwise reasonably ascertainable, identifiable or known at the time of the Transfer to such trust under the laws of the State of Nebraska and/or the laws of the state governing such trust.

The remaining second and third paragraphs of Section 4.6 of the Articles of Incorporation will not be changed by the Class B Trust Amendment.

Background of, Reasons for, and General Effects of the Amendment

Background

The Company was co-founded by Michael S. Dunlap, currently the Company's Executive Chairman of the Board of Directors, and Stephen F. Butterfield, who passed away in April 2018 and was serving as the Company's Vice Chairman of the Board of Directors at the time of his passing. Through their leadership, the Company grew to become a leading originator, holder, and servicer of federal student loans, principally consisting of loans originated under the Federal Family Education Loan Program, and is now a diverse company with a focus on delivering education-related products and services and loan asset management.

Effective August 14, 2003 (approximately four months before the Company's initial public offering of Class A Shares on December 11, 2003), the Company recapitalized its outstanding capital stock. In connection therewith, all of the currently issued and outstanding Class B Shares were issued to Messrs. Dunlap and Butterfield (then the Company's Co-Chief Executive Officers and Chairman and Vice Chairman of the Board of Directors, respectively) and persons related to them. No additional Class B Shares have been issued subsequent to the Company's initial public offering of Class A Shares.

As further discussed below, over time, in connection with reviewing documents for various customary estate planning trusts to which it has been proposed that Class B Shares be transferred, the Company has in some cases spent inordinate time analyzing the beneficiaries of such trusts, in particular remote beneficiaries, in order to determine whether such trusts were Class B Eligible Trusts. Accordingly, as also further discussed below, the Class B Trust Amendment is proposed in order to simplify and clarify the requirements for beneficiaries of Class B Eligible Trusts, and thereby facilitate the use of customary estate planning trust documents by simplifying the process required to determine whether a given trust is a Class B Eligible Trust.

Description of Capital Stock

The principal difference between Class B Shares and Class A Shares is the relative voting rights, with each Class B Share having ten votes and each Class A Share having one vote on all matters to be voted upon by the Company's shareholders. Otherwise, the rights of the Class A Shares and the Class B Shares under the Articles of Incorporation are substantially identical. Class B Shares are not listed for trading on the New York Stock Exchange as are Class A Shares, but each Class B Share is convertible at any time at the holder's option into one Class A Share. A further description of various aspects of the Company's capital stock is set forth immediately below.

Authorized and Outstanding Capital Stock

The Articles of Incorporation authorize the Company to issue up to 660,000,000 shares of common stock, par value $0.01 per share. The authorized common stock is divided into two classes, consisting of 600,000,000 Class A Shares and 60,000,000 Class B Shares. As of March 28, 2019, there were 28,636,511 Class A Shares and 11,459,641 Class B Shares issued and outstanding, respectively (excluding a total of 11,305,731 Class A Shares held by wholly owned subsidiaries of the Company).

As discussed above, all of the issued and outstanding Class B Shares were issued prior to the Company's initial public offering of Class A Shares on December 11, 2003, and as of such date the issued and outstanding Class B Shares were beneficially owned principally by Messrs. Dunlap and Butterfield and persons related to them. No additional Class B Shares have been issued subsequent to December 11, 2003, and the Articles of Incorporation provide that, except for Class B Shares issued in connection with stock splits, stock dividends, and other similar distributions, the Company shall not issue additional Class B Shares unless approved by the affirmative votes of the holders of a majority in voting power of the stock of the Company entitled to vote thereon.

The Articles of Incorporation also authorize the Company to issue up to 50,000,000 shares of preferred stock, par value $0.01 per share, with the Board of Directors having authority to fix the relative rights and preferences of each series of preferred stock. As of March 28, 2019, there were no shares of preferred stock issued and outstanding, and the Board of Directors does not have any current plans for the Company to issue shares of preferred stock.

Voting Rights and Relative Voting Power

As discussed above, holders of Class A Shares are entitled to one vote per share and holders of Class B Shares are entitled to ten votes per share on all matters submitted to a vote of shareholders. Except as otherwise required by law, Class A Shares and Class B Shares shall vote as a single class on all matters to be voted on by the shareholders, including, without limitation, any consolidation or merger of the Company into or with any other corporation or the sale or transfer by the Company of all or substantially all of its assets. With the approval of a majority of the Class B Shares, voting separately as a class, the Company may lower the number of votes per share each Class B Share shall be entitled to have.

As of March 28, 2019, based on the total numbers of Class A Shares and Class B Shares issued and outstanding as indicated under "Authorized and Outstanding Capital Stock" above, the relative percentages of total voting power represented by such outstanding Class A Shares and Class B Shares were 20.0% and 80.0%, respectively.

With respect to the election of directors, shareholders of the Company have cumulative voting rights under the Nebraska Model Business Corporation Act, whereby shareholders may vote their shares for as many directors as are to be elected, or may cumulate such shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of their shares, or may distribute votes on the same principle among as many or as few nominees as they may desire.

Under the Articles of Incorporation, the Company has a classified Board of Directors, whereby the Board is divided into three classes, with each class containing one-third of the total number of directors (with the current total being nine), and with directors in each class serving staggered three-year terms. The classified Board has the effect of reducing the impact of cumulative voting under the Nebraska Model Business Corporation Act and increasing the difficulty that minority shareholders have in electing a particular director or directors, since a fewer number of directors are elected at each annual meeting of shareholders, and thus a fewer number of votes per share of common stock can be accumulated by shareholders to vote for a particular director nominee or nominees.

The Nebraska Model Business Corporation Act provides that, unless the corporation's articles of incorporation require a greater vote or a greater number of shares to be present, approval of an amendment to a corporation's articles of incorporation (which would include an amendment to modify the rights of holders of capital stock of the corporation) requires the approval of the shareholders at a meeting at which a quorum consisting of at least a majority of the votes entitled to be cast on the amendment exists, and, if any class of shares is entitled to vote as a separate group on the amendment, the approval of each such separate voting group at a meeting at which a quorum of the voting group consisting of at least a majority of the votes entitled to be cast on the amendment by that voting group exists. The Nebraska Model Business Corporation Act also provides that, if a quorum exists, an amendment to a corporation's articles of incorporation is approved if the votes cast in favor of the amendment exceed the votes cast against the amendment, unless the corporation's articles of incorporation require a greater number of affirmative votes. Article IX of the Company's Articles of Incorporation has a proviso whereby the affirmative vote of the holders of a majority of the voting power of all the shares of the capital stock of the Company then entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend, repeal, or adopt any provision in the Articles of Incorporation inconsistent with Section 4.9 (regarding rights with respect to future issuances and sales of the Company's securities or properties), Article VI (regarding shareholder actions and meetings of shareholders), or such provision.

The Nebraska Model Business Corporation Act also provides that, if a corporation has more than one class of shares outstanding, holders of the outstanding shares of a class are entitled to vote as a separate voting group on a proposed amendment to the corporation's articles of incorporation if the amendment would, among other things, change the rights, preferences, or limitations of all or part of the shares of the class, or increase the rights, preferences, or number of authorized shares of any class that, after giving effect to the amendment, have rights or preferences with respect to distributions that are prior or superior to the shares of the class. As indicated under "Dividend Rights" and "Other Rights" below, Class B Shares do not have rights or preferences with respect to distributions that are prior or superior to Class A Shares. Therefore, holders of Class A Shares are not entitled to vote as a separate voting group on the proposed Class B Trust Amendment.

Dividend Rights

Holders of the Company's common stock are entitled to receive ratably dividends payable in cash, in stock or otherwise, as and when declared by the Board of Directors out of assets legally available therefor, subject to any preferential rights of any outstanding preferred stock. The Company has no dividends in arrears with respect to outstanding securities.

Conversion Provisions

The Class B Share conversion provisions are set forth in Section 4.6 of the Articles of Incorporation, the first paragraph of which Section 4.6 is proposed to be amended as described under "Description of the Amendment" above. The Class B Trust Amendment will not change the current provision of Section 4.6 pursuant to which Class A Shares are not convertible.

Under the current provisions of Section 4.6, each Class B Share is convertible at any time at the holder's option into one Class A Share, and each Class B Share shall automatically convert into one Class A Share, without any action by the Company or further action by the holder thereof, upon the transfer of such Class B Share, other than the following transfers:

- to any other holder of Class B common stock or to any natural person or business organization that, directly or indirectly, controls, is controlled by or is under common control with such holder (with the term "business organization" defined to mean any corporation, limited liability company, partnership or like entity);

- to a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock;

- to any charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended;

- to a trust all of the beneficiaries of which are:
  - holders of Class B common stock each of whom is a natural person,
  - a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock, and/or
  - a charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended;

- by will to:
  - a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock,
  - a charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or
  - to a trust as described in the bullet point immediately above;

- pursuant to the laws of descent and distribution to a spouse, sibling, parent, grandparent and/or descendant, whether natural or adopted, of a holder of Class B common stock; or

- to the Company.

Notwithstanding the foregoing, a Class B Share shall automatically convert into one Class A Share upon any transfer thereof pursuant to a divorce or separation agreement, decree or order.

In the event at any time the Class B Shares outstanding constitute less than 50% of the 14,023,454 Class B Shares outstanding as of the date of the final prospectus relating to the Company's initial public offering (which date was December 10, 2003, and which 50% amount equals 7,011,727 Class B Shares), each remaining Class B Share outstanding shall automatically be converted into one Class A Share. As of March 28, 2019, there were 11,459,641 Class B Shares issued and outstanding.

The proposed Class B Trust Amendment would amend the Class B Eligible Trust requirements described in the fourth bullet point of the bullet point list immediately above to provide as follows:

- to a trust all of the Beneficiaries (as defined below) of which are:

  - holders of Class B common stock (or are eligible to hold Class B common stock without triggering a conversion) each of whom is a natural person who is a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock, and/or

  - a charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended,

  with the term "Beneficiaries" defined to mean qualified beneficiaries of a trust, expressly intending to exclude any remote beneficiaries and any beneficiaries not otherwise existing or otherwise reasonably ascertainable, identifiable or known at the time of the transfer to such trust under the laws of the State of Nebraska and/or the laws of the state governing such trust.

Other Rights

Upon liquidation, dissolution or winding up of the Company, after payment in full of the amounts required to be paid to the holders of any outstanding preferred stock, all holders of common stock are entitled to receive ratably any assets available for distribution to holders of common stock after the payment of all debts and other liabilities of the Company. No shares of common stock have

preemptive rights. All outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to and may be adversely affected by the rights of holders of any preferred stock that may be issued in the future.

Current Ownership of Class B Shares

As of February 28, 2019, the issued and outstanding Class B Shares were beneficially owned principally by:

- Michael S. Dunlap, Executive Chairman of the Board, his spouse and adult children, and trusts for the various family members' benefit; and

- Shelby J. Butterfield, the widow of Stephen F. Butterfield, their children, the adult children of Mr. Butterfield from a prior marriage and their children, and trusts for the various family members' benefit.

As of February 28, 2019, Mr. Dunlap and Ms. Butterfield were deemed under SEC rules to have beneficial ownership of 90.7% and 32.9%, respectively, of the issued and outstanding Class B Shares, and 77.1% and 26.3%, respectively, of the combined voting power of the Company's shareholders. For additional information, see "Security Ownership of Directors, Executive Officers, and Principal Shareholders - Stock Ownership" above. Such beneficial ownership is determined in accordance with SEC rules, under which a person is deemed to have beneficial ownership of shares with respect to which such person has or shares voting or dispositive power, and in some cases the same shares are deemed to be beneficially owned by more than one person. As a result, certain Class B Shares are deemed under applicable SEC rules to be beneficially owned by both Mr. Dunlap and Ms. Butterfield, as discussed under "Security Ownership of Directors, Executive Officers, and Principal Shareholders - Stock Ownership" above. In addition, on March 22, 2019, an Amendment No. 5 to Statement on Schedule 13D was filed by Mr. Dunlap to report that he may be deemed to have acquired beneficial ownership of an additional 778,089 Class B Shares transferred effective as of March 14, 2019 from the Estate of Stephen F. Butterfield to the Butterfield Family Trust and 135,332 Class B Shares transferred effective as of March 14, 2019 to the restated Stephen F. Butterfield Revocable Living Trust, for which trusts Whitetail Rock Capital Management, LLC, an SEC-registered investment adviser and majority owned subsidiary of the Company, has been designated to serve as investment adviser with respect to shares of the Company's stock held in such trusts.

Due to the potential related party nature of the proposed Class B Trust Amendment with respect to trusts that the current holders of Class B Shares may wish to establish in the future, and the possibility that Mr. Dunlap, as Executive Chairman of the Board and the beneficial owner of a significant number of Class B Shares, may be deemed to have a conflict of interest in the proposed Class B Trust Amendment, the proposed Class B Trust Amendment was separately reviewed and approved by the Board's Nominating and Corporate Governance Committee, all of the members of which are independent directors and none of the members of which had a material interest in the proposed Class B Trust Amendment, and the Nominating and Corporate Governance Committee recommended that the Board approve the proposed Class B Trust Amendment. For additional information about the Nominating and Corporate Governance Committee, including the composition thereof, see "Corporate Governance - Board Committees - Nominating and Corporate Governance Committee" above.

Reasons for the Amendment

As indicated under "Overview" above, the purpose of the proposed Class B Trust Amendment is to make changes to the description of eligible trust beneficiaries, in part utilizing a uniform law "qualified beneficiary" term, in order to simplify and clarify the requirements for beneficiaries of Class B Eligible Trusts, and thereby facilitate the use of customary estate planning trusts by holders of Class B Shares who do not intend for such shares to be converted, without inordinate time required of the Company in reviewing such trusts to determine the proper classification of such shares upon transfer to such trusts under the current provisions of the Articles of Incorporation.

As indicated under "Conversion Provisions" above, in order for Class B Shares to be transferred to a trust without automatic conversion to Class A Shares under the current provisions of the Articles of Incorporation, all of the beneficiaries of the trust must fall into at least one of the following categories:

- holders of Class B common stock each of whom is a natural person;

- a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock, and/or;

- a charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

The Articles of Incorporation are governed by Nebraska law, and the term "beneficiary" is broadly defined under the Nebraska Uniform Trust Code to mean a person that:

- has a present or future beneficial interest in a trust, vested or contingent; or
- in a capacity other than that of trustee, holds a power of appointment over trust property.

Under that framework, in order to determine the proper classification of Class B Shares upon the transfer of such shares to a trust, the trust agreement must be reviewed to determine whether all beneficiaries, including persons with a contingent possible future interest the likelihood of which ever resulting in an actual benefit from the trust appears to be remote, fall into at least one of the required categories of beneficiaries of a Class B Eligible Trust as enumerated above. Since estate planning trust agreements can be very elaborate in order to reflect the trustor's long-term objectives yet contemplate various possible contingencies, such review is often an inordinately time-consuming process, and if the trustor's intent is to preserve the Class B Share status, in some cases the trust agreement must be revised to ensure that each beneficiary (even a person with a contingent possible future interest the likelihood of which ever resulting in an actual benefit from the trust appears to be remote) falls within at least one of the required categories of beneficiaries of a Class B Eligible Trust. This perspective often comes into tension with customary estate planning trust document provisions which designate various possible remote beneficiaries who would receive a benefit from the trust only if a very unlikely event actually occurs, primarily as a trust protection device in order to avoid or minimize the need for third-party intervention if such event does actually occur. The matter is further complicated when the trust agreement is governed by the laws of a state other than Nebraska.

In view of the foregoing, the proposed Class B Trust Amendment would replace the term "beneficiaries" in the first paragraph of Section 4.6 of the Articles of Incorporation with the capitalized term "Beneficiaries," which is defined in the Class B Trust Amendment to mean qualified beneficiaries of a trust, expressly intending to exclude any remote beneficiaries and any beneficiaries not otherwise existing or otherwise reasonably ascertainable, identifiable or known at the time of the transfer to such trust under the laws of the State of Nebraska and/or the laws of the state governing such trust. The "qualified beneficiary" term reflected in the Class B Trust Amendment definition of "Beneficiaries" is in turn defined under the Nebraska Uniform Trust Code to mean a beneficiary who, on the date the beneficiary's qualification is determined:

- is a distributee or permissible distributee of trust income or principal;
- would be a distributee or permissible distributee of trust income or principal if the interests of the distributees described in the immediately preceding bullet point terminated on that date without causing the trust to terminate; or
- would be a distributee or permissible distributee of trust income or principal if the trust terminated on that date.

Accordingly, qualified beneficiaries are generally limited to beneficiaries currently eligible to receive a distribution from the trust together with those who are essentially first-line remainder beneficiaries who would become eligible to receive distributions were the event triggering the termination of a beneficiary's interest or of the trust itself to occur on the date in question.

The above-described "qualified beneficiary" term is based on the Uniform Trust Code, a comprehensive codification of the common law on trusts developed by the National Conference of Commissioners on Uniform State Laws in 2000 in response to the increased use of trusts in family estate planning, and adopted in some form in Nebraska and approximately 30 other states and the District of Columbia. The Uniform Trust Code notes in its accompanying comments that, due to the difficulty of identifying beneficiaries whose interests are remote and contingent, and because such beneficiaries are not likely to have much interest in the day-to-day affairs of the trust, the Uniform Trust Code uses the concept of "qualified beneficiary" to limit the class of beneficiaries to whom certain notices must be given or consents received.

Similarly, the Company believes that limiting the beneficiaries of a trust who or which must fall within at least one of the required categories for a Class B Eligible Trust to the qualified beneficiaries of such trust, with the additional text in the proposed Class B Trust Amendment stating that qualified beneficiaries expressly intends to exclude any remote beneficiaries and any beneficiaries not otherwise existing or otherwise reasonably ascertainable, identifiable or known at the time of the transfer to such trust under the laws of the State of Nebraska and/or the laws of the state governing such trust, is a reasonable method of simplifying and clarifying the requirements for determining whether a trust is a Class B Eligible Trust by limiting the focus to the substantively significant beneficiaries of the trust. The Company also believes that such simplification and clarification remain consistent with the intent of the provisions governing the Class B Shares, including the intent of the original provisions for Class B Eligible Trusts. In connection therewith, the proposed Class B Trust Amendment facilitates the holding of Class B Shares through customary estate

planning vehicles that otherwise qualify as Class B Eligible Trusts, but it does not expand the group or class of individuals or entities who may hold Class B Shares or be qualified beneficiaries of Class B Eligible Trusts.

In addition, the proposed Class B Trust Amendment essentially combines the current first two categories of beneficiaries for Class B Eligible Trusts of (1) holders of Class B common stock each of whom is a natural person, and (2) a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock, into a single category of (1) holders of Class B common stock (or are eligible to hold Class B Common Stock without triggering a conversion) each of whom is a natural person who is a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B common stock. Further, the proposed Class B Trust Amendment includes minor grammatical changes intended to make clearer that a beneficiary which is a charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, need not be an existing holder of Class B common stock in order for the trust to be a Class B Eligible Trust.

General Effects of the Amendment

The Nominating and Corporate Governance Committee and the Board believe that the Class B Trust Amendment is advisable and in the best interests of the Company and its shareholders, including both the holders of Class A Shares and the holders of Class B Shares. The Nominating and Corporate Governance Committee and the Board believe that the potential advantages of the Class B Trust Amendment include, but are not limited to, the factors listed below. These factors are not intended to be exhaustive, but include material factors considered by the Nominating and Corporate Governance Committee and the Board in deciding to approve the Class B Trust Amendment and recommend that the Company's shareholders approve the Class B Trust Amendment. In light of the variety of factors considered, neither the Nominating and Corporate Governance Committee nor the Board found it practicable to, and did not, quantify or otherwise assign relative weights to the advantages, disadvantages, or other considerations, although the following factors were considered important in their decision.

Potential Benefits, Advantages, or Positive Considerations of the Amendment

- *Reduced Time and Expense to Determine Whether a Particular Trust is a Class B Eligible Trust.* The anticipated general effect of the Class B Trust Amendment is a simplification and clarification of the requirements for determining whether a given trust is a Class B Eligible Trust as discussed above, and a relative reduction in future time and expense that must be incurred by the Company in reviewing customary estate planning trust documents in order to determine the proper classification of Class B Shares upon the transfer to trusts governed thereby, as well as a relative reduction in future time and expense that must be incurred by holders of Class B Shares in developing trust documents that do not inadvertently result in the conversion of Class B Shares into Class A Shares, whereby the voting power of such stock would be reduced from ten votes per share to one vote per share. Such trust documents include trust agreements for trusts into which Class B Shares may be transferred by will, since the text of Section 4.6 of the Articles of Incorporation for a transfer by will includes a transfer by will to a trust described in the clause for trusts proposed to be amended in the Class B Trust Amendment.

- *On-Going Relationship with Holders of Class B Shares.* The Nominating and Corporate Governance Committee and the Board determined that the Class B Trust Amendment may have the effect of furthering an ongoing collaborative relationship between the Company and the current holders of Class B Shares. As indicated above, the Class B Trust Amendment is expected to make it easier and less expensive for holders of Class B Shares to utilize customary estate planning arrangements, which may avoid or minimize expensive and lengthy probate proceedings and may have certain tax benefits, and also benefit the Company through reduced time and expenses required to review the documents for the trusts involved in such arrangements in order to determine the proper classification of the Class B Shares upon the transfer thereto. Accordingly, the Class B Trust Amendment may facilitate future estate planning objective of the holders of Class B Shares and their family members, without affecting their control of the Company.

- *Potential Avoidance of Adverse Impacts on Market Price for Class A Shares Resulting from Inadvertent Conversions of Class B Shares.* By making it easier for holders of Class B Shares to preserve the status of Class B Shares transferred to customary estate planning trusts if preservation of such status is their intent, and thus less likely that inadvertent conversions of Class B Shares will occur, the proposed Class B Trust Amendment may also have the effect of avoiding adverse impacts on the market price for Class A Shares, since it may be more likely that Class B Shares which are inadvertently converted into Class A Shares are thereafter sold into the market, which if done in significant amounts could have adverse effects on the stock market price and volatility of the Class A Shares.

Potential Disadvantages or Negative Considerations of the Amendment

- *Certain Persons Have Interests in the Class B Trust Amendment that are Not Shared by Other Shareholders.* Current holders of Class B Shares, including Mr. Dunlap and Ms. Butterfield, and their respective family members, have interests in the Class B Trust Amendment that may be different from, or in addition to, the interests of holders of Class A Shares, since the Class B Trust Amendment is expected to make it easier to use customary estate planning trusts to facilitate the future estate planning objectives of holders of Class B Shares, which may result in potential tax benefits for such holders of Class B Shares and their family members. Shareholders are urged to carefully study and consider the Class B Trust Amendment in light of the interests of certain persons in the Class B Trust Amendment that are different from the interests of shareholders generally.

- *On-Going Control by Holders of Class B Shares.* The proposed Class B Trust Amendment is expected to make it easier for holders of Class B Shares to maintain the voting power associated with Class B Shares with their family members and other subjects of their estate planning objectives, particularly as Class B Shares are transferred into new estate planning trusts by members of successive generations who may reside in states other than Nebraska. This may have the effect of making it more difficult for a potential acquirer to pursue a possible acquisition of control of the Company, as discussed below under "Potential Anti-Takeover Effects."

The Class B Trust Amendment does not involve the issuance of additional authorized Class B Shares, does not affect the existing voting rights of Class A Shares and Class B Shares, either as separate classes or in relation to one another, and the voting rights of existing shareholders are not disparately reduced or restricted by the Class B Trust Amendment. The Nominating and Corporate Governance Committee and the Board believe there is a reasonable business justification for the proposed Class B Trust Amendment as discussed above, and the Class B Trust Amendment is not proposed with the intent to disenfranchise any of the Company's shareholders.

Potential Anti-Takeover Effects

As indicated under "Current Ownership of Class B Shares" above, as of February 28, 2019, Mr. Dunlap and Ms. Butterfield were deemed under SEC rules to have beneficial ownership of 90.7% and 32.9%, respectively, of the issued and outstanding Class B Shares, and 77.1% and 26.3%, respectively, of the combined voting power of the Company's shareholders (with certain Class B Shares deemed under applicable SEC rules to be beneficially owned by both Mr. Dunlap and Ms. Butterfield). As discussed above, the proposed Class B Trust Amendment is expected to make it easier for current holders of Class B Shares to maintain the voting power associated with Class B Shares with their family members and other subjects of their estate planning objectives, particularly as Class B Shares are transferred into new estate planning trusts by members of successive generations who may reside in states other than Nebraska. As a result, the proposed Class B Trust Amendment may have the effect of making it more difficult for a potential acquirer to pursue a possible acquisition of control of the Company, even if shareholders believe that such change of control may be in their best interests.

The Company is not aware of any pending, planned, or proposed transfers of Class B Shares to trusts that the proposed Class B Trust Amendment would apply to, and the Class B Trust Amendment is not being proposed in response to any such plan or proposal. Rather, the Board is proposing and recommending the Class B Trust Amendment as a result of the inordinate amount of time that has been spent by the Company in reviewing customary estate planning trust documents in order to determine the proper classification of Class B Shares transferred to such trusts, which time may increase as Class B Shares are transferred to members of successive generations who may reside in states other than Nebraska.

Appraisal Rights

Shareholders are not entitled to assert appraisal rights under the Nebraska Model Business Corporation Act in connection with the Class B Trust Amendment.

Other Matters

The Company does not believe that the Class B Trust Amendment will have any material impact on the Company's business, financial condition, or operations. As a result, the Company does not believe that any of its financial statements or financial information is material to the exercise of prudent judgment with respect to the decision whether to vote for or against approval of the Class B Trust Amendment. Accordingly, the Company's financial statements and financial information are not included or incorporated by reference in this proxy statement.

The Board of Directors unanimously recommends a vote FOR the approval of the amendment to the Company's Articles of Incorporation to modify the restrictions for trusts which may hold Class B common stock, with ten votes per share, without conversion into Class A common stock, with one vote per share.

OTHER SHAREHOLDER MATTERS

Householding

Under SEC rules, we are allowed to send in a single envelope our Notice of Internet Availability of Proxy Materials or a single copy of our proxy solicitation and other required annual meeting materials to two or more shareholders sharing the same address. We may do this only if the shareholders at that address share the same last name or if we reasonably believe that the shareholders are members of the same family or group. If we are sending a Notice, the envelope must contain a separate Notice for each shareholder at the shared address. Each Notice must also contain a unique control number that each shareholder will use to gain access to our proxy materials and vote online. If we are mailing a paper copy of our proxy materials, the rules require us to send each shareholder at the shared address a separate proxy card.

We believe these rules are beneficial to both our shareholders and to us. Our printing and postage costs are lowered anytime we eliminate duplicate mailings to the same household. However, shareholders at a shared address may revoke their consent to the householding program and receive their Notice in a separate envelope, or, if they have elected to receive a full copy of our proxy materials in the mail, receive a separate copy of these materials. If you receive a single set of proxy materials but prefer to receive separate copies for each registered account in your household, please contact our agent, Broadridge, at: 1-866-540-7095, or in writing at: Broadridge Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Broadridge will remove you from the householding program within 30 days of receipt of your request, following which you will begin receiving an individual copy of the material.

You can also contact Broadridge at the phone number above if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

Other Business

On the date that this Proxy Statement was first made available to shareholders, the Board of Directors had no knowledge of any other matter which will come before the Annual Meeting other than the matters described herein. However, if any such matter is properly presented at the Annual Meeting, the proxy solicited hereby confers discretionary authority to the proxies to vote in their sole discretion with respect to such matters, as well as other matters incident to the conduct of the Annual Meeting.

Shareholder Proposals for 2020 Annual Meeting

Shareholder proposals intended to be presented at the 2020 Annual Meeting of Shareholders, currently scheduled for May 21, 2020, must be received at the Company's offices at 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508, Attention: Corporate Secretary, on or before December 14, 2019, to be eligible for inclusion in the Company's 2020 proxy materials. The inclusion of any such proposal in such proxy materials shall be subject to the requirements of the proxy rules adopted under the Exchange Act, (the "Proxy Rules"). The submission of a shareholder proposal does not guarantee that it will be included in the Company's Proxy Statement.

A shareholder may otherwise propose business for consideration or nominate persons for election to the Board of Directors, in compliance with federal proxy rules, applicable state law, and other legal requirements and without seeking to have the proposal included in the Company's Proxy Statement pursuant to the Proxy Rules. Under the Company's Bylaws, the Secretary of the Company must receive notice of any such proposal or nominations for the Company's 2020 Annual Meeting between January 24 and February 23, 2020 (90 to 120 days before the first anniversary of this year's Annual Meeting date). The notice must contain the information required by the Company's Bylaws. A proxy may confer discretionary authority to vote on any matter at a meeting if the Company does not receive notice of the matter within the time frame described above. A copy of the Company's Bylaws is available at the Company's investor relations website at www.nelnetinvestors.com under "Corporate Governance" - "Governance Documents" or is available upon request to: Nelnet, Inc., 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508, Attention: Corporate Secretary. The Chairman of the meeting may exclude matters that are not properly presented in accordance with these requirements.

MISCELLANEOUS

The information under the captions "Compensation Committee Report" and "Audit Committee Report" (i) shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or the liabilities of Section 18 of the Exchange Act, and (ii) shall not be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates such information by reference in such filing.

NELNET, INC.
EXECUTIVE OFFICERS INCENTIVE COMPENSATION PLAN
(Effective as of January 1, 2019)

1. Purpose.

The purpose of the Nelnet, Inc. Executive Officers Incentive Compensation Plan is to advance the interests of Nelnet, Inc. and its shareholders by strengthening its ability to attract, retain, and motivate executive officers of Nelnet, Inc. upon whose judgment, initiative, and efforts ensure the continued success, growth and development of Nelnet, Inc. The intent is to provide them with opportunities to earn performance-based incentive compensation that aligns their interests with the interests of the shareholders, including the achievement of long-term strategic business objectives.

2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Award" means the amount of incentive compensation in the form of a Performance-Based Award for a Performance Period that the Committee has determined is payable to a Participant in accordance with the Plan.

(b) "Beneficiary" means the person, persons, trust or trusts which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Company to receive the benefits specified under this Plan upon the death of the Participant, or, if there is no designated Beneficiary or surviving designated Beneficiary, then the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.

(e) "Committee" means the Compensation Committee of the Board (or a subcommittee thereof to which authority under this Plan may be delegated by the Compensation Committee of the Board pursuant to Section 3 of this Plan).

(f) "Company" means Nelnet, Inc., a corporation organized under the laws of Nebraska, or any successor corporation.

(g) "Executive Officer" means an "executive officer" of the Company within the meaning of Rule 3b-7 under the Securities Exchange Act of 1934, as amended, including the Executive Chairman of the Board.

(h) "Participant" means an Executive Officer who has been selected by the Committee to participate in the Plan for a particular Performance Period and be eligible to receive an Award for that Performance Period.

(i) "Performance-Based Award" means an Award as described under Section 4 of the Plan.

(j) "Performance Period" means a calendar year or such other period established by the Committee in its sole discretion.

(k) "Plan" means this Nelnet, Inc. Executive Officers Incentive Compensation Plan.

3. Administration. The Plan shall be administered by the Compensation Committee of the Board, provided that such Committee may from time to time delegate all or any part of its authority under this Plan to a subcommittee thereof and, to the extent of any such delegation, references in this Plan to the Committee shall be deemed to be references to such subcommittee. For each Performance Period, the Committee shall select those Executive Officers who will participate in the Plan and be eligible for an Award under the Plan for that Performance Period. The Committee shall have the authority to adopt, alter, and repeal such administrative rules, guidelines, and practices governing the Plan as it shall deem advisable, and to interpret the terms and provisions of the Plan. All determinations made by the Committee with respect to the Plan and Awards thereunder shall be final and binding on all persons, including the Company and all Executive Officers selected by the Committee to participate in the Plan.

4. Performance-Based Awards.

(a) The Committee may, from time to time, establish performance criteria with respect to Awards which Participants may be eligible to receive with respect to a Performance Period, and performance goals may be based on one or more of the following criteria:

(i) Levels of earnings per share; net income; income before income taxes; net interest income; earnings per share or net income excluding derivative market value and other adjustments as the Committee deems appropriate in the Committee's sole discretion; revenues from fee-based businesses (including measures related to the diversification of revenues from fee-based businesses and increases in revenues through both organic growth and acquisitions); federally insured student loan assets; private education loan assets; consumer loan assets; and total assets;

(ii) Return on equity (including return on tangible equity); return on assets or net assets; return on capital (including return on total capital or return on invested capital); return on investments; and ratio of equity to total assets;

(iii) Student loan servicing and other education finance or service customer measures (including loan servicing volume and service rating levels under contracts with the U.S. Department of Education);

(iv) Success or progress made in efforts to obtain new contracts with the U.S. Department of Education, as well as other loan servicing business;

(v) Cash flow measures (including cash flows from operating activities, cash flow return on investment, assets, equity, or capital, and generation of long-term cash flows (including net cash flows from the Company's securitized loan portfolios));

(vi) Market share;

(vii) Customer satisfaction levels, and employee engagement, productivity, retention, and satisfaction measures;

(viii) Operating performance and efficiency targets and ratios, as well as productivity targets and ratios;

(ix) Levels of, or increases or decreases in, operating margins, operating expenses, and/or nonoperating expenses;

(x) Business segment, division or unit profitability and other performance measures (including growth in customer base, revenues, earnings before interest, taxes, depreciation and amortization, and segment profitability, as well as management of operating expense levels);

(xi) Acquisitions, dispositions, projects, or other specific events or transactions (including specific events or transactions intended to enhance the long-term strategic positioning of the Company);

(xii) Performance of investments;

(xiii) Regulatory compliance measures; or

(xiv) Any other criteria as determined by the Committee in its sole discretion.

Any criteria may be used to measure the performance of the Company as a whole and/or any one or more operating segments, divisions, business units, and/or subsidiaries of the Company or any combination thereof, as the Committee may deem appropriate.

(b) The Committee shall determine whether, with respect to a Performance Period, the applicable performance goals have been met with respect to a particular Participant and, if they have, to ascertain the amount of the applicable Performance-Based Award. The Committee may provide that any evaluation of attainment of a performance goal may include or exclude any extraordinary items.

5. Payment of Awards. The Award of each Participant for a Performance Period shall be paid after the determination of the payability of such Award is made by the Committee, and in any event the timing of the payment of an Award shall comply in all respects with the provisions of Section 409A of the Code. If a Participant dies after the end of a calendar year but before receiving payment of any Award earned with respect to such year or any period within such year, the amount of such Award shall be paid to a designated Beneficiary, or, if no Beneficiary has been designated, to the Participant's estate, as soon as practicable after the payability of such Award has been determined, and in any event in compliance with Section 409A of the Code.

6. Maximum Annual Per-Participant Award Limit. In no event shall the amount paid under the Plan to a Participant with respect to any calendar year exceed 150% of that Participant's base salary for that year.

7. Form of Award. The Committee, at their discretion, can determine if an Award is to be paid in cash, stock, or a combination thereof, or provide the option for the Participant to elect to receive their Award in cash, stock, or a combination thereof. The payment of any Award, or any applicable portion of any Award, in stock shall be made pursuant to the Nelnet, Inc. Restricted Stock Plan.

8. Nontransferability. No Award or rights under this Plan may be transferred or assigned other than by will or by the laws of descent and distribution.

9. Amendments and Termination. The Board may terminate the Plan at any time and may amend it from time to time; provided, however, that no termination or amendment of the Plan shall adversely affect the rights of a Participant or a Beneficiary to a previously earned Award.

10. General Provisions.

(a) Nothing set forth in this Plan shall prevent the Board from adopting other or additional compensation arrangements. Neither the adoption of this Plan or any Award hereunder shall confer upon an Executive Officer any right to continued employment.

(b) No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made with respect to the Plan, and all members of the Board or the Committee and all officers or employees of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

(c) Governing Law. The validity, construction, and effect of this Plan, and any rules and regulations relating to this Plan, shall be determined in accordance with the laws of the State of Nebraska, without giving effect to principles of conflict of laws thereof.

(d) Effective Date; Term of Plan. The Plan shall be effective as of January 1, 2019, subject to approval of the Plan by the Company's shareholders at the Company's 2019 annual meeting of shareholders. If such shareholder approval is obtained and the Plan becomes effective, the Plan shall expire on January 1, 2024, which is five years after the effective date of the Plan.

(e) Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only. In the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

ARTICLES OF AMENDMENT TO
THIRD AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF NELNET, INC.

Pursuant to the provisions of Section 21-2,155 of the Nebraska Model Business Corporation Act, the undersigned corporation adopts the following Articles of Amendment with respect to its Third Amended and Restated Articles of Incorporation:

1. The name of the corporation is Nelnet, Inc.

2. The following amendment to the corporation's Third Amended and Restated Articles of Incorporation was adopted and approved in the manner required by the Nebraska Model Business Corporation Act and by the corporation's Third Amended and Restated Articles of Incorporation:

The text of the amendment to the corporation's Third Amended and Restated Articles of Incorporation is to amend Section 4.6 of Article IV thereof to read as follows:

4.6. Conversion. Class A Common Stock is not convertible. Each share of Class B Common Stock is convertible at any time at the holder's option into one (1) share of Class A Common Stock. Each share of Class B Common Stock shall automatically convert into one (1) share of Class A Common Stock, without any action by the Corporation or further action by the holder thereof, upon the Transfer (as defined below) of such share, other than the following Transfers: (i) to any other holder of Class B Common Stock or to any natural person or business organization that, directly or indirectly, controls, is controlled by or is under common control with such holder ("business organization" shall mean any corporation, limited liability company, partnership or like entity); (ii) to a spouse, sibling, parent, grandparent or descendant, whether natural or adopted, of a holder of Class B Common Stock; (iii) to any charitable foundation or other organization qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or the corresponding provision of any subsequent federal tax law; (iv) to a trust all of the Beneficiaries (as defined below) of which are holders of Class B Common Stock (or are eligible to hold Class B Common Stock without triggering a conversion) each of whom is a natural person as described in clause (ii) hereof, and/or are entities described in clause (iii) hereof; (v) by will to any transferee described in clause (ii), (iii) or (iv) hereof; (vi) pursuant to the laws of descent and distribution to a spouse, sibling, parent, grandparent and/or descendant, whether natural or adopted, of a holder of Class B Common Stock; or (vii) to the Corporation. Notwithstanding the foregoing, a share of Class B Common Stock shall automatically convert into one (1) share of Class A Common Stock, without any action by the Corporation or further action by the holder thereof, upon any Transfer of such share pursuant to a divorce or separation agreement, decree or order. "Transfer" means a sale, assignment, transfer, gift, encumbrance or other disposition, other than a bona fide pledge for collateral security purposes. "Beneficiaries" means qualified beneficiaries of a trust, expressly intending to exclude any remote beneficiaries and any beneficiaries not otherwise existing or otherwise reasonably ascertainable, identifiable or known at the time of the Transfer to such trust under the laws of the State of Nebraska and/or the laws of the state governing such trust.

In the event at any time the shares of the Class B Common Stock outstanding constitute less than 50% of the Class B Common Stock outstanding as of the date of the final prospectus relating to the Corporation's initial public offering (as adjusted for any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities, the issuance of warrants or other rights to purchase shares or other securities, or other similar capitalization change), each remaining share of Class B Common Stock outstanding shall automatically be converted into one (1) share of Class A Common Stock.

The Corporation will reserve and at all times keep available out of its authorized but unissued shares of Class A Common Stock or its shares of treasury stock of such class a sufficient number of shares of Class A Common Stock to satisfy the conversion requirements of all outstanding shares of Class B Common Stock.

3. The date of the amendment's adoption was May 23, 2019.

4. The amendment was duly approved by the shareholders of the corporation in the manner required by the Nebraska Model Business Corporation Act and by the corporation's Third Amended and Restated Articles of Incorporation.

Dated as of the 23rd day of May, 2019.

NELNET, INC.

By: ____________________________
Jeffrey R. Noordhoek,
Chief Executive Officer