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, 2019

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	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, Par Value $0.01 per Share	NNI	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 ☒ 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 ☒

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

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

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

Large accelerated filer ☒ 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 ☒

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant on June 28, 2019 (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 $59.22 per share, was $1,195,786,762. The registrant's Class B Common Stock is not listed for public trading on any exchange or market system, but shares of Class B Common Stock are convertible into shares of Class A Common Stock at any time on a share-for-share basis. For purposes of this calculation, shares of common stock beneficially owned by any director or executive officer of the registrant or by any person who beneficially owns greater than 10 percent of the Class A Common Stock or who is otherwise believed by the registrant to be in a control position have been excluded, since such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not conclusive for other purposes.

As of January 31, 2020, there were 28,462,915 and 11,271,609 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 2020 Annual Meeting of Shareholders, scheduled to be held May 21, 2020, 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 ability to 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 2019, 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, 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, acquisitions, and other activities, including activities that are intended to diversify the Company both within and outside of its historical core education-related businesses, such as the risk that the Company's industrial bank charter application may not result in the grant of a charter and the uncertain nature of the expected benefits from obtaining an industrial bank charter;
- risks related to investments in solar projects, including risks of not being able to realize tax credits which remain subject to recapture by taxing authorities; 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 purpose to serve others and a vision to make customers' dreams possible by delivering customer focused products and services. 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 both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate, early-stage and emerging growth companies, and renewable energy. 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, 2019, the Company had a $20.7 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 8.8 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 $26.6 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 over the last several years is to reposition itself for the post-FFELP environment.

To reduce its reliance on interest income from FFELP 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 is also actively expanding its private education and consumer loan portfolios. In addition, in 2009, the Company began servicing federally owned student loans for the Department.

On November 12, 2019, the Company announced it filed an application with the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions to establish Nelnet Bank, a Utah-chartered industrial bank. If the charter is granted, Nelnet Bank would operate as an internet bank franchise with a home office in Salt Lake City and would leverage the Company's experience and expertise helping students and families plan and pay for their education. The Company cannot predict the timing of the application process, or if the Company will be successful in obtaining a charter.

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 Services ("NDS")
- Focuses on student and consumer loan origination services and servicing, loan origination and servicing-related technology solutions, and outsourcing business services
- Includes the brands Nelnet Loan Servicing, Great Lakes Educational Loan Services, Inc. ("Great Lakes"), Firstmark Services, and Proxi

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

- Referred to as Nelnet Business Services (“NBS”)
- Includes the brands FACTS, Nelnet Campus Commerce, PaymentSpring, FACTS Education Solutions, Aware3, and Nelnet International
- Services include tuition payment plans and billing, financial needs assessment services, online payment and refund processing, school information system software, payment technologies, and professional development and educational instruction services

Communications

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

Asset Generation and Management (“AGM”)

- Also referred to as Nelnet Financial Services
- 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, 2019, the Company serviced $473.0 billion of loans for 15.1 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 in June 2009 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, 2019, Nelnet Servicing was servicing $183.8 billion of student loans for 5.6 million borrowers

under its contract, and Great Lakes was servicing $240.0 billion of student loans for 7.4 million borrowers under its contract. The Department is the Company's largest customer, representing 30 percent of the Company's revenue in 2019.

Nelnet Servicing and Great Lakes' servicing contracts with the Department previously provided for expiration on June 16, 2019. On May 15, 2019, Nelnet Servicing and Great Lakes each received a contract extension from the Department's Office of Federal Student Aid (“FSA”) pursuant to which FSA extended the expiration date of the current contracts to December 15, 2019. On November 26, 2019, Nelnet Servicing and Great Lakes each received an additional extension from FSA on their contracts through December 14, 2020. The contract extensions also provide the potential for two additional six-month extensions at the Department’s discretion through December 14, 2021.

FSA is conducting a contract procurement process entitled Next Generation Financial Services Environment (“NextGen”) for a new framework for the servicing of all student loans owned by the Department. On January 15, 2019, FSA issued solicitations for three NextGen components:

- NextGen Enhanced Processing Solution (“EPS”)
- NextGen Business Process Operations (“BPO”)
- NextGen Optimal Processing Solution (“OPS”)

On April 1, 2019 and October 4, 2019, the Company responded to the EPS component. On January 16, 2020, FSA released an amendment to the EPS component and the Company responded on February 3, 2020. In addition, on August 1, 2019, the Company responded to the BPO component. On January 10, 2020, FSA released an amendment to the BPO component and the Company responded on January 30, 2020. The Company is also part of a team that has responded and intends to respond to various aspects of the OPS component; however, on November 12, 2019, FSA put an indefinite hold on the OPS solicitation. 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, 2019 through June 30, 2019, Great Lakes' and Nelnet Servicing's overall rankings among the nine current servicers for the Department were first and sixth, respectively. Based on these results, Great Lakes' and Nelnet Servicing's allocation of new student loan servicing volumes for the period September 1, 2019 through February 29, 2020 are 19 percent and 9 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.* The Department outsources the origination of consolidation loans whereby each of the servicers receive 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

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 130 third-party servicing customers as of December 31, 2019. 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 private credit 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 (e.g., 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 modernization 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 expected to be 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 64 third-party servicing customers as of December 31, 2019. In addition, the Company provides back-up servicing arrangements to assist 14 entities for more than 3.7 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, 2019, 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 primarily 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"), which in 2018 entered into an agreement with First Data to provide technology solutions for servicing Navient's federal education loans in addition to the technology role they already played with respect to private education loans. 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 TIVAS servicers, including Nelnet Servicing and Great Lakes, were named by the Department in 2009 as servicers of federally-owned loans. The two other TIVAS 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

NBS provides service and technology to administrators, teachers, students, and families of K-12 schools and higher education institutions. The Company's payment processing services and technologies also serve customers outside of education.

The Company's solutions include:

- Tuition payment plans
- Payment processing
- Advancement (giving management)
- Professional development
- School administration
- Financial management
- Enrollment and communications
- Instructional services

The majority of this segment's customers are located in the United States; however, the Company also provides services and technology 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, FACTS comprehensive set of solutions includes (i) financial management, (ii) school administration solutions, (iii) advancement, (iv) enrollment and communications; (v) professional development and educational instruction services, and (vi) innovative technology products that aid in teacher and student evaluations. The Company provides services for more than 11,500 K-12 schools and serves nearly 4.2 million students and families.

The Company is the market leader in education financial management services, including actively managed tuition payment plans, financial needs assessment (grant and aid), incidental billing, advanced accounting, and payment forms. K-12 educational institutions contract with the Company to administer tuition payment plans that allow families to make recurring payments generally over six to 12 months. The Company earns tuition payment plan services revenue by collecting a fee from either the institution or the payer to administer the plan. Additionally, the Company may earn revenue for payment processing fees when

families make tuition payments. The Company's grant and aid assessment service helps K-12 schools evaluate and determine the amount of financial aid to disburse to the families it serves. The Company earns service revenue by charging a fee for grant and aid applications processed. Under the FACTS brand, the Company provides actively managed tuition payment plans in Australia through Nelnet International.

The Company’s school administration solutions include FACTS Student Information System (“SIS”), Family App, and Parent Alert. FACTS SIS automates the flow of information between school administrators, teachers, and parents and includes administrative processes such as admissions, enrollment, scheduling, cafeteria management, 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. FACTS Family App provides families with mobile access to the information they need and Parent Alert allows for instant communication with families when needed. Prior to the re-branding effort in 2018, FACTS SIS was branded and known as RenWeb School Management Solutions. The Company offers student information systems to schools in Australia and New Zealand through Nelnet International.

The combination of the Company’s school administration software and tuition management and grant and aid 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.

The Company's advancement solution, FACTS Giving, is a comprehensive donation platform that streamlines donor communications, organizes donor information, and provides access to data analysis and reporting. Enrollment and communications solutions include School Site and Application and Enrollment. School Site offers website design and Application and Enrollment is a simple, cost effective admissions software.

FACTS Education Solutions provides customized professional development services for teachers and school leaders as well as instructional services for students experiencing academic challenges. These services provide continuous advanced learning and professional development while helping private schools identify and attain equitable participation in federal education programs. FACTS Education Solutions also offers an innovative technology product that aids in both teacher and student evaluation.

Higher Education

In the higher education market, the Company (known as Nelnet Campus Commerce) offers solutions including (i) actively managed tuition payment plans and (ii) payments technology and processing. The newest product to launch in this market is CampusKey, which provides students with a mobile app to replace their plastic student ID card. The Company provides service for more than 1,300 colleges and universities worldwide and serves 7.6 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 earns tuition payment plan services revenue by collecting a fee from either the student or family to administer the plan. Additionally, the Company may earn revenue for payment processing fees when families make tuition payments.

The Company's payment technology solutions allow for electronic billing and payment of campus charges. Payment 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 payment technology and processing solutions 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.).

Nelnet International also offers payments technology and processing solutions 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 payment 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 from a relatively small number of 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.

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, governmental, 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 or has announced plans to serve the Scottsbluff, Gering, Bridgeport, North Platte, Ogallala, Alliance, Lincoln, Hastings, and Imperial communities in Nebraska, and Fort Morgan and Breckenridge, Colorado. Total households in these communities is approximately 161,000. As of December 31, 2019, the Company provided services to approximately 48,000 residential households, an increase of over 10,000, or 28 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, governmental, 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 and governmental entities, 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 substantially 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 their 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 (97.7 percent as of December 31, 2019) is federally insured. As of December 31, 2019, the Company's loan portfolio was $20.7 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 loan assets are held in a series of 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 decline in the economy or an increase in unemployment.

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, 2019, the Company purchased a total of $26.6 billion of FFELP student loans from various third parties, including a total of $1.5 billion during 2019. However, since all FFELP loans will eventually pay off, a key objective of the Company over the last several years is to reposition itself for the post-FFELP environment. As such, the Company is actively expanding its private education and consumer loan portfolios.

During 2019, the Company relaunched U-fi, a marketing partnership with Union Bank and Trust Company ("Union Bank"), a company under common control with the Company. U-fi is a refinance and private student loan product that helps people pay for their education and for those who have finished their education, to refinance and consolidate their debt. During 2019, U-fi generated $108.7 million in new refinance education loans for Union Bank.

During 2019, the Company purchased $71.5 million of private education loans (including $67.7 million of U-fi loans from Union Bank) and $405.7 million of consumer loans.

The Company's competition for the purchase of FFELP, private education, and consumer loan portfolios includes banks, hedge funds, and other 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, 2019, WRCM, the Company's SEC-registered investment advisor subsidiary, had $1.41 billion in assets under management for third-party customers, consisting of student loan asset-backed securities and Nelnet stock. 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. WRCM earns annual management fees of five basis points for Nelnet stock under management. During 2019, WRCM earned $2.9 million in management fees and generated $0.1 million in performance fees. Assuming assets under management remain at their current levels, management fees should be relatively stable in future years. The Company currently anticipates that opportunities for WRCM to earn meaningful performance fees in future periods are more limited.

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 projects in Lincoln’s Haymarket District, including 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.

In addition, the Company invests in certain tax-advantaged projects promoting renewable energy resources (solar projects). The Company’s investments in these projects are designed to generate a return primarily through the realization of federal income tax credits, operating cash flows, and other tax benefits, over specified time periods.

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 Company's business plan 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 govern disclosures of credit terms to consumer borrowers
- The Fair Credit Reporting Act (“FCRA”) and Regulation V, which govern the use and provision of information to consumer reporting agencies

- The Equal Credit Opportunity Act ("ECOA") and Regulation B, which prohibit 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 protect 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 require that an institution, under certain circumstances, notify consumers about its privacy policies and practices
- The General Data Protection Regulation ("GDPR"), a European Union ("EU") regulation which places specific 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
- The California Consumer Privacy Act ("CCPA"), which enhances the privacy rights and consumer protection for residents of California
- 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 ("HEA") and related laws, rules, regulations, and policies. The HEA regulates every aspect of the federally insured student loan program. Failure to comply with the HEA could result in fines, the loss of the insurance and related federal guarantees on affected FFELP loans, expenses required to cure servicing deficiencies, suspension or termination of the right to participate as a FFELP servicer, negative publicity, and potential legal claims. The Company has designed its servicing operations to comply with the HEA, and it regularly monitors the Company's operations to maintain compliance. While the HEA is required to be reviewed and reauthorized by Congress every five years, Congress has not reauthorized the HEA since 2008, choosing to temporarily extend the HEA each year since 2013 while Congress works on the next reauthorization. The Company continuously monitors for potential changes to HEA and evaluates possible impacts to its business operations.

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.

In 2019, several states enacted laws regulating and monitoring the activity of student loan servicers. Some of these laws stipulate additional licensing fees which increase the Company’s cost of doing business. Where the Company has obtained licenses, state licensing statutes may impose a variety of requirements and restrictions on the Company. In addition, these statutes may also subject the Company to the supervisory and examination authority of state regulators in certain cases, and the Company will be subject to and experience exams by state regulators. If the Company is found to not have complied with applicable laws, regulations, or requirements, it could: (i) lose one or more of its licenses or authorizations, (ii) become subject to a consent order or administrative enforcement action, (iii) face lawsuits (including class action lawsuits), sanctions, or penalties, or (iv) be in breach of certain contracts, which may void or cancel such contracts. The Company anticipates additional states adopting similar laws.

Education Technology, Services, and Payment Processing

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

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

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

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

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

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

Communications

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

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

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

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

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

Internet services

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

Internet services have 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 internet service provider ("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.

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 considerations 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.

Asset Generation and Management

The Dodd-Frank Act created a comprehensive regulatory framework for derivatives transactions, with regulatory authority allocated among the Commodity Futures Trading Commission (“CFTC”), other prudential regulators, and the SEC. This framework, among other things, subjects certain swap participants to capital and margin requirements, recordkeeping, and business conduct standards and imposes registration and regulation of swap dealers and major swap participants. Even where a securitization trust qualifies for an exemption, many of the Company's derivative counterparties are subject to capital, margin, and business conduct requirements and therefore the Company may be impacted. Where securitization trusts do not qualify for an exemption, the Company may be unable to enter into new swaps to hedge interest rate or currency risk or the costs

associated with such swaps may increase. With respect to existing securitization trusts, an inability to amend, novate, or otherwise materially modify existing swap contracts could result in a downgrade of outstanding asset-backed securities. As a result, the Company's business, ability to access the capital markets for financing, and costs may be impacted by these regulations.

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. The GLBA requires financial institutions to periodically disclose their privacy policies and practices relating to sharing such information and enables customers to opt out of the Company’s ability to share information with unaffiliated third parties under certain circumstances. Other federal and state laws and regulations impact the Company’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. The GLBA also requires financial institutions to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures for the protection of personal and confidential information are in effect across all businesses and geographic locations. Federal law also makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means. Data privacy and data protection are areas of increasing state legislative focus. For example, the California Consumer Privacy Act (the “CCPA”), which became effective on January 1, 2020, applies to for-profit businesses that conduct business in California and meet certain revenue or data collection thresholds. The CCPA gives consumers the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of the consumer’s personal information, and the right not to be discriminated against for exercising these rights. The CCPA contains several exemptions, including an exemption applicable to information that is collected, processed, sold, or disclosed pursuant to the GLBA. The California Attorney General has not yet adopted regulations implementing the CCPA, and the California State Legislature has amended the CCPA since its passage. In addition, similar laws may be adopted by other states where the Company does business. The federal government may also pass data privacy or data protection legislation. In addition, in the EU, privacy law is now governed by the GDPR, which is directly binding and applicable for each EU member state from May 25, 2018. The GDPR contains enhanced compliance obligations and increased penalties for non-compliance compared to the prior law governing data privacy in the EU.

Intellectual Property

The Company owns numerous trademarks and service marks (“Marks”) to identify its various products and services. As of December 31, 2019, the Company had 53 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, 2019, the Company had approximately 6,600 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, People Development and 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 adversely affect our financial results and condition and the value of, and return on, an investment in the Company. 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.

<u>Interest rate risk - basis and repricing risk</u>

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, 2019, we had $18.9 billion, $0.8 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 $7.5 billion of debt indexed to three-month LIBOR, which resets quarterly, and $11.0 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, 2019, we earned $89.9 million of fixed rate floor income, which includes $40.2 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, there is no 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. However, the majority of our derivatives currently outstanding and anticipated to be executed in future periods are and will be executed and cleared at a regulated clearinghouse, thus, significantly reducing counterparty credit risk on our derivative portfolio.

Interest rate movements have an impact on the amount of collateral we are required to deposit with our derivative instrument counterparties (for non-centrally cleared derivatives) and variation margin payments with our clearinghouse (for centrally cleared derivatives). 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, which consists primarily of interest rate swaps to hedge floor income and basis swaps to hedge basis and repricing risk, 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 and/or make variation margin payments to our clearinghouse. Based on the interest rate swaps outstanding as of December 31, 2019, 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 $10 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 $25 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, the replacement of LIBOR as a benchmark rate as discussed below has significant adverse impacts on our derivatives, 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

The London Interbank Offered Rate (“LIBOR”) is a widely accepted interest rate benchmark referenced in financial contracts globally and is used to determine interest rates on commercial and consumer loans, bonds, derivatives, and numerous other financial instruments.

As of December 31, 2019, the interest earned on a principal amount of $18.9 billion in our FFELP student loan asset portfolio was indexed to one-month LIBOR, and the interest paid on a principal amount of $18.4 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.

In July 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop compelling banks to submit LIBOR rates after 2021. Accordingly, there is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021. In April 2018, the Federal Reserve Bank of New York commenced publication of three reference rates based on overnight United States Treasury repurchase agreement transactions, including the Secured Overnight Financing Rate (“SOFR”), which has been recommended as an alternative to United States dollar LIBOR by the Alternative Reference Rates Committee. Uncertainty exists as to the transition process and broad acceptance of SOFR as the primary alternative to LIBOR, including what effect it would have on the value of LIBOR-based securities, financial contracts, and variable rate loans. Although the indentures for student loan asset-backed debt securities issued in our most recent LIBOR-indexed securitization transactions include new interest rate determination fallback provisions emerging in the market for new issuances of LIBOR-indexed debt securities, many of the contracts for our existing LIBOR-indexed assets, liabilities, and derivative instruments from historical transactions do not include provisions that contemplated the possibility of a permanent discontinuation of LIBOR and clearly specified a method for transitioning from LIBOR to an alternative benchmark rate, and it is not yet known how the market in general, specific counterparties in particular, the courts, or regulators will address the significant complexities and uncertainties involved in a transition away from LIBOR to an alternative benchmark rate. Specifically, the Department has not yet indicated any market transition away from the current LIBOR framework for paying special allowance payments to holders of FFELP assets. As a result, we cannot predict the impact that a transition from LIBOR to an alternative benchmark rate would have on our existing LIBOR-indexed assets, liabilities, and derivative instruments, but such impact could have material adverse effects on the value, performance, and related cash flows of such LIBOR-indexed items, including our funding costs, net interest income, loan and other asset values, and asset-liability management strategies. 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 the majority of our 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;
- make future asset-backed securitizations more difficult to complete or more expensive until LIBOR or alternative benchmark rate uncertainties are resolved; and
- result in basis risk if the alternative benchmark rate on our loan assets does not match the alternative benchmark rate for the funding for those assets.

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 (97.7 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 qualitative 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, and trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant qualitative 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. We are actively expanding our acquisition of private education and consumer loan portfolios, which increases our exposure to credit risk.

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, 2019, our allowance for loan losses was $61.9 million. During the year ended December 31, 2019, we recognized a provision for loan losses of $39.0 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.

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments — Credit Losses*, which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. The new CECL standard became effective for us on January 1, 2020. Under the CECL model, we are required to measure and recognize an allowance for loan losses that estimates remaining expected credit losses for financial assets held at the reporting date. This will result in us presenting certain financial assets carried at amortized cost, such as our loans held for investment, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model (the model used by us to recognize credit losses for all periods prior to January 1, 2020), which delays recognition until it is probable a loss has been incurred. See the MD&A - "Recent Accounting Pronouncements - Allowance for Loan Losses" for further details on the expected impact on our consolidated financial statements from the adoption of the CECL accounting standard.

If future defaults on loans held by us are higher than anticipated, which could result from a variety of factors such as downturns in the economy, regulatory or operational changes, and other unforeseen future trends, or actual performance is significantly worse than currently estimated, our estimate of the allowance for loan losses and the related provision for loan losses in our statements of income would be materially affected.

Liquidity and Funding

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

As of December 31, 2019, 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 2020. 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 2021 and May 2022, respectively. The FFELP warehouse facilities also contain financial covenants relating to levels of our 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. As of December 31, 2019, $778.1 million was outstanding under the FFELP warehouse facilities and $42.6 million was advanced as equity support.

We also have a consumer loan warehouse facility that has an aggregate maximum financing amount available of $200.0 million, an advance rate of 70 or 75 percent depending on the type of collateral and subject to certain concentration limits, liquidity provisions to April 23, 2021, and a final maturity date of April 23, 2022. As of December 31, 2019, $116.6 million was outstanding and $41.3 million was advanced as equity support under this warehouse facility.

In addition, on February 13, 2020, we closed on a private loan warehouse facility with an aggregate maximum financing amount available of $100.0 million, an advance rate of 90 percent, liquidity provisions through February 15, 2021, and a final maturity date of February 11, 2022.

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 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 2020). 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, 2019, $489.3 million was outstanding under this warehouse facility and $21.7 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 also result in an event of default on our $455.0 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 the importance of maintaining scale by retaining existing customers and attracting new business opportunities, our information technology systems and potential security and privacy breaches, and our ability to manage performance related to regulatory requirements.

Our largest fee-based customer, the Department of Education, represented 30 percent of our revenue in 2019. Failure to extend the Department contracts or obtain new Department contracts for different components, our inability to consistently surpass competitor performance metrics, or unfavorable contract modifications or interpretations, 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. As of December 31, 2019, Nelnet Servicing was servicing $183.8 billion of student loans for 5.6 million borrowers under its contract, and Great Lakes was servicing $240.0 billion of student loans for 7.4 million borrowers under its contract. For the year ended December 31, 2019, we recognized $343.6 million in revenue from the Department under these contracts, which represented 30 percent of our revenue.

The current servicing contracts with the Department expire on December 14, 2020 and provide the potential for two additional six-month extensions at the Department's discretion through December 14, 2021.

The Department's Office of Federal Student Aid ("FSA") is conducting a contract procurement process entitled Next Generation Financial Services Environment ("NextGen") for a new framework for the servicing of all student loans owned by the Department. On January 15, 2019, FSA issued solicitations for three new NextGen components:

- NextGen Enhanced Processing Solution ("EPS")
- NextGen Business Process Operations ("BPO")
- NextGen Optimal Processing Solution ("OPS")

On April 1, 2019 and October 4, 2019, the Company responded to the EPS component. On January 16, 2020 FSA released an amendment to the EPS component and the Company responded on February 3, 2020. In addition, on August 1, 2019, the Company responded to the BPO component. On January 10, 2020 FSA released an amendment to the BPO component and the Company responded on January 30, 2020. The Company is also part of a team that has responded and intends to respond to various aspects of the OPS component; however, on November 12, 2019, FSA put an indefinite hold on the OPS solicitation.

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 uncertainties as to the terms and requirements under a potential new contract or contracts with the Department. We cannot predict the timing or outcome of the Department's contract procurement solicitations.

New loan volume is currently 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. 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 the event the current Department servicing contracts become subject to unfavorable modifications or interpretations by the Department, loan servicing revenue could decrease significantly. For example, as of January 2020, a change instituted by the Department required enrollment in the Ongoing Security Authorization (OSA) program that requires quarterly control assessments. The OSA program replaced the previous Authority to Operate (ATO) triennial assessment process. Because the OSA program is a novel process, we may encounter unforeseen issues with the Department, including differing interpretations on compliance controls and reporting requirements. Our inability to remediate any such issues to the satisfaction of the Department may cause a temporary or permanent injunction on servicing student loans under the contracts.

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, as well as result in potential impairment and restructuring charges that may be necessary to re-align our cost structure with our servicing operations.

A failure of our operating systems or infrastructure could disrupt our businesses, cause significant losses, result in regulatory action, and damage our reputation.

We operate many different businesses in diverse markets and depend on the efficient and uninterrupted operation of our computer network systems, software, datacenters, cloud services providers, telecommunications systems, and the rest of our operating systems and infrastructure to process and monitor large numbers of daily transactions in compliance with contractual, legal, regulatory, and our own standards. Such systems and infrastructure could be disrupted because of a cyberattack, spikes in transaction volume, power outages, telecommunications failures, degradation or loss of internet or website availability, natural disasters, political or social unrest, and terrorist acts. A significant adverse incident could damage our reputation and credibility, lead to customer dissatisfaction and loss of customers or revenue, and result in regulatory action, in addition to increased costs to service our customers and protect our network. Such event 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.

Operating system and infrastructure 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, the increased number and complexity of transactions being processed, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. In addition, to access our services and products, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems.

Malicious and abusive activities, such as the dissemination of computer viruses, worms, and other destructive or disruptive software, internal and external threats, computer hackings, social engineering, process breakdowns, denial of service attacks, ransomware or ransom demands to not expose vulnerabilities in systems, and other malicious activities have become more common. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume, and damage to our or our customers' equipment and data. Although to date we have not experienced a material loss relating to cyberattacks 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.

We could also incur losses resulting from the risk of unauthorized access to our computer systems, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal

control system and compliance requirements, and failures to properly execute business continuation and disaster recovery plans. In the event of a breakdown in the internal control system, improper operation of systems, or unauthorized employee actions, we could suffer financial loss, potential legal actions, fines, or civil monetary penalties that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity and damage to our reputation.

As a result of the above risks, we continue to develop and enhance 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, and this remains a priority for us, each of our business segments, and our Board of Directors. 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 cyberattack, information security breach, or extended system outage, this insurance coverage may not cover all costs of such incidents.

A security breach of our information technology systems could result in the disclosure of confidential customer and other information, significant financial losses and legal exposure, and damage to our reputation.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our information technology systems, including customer, personnel, and vendor data. Although we devote significant resources to maintain and regularly upgrade our systems and processes that are designed to protect the security of our systems, software and networks and to protect the confidentiality, integrity and availability of information belonging to us and our customers, we experience increasingly numerous and more sophisticated daily attacks on our systems, and our security measures may not be entirely effective.

We may not be able to anticipate or to implement effective preventive measures against all types of potential security breaches, because the techniques used change frequently, generally increase in sophistication, often are not recognized until launched, sometimes go undetected even when successful, and result in security attacks originating from a wide variety of sources, including organized crime, hackers, terrorists, activists, hostile foreign governments, and other external parties. Those parties may also attempt to fraudulently induce employees, customers, or other users of our systems to disclose sensitive information to gain access to our data or that of our customers, such as through “phishing” schemes. These risks may increase in the future as we continue to increase our mobile and internet-based product offerings and expand our internal usage of web-based products and applications. In addition, our customers often use their own devices, such as computers, smart phones, and tablet computers, to make payments and manage their accounts. We have limited ability to assure the safety and security of our customers’ transactions to the extent they are using their own devices, which could be subject to similar threats. A penetration or circumvention of our information security systems, or the intentional or unintentional disclosure, alteration or destruction by an authorized user of confidential information necessary for our operations, could result in serious negative consequences for us. These consequences may include violations of applicable privacy and other laws; financial loss to us or to our customers; loss of confidence in our security measures; customer dissatisfaction; significant litigation exposure; regulatory fines, penalties or intervention; reimbursement or other compensatory costs; additional compliance costs; significant disruption of our business operations; and harm to our reputation. Although to date we have not experienced a material loss relating to information security breaches, 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.

In addition, we routinely transmit and receive large volumes of personal, confidential and proprietary information through third parties. Although we work to ensure that third parties with which we do business maintain information security systems and processes, those measures may not be entirely effective, and an information security breach of a third-party system may not be revealed to us in a timely manner, which could compromise our ability to respond effectively. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a third party could result in material adverse legal liability, regulatory actions, disruptions, and reputational harm with respect to our businesses.

We could suffer adverse consequences to the extent that natural disasters, terrorist activities, or international hostilities affect the financial markets or the economy in general or in any particular region.

Natural disasters, terrorist activities, or international hostilities affecting the financial markets or the economy in general or in any particular region could lead, for example, to an increase in loan delinquencies, borrower bankruptcies, or defaults that could result in higher levels of nonperforming assets, net charge-offs, and provisions for credit losses. Our ability to mitigate the adverse consequences of these occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of natural disasters, terrorist activities, or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we transact with, particularly those that we depend upon, but have no control over. Additionally, the force and frequency of natural disasters are increasing as the climate changes.

Negative publicity could damage our reputation and adversely impact business and financial results.

Negative public opinion about the Company, our operating segments, or the industries in which we serve could adversely affect our ability to retain and attract customers and employees, and expose us to litigation and regulatory action. Negative public opinion can result from our actual or alleged conduct in any number of activities, including but not limited to lending practices, cybersecurity breaches, failures to safeguard personal information, loan servicing practices, corporate governance, sales and marketing practices, regulatory compliance, mergers and acquisitions, and actions taken by government regulators and community organizations in response to that conduct. Because most of our businesses operate under the Nelnet brand, actual or alleged conduct by one business can result in negative public opinion about other businesses that we operate. Although we take steps to minimize reputational risk in dealing with customers and other constituencies, we are inherently exposed to this risk. In addition, third parties with whom we have important relationships may take actions over which we have limited control that could negatively impact perceptions about us or the industries in which we serve. The proliferation of social media may increase the likelihood that negative public opinion from any of the events discussed above will impact our reputation and business.

Our business may suffer if we are not able to retain and attract skilled and qualified employees.

Our success depends, in large part, on our ability to continually attract and retain key employees. Competition for the best people in our industry can be intense. If we are not able to hire sufficient, qualified employees to support our technology and business operations, or to train, motivate, and retain our employees, it could have a material adverse effect on our financial results.

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 products, primarily in our NDS and NBS segments, 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 rely on third parties for a wide array of services for our customers, and to meet our contractual obligations. The failure of a third party with which we work could adversely affect our business performance and reputation.

We rely on third parties for a wide array of critical operational services, technology, datacenter hosting facilities, cloud computing platforms, and software. We also rely upon data from external sources to maintain our proprietary databases, including data from customers, business partners, and various government sources.

Our third-party service providers may be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, cyberattacks, telecommunications failures, and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct, as well as local administrative actions, changes to legal or permitting requirements, and litigation to stop, limit or delay operations. If a third-party service provider experiences an outage, we may temporarily lose the ability to conduct certain business activities, which could impact our ability to serve our customers and meet our contractual, legal or regulatory compliance obligations. Our businesses would also be harmed if our customers and potential customers believe our services are unreliable. Despite existing precautionary measures, the occurrence of a natural disaster or an act of terrorism, a decision to discontinue services without adequate notice to us, or other unanticipated problems with third-party service providers could result in lengthy interruptions in our services. Even with disaster recovery and business continuity arrangements, our services could be interrupted. Some of our third-party service providers may engage vendors of their own as

they provide services or technology solutions for our operations, which introduces the same risks that these “fourth parties” could be the source of operational failures.

In addition, interruptions at financial or other institutions engaged in data processing and important to the overall functioning of the financial system could also adversely affect, directly or indirectly, aspects of our businesses. The increasing consolidation, interdependence, and complexity of financial entities and technology systems means that a technology failure, cyberattack, or other breach that significantly degrades, deletes, or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including our businesses. This consolidation, interconnectivity, and complexity increases the risk of operational failure, on both an entity-specific and an industry-wide basis. Third parties that facilitate our business activities, including exchanges, clearinghouses, payment networks, or financial intermediaries, could also be sources of operational risks to our businesses, including with respect to breakdowns or failures of their systems, misconduct by their employees, or cyberattacks that could affect their ability to deliver a product or service to us or result in the loss or compromise of our information or the information of our customers. Our ability to implement back-up systems or other safeguards with respect to third-party systems is limited. Furthermore, an attack on, or failure of, a third-party system may not be revealed to us in a timely manner, which could compromise our ability to respond effectively.

While we have selected the third parties with which we do business carefully, we do not control their actions. Any problems caused by third-party service providers, including as a result of not providing their services for any reason or performing their services poorly, could adversely affect our ability to deliver services and products to our customers and otherwise to conduct business. Replacing third-party service providers could also entail significant delay and expense. In addition, failure of third-party service providers to handle current or higher volumes of use could adversely affect our ability to deliver services and products to our customers and otherwise to conduct business.

If any of these third parties experiences financial difficulties, system interruptions, regulatory violations, database disruptions, security threats, or they cannot otherwise meet our specifications, our ability to provide some services may be materially adversely affected, in which case our businesses, 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, 2019, we serviced $33.2 billion of FFELP loans that maintained a federal guarantee, of which $17.5 billion and $15.7 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.

As FFELP loan holders, servicers, and guaranty agencies exit the loan program and consolidation within the industry takes place, this increases the complexity of servicing and claim filing due to the amount of loan servicing and loan guaranty transfers and the opportunity for errors at the time a claim is filed.

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.

We could face significant legal and reputational harm if we fail to safeguard the privacy of personal information.

We are subject to complex and evolving laws and regulations, both inside and outside of the United States, governing the privacy and protection of personal information of individuals. The protected individuals can include our customers, employees, and the customers and employees of our clients, vendors, counterparties, and other third parties. Ensuring the collection, use, transfer, and storage of personal information complies with applicable laws and regulations in relevant jurisdictions can increase operating costs, impact the development of new products or services, and reduce operational efficiency. Any mishandling or misuse of the personal information of customers, employees, or others by the Company or a third party affiliate could expose us to litigation or regulatory fines, penalties, or other sanctions. Additional risks could arise if we or an affiliated third party do not provide adequate disclosure or transparency to our customers about the personal information collected from them and its use; fail to receive, document, and honor the privacy preferences expressed by customers; fail to protect personal information from unauthorized disclosure; or fail to maintain proper training on privacy practices for all employees or third parties who have access to personal data. Concerns regarding the effectiveness of our measures to safeguard personal information and abide by privacy preferences, or even the perception that those measures are inadequate, could cause the loss of existing or potential customers and thereby reduce our revenue. In addition, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations could result in requirements to modify or cease certain operations or practices, and/or significant liabilities, regulatory fines, penalties, and other sanctions. The regulatory framework for privacy issues is evolving and is likely to continue doing so for the foreseeable future, which creates uncertainty. Because the

interpretation and application of privacy and data protection laws and privacy standards are still uncertain, it is possible that these laws or privacy standards may be interpreted and applied in a manner that is inconsistent with our practices. Any inability to adequately address privacy concerns, even if unfounded, or to comply with applicable privacy or data protection laws, regulations, and privacy standards, could result in additional cost and liability for us, damage our reputation, and harm our business.

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 our 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 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 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. 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 national content companies 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, pole attachments, and licenses from various private parties such as established telephone companies and other utilities, railroads, and 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 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 seeks to mitigate risk and loss. Our established 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 litigation and negative regulatory consequences, 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 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 be in non-compliance with 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 Consumer Financial Protection Bureau (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.

Several states have enacted laws regulating and monitoring the activity of student loan servicers. Some of these laws stipulate additional licensing fees which increase our cost of doing business. Where we have obtained licenses, state licensing statutes may impose a variety of requirements and restrictions on us. In addition, these statutes may also subject us to the supervisory and examination authority of state regulators in certain cases, and we will be subject to and experience exams by state regulators. If we are found to not have complied with applicable laws, regulations, or requirements, we could: (i) lose one or more of our licenses or authorizations, (ii) become subject to a consent order or administrative enforcement action, (iii) face lawsuits (including class action lawsuits), sanctions, or penalties, or (iv) be in breach of certain contracts, which may void or cancel such contracts. We anticipate additional states adopting similar laws.

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, 2019, 2018, and 2017, we recognized approximately $206 million, $230 million, and $290 million, respectively, of net interest income on our FFELP loan portfolio, and approximately $25 million, $32 million, and $16 million, respectively, in guaranty and third-party FFELP servicing revenue. In addition, the Company recognized

approximately $5 million in each of the last three years 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.

The Company invests in certain tax-advantaged projects promoting renewable energy resources (solar projects). The Company’s investments in these projects are designed to generate a return primarily through the realization of federal income tax credits, operating cash flows, and other tax benefits, over specified time periods. The Company’s investments in these projects may not generate returns as anticipated and may have an adverse impact on the Company’s financial results. The Company is subject to the risk that tax credits recorded currently and previously, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be realized. The possible inability to realize these tax credits and other tax benefits can have a negative impact on the Company’s financial results. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of the Company’s control, including changes in the applicable tax code and the ability of the projects to continue operation.

Principal Shareholder and Related Party Transactions

Our Executive Chairman beneficially owns 81.9 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 81.9 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, and as a Director of Union Bank. 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, 2019, Union Bank was deemed to beneficially own 10.0 percent of the voting rights of our outstanding common stock. As of December 31, 2019, Mr. Dunlap and Ms. Muhleisen beneficially owned 81.9 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 and lending 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, 2019, 2018, and 2017 related to the transactions with Union Bank was income (before income taxes) of $9.7 million, $9.2 million, and $12.5 million, respectively. See note 20 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 Company's headquarters are located in Lincoln, Nebraska. The Company owns or leases office space facilities primarily in Nebraska, Wisconsin, and Colorado.

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 believes its existing office space facilities and equipment, which are used by all reportable segments, are in good operating condition and are suitable for the conduct of its business.

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.

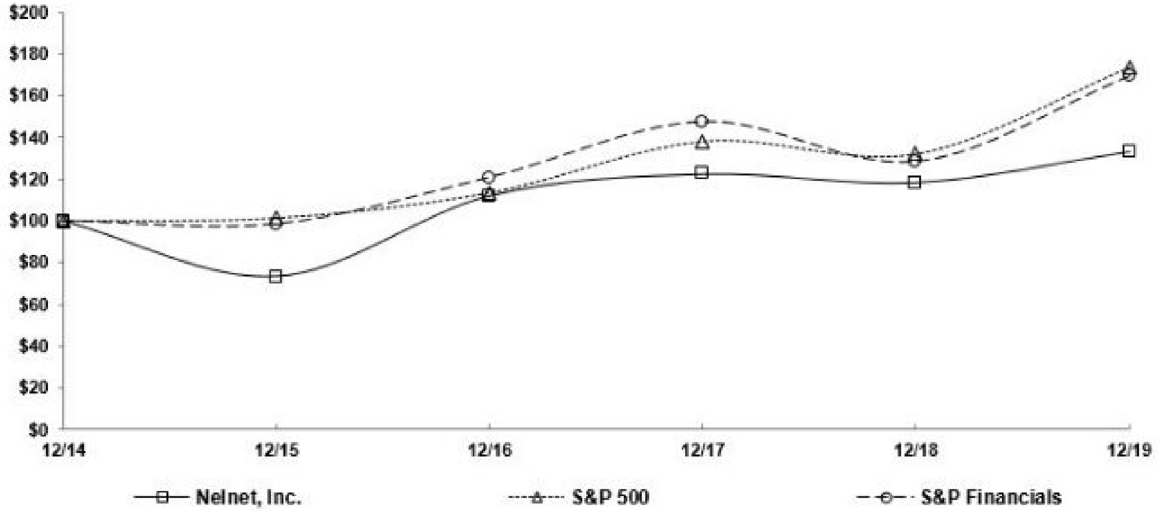
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

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, 2020 was 1,248 and 62, respectively. The record holders of the Class B common stock are Michael S. Dunlap, Shelby J. Butterfield, the estate of Stephen F. Butterfield, a family limited liability company controlled by Mr. Dunlap, an entity controlled by Mr. Dunlap and the Butterfield Family Trust, various members of the Dunlap and Butterfield families, and various other 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, 2018 and 2019 in amounts totaling $0.66 per share and $0.74 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, 2014 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		12/31/2014		12/31/2015		12/31/2016		12/31/2017		12/31/2018		12/31/2019
Nelnet, Inc.	$	100.00	$	73.25	$	112.15	$	122.55	$	118.45	$	133.42
S&P 500		100.00		101.38		113.51		138.29		132.23		173.86
S&P 500 Financials		100.00		98.47		120.92		147.75		128.50		169.78

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 2019 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.

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, 2019	90	$ 60.03	—	4,803,877
November 1 - November 30, 2019	45	61.13	—	4,803,877
December 1 - December 31, 2019	2,306	61.31	—	4,803,877
Total	2,441	$ 61.26	—	

(a) The total number of shares consist of shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares. 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 May 8, 2019, the Company announced that its Board of Directors authorized a new 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 7, 2022.

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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except share data)				
Operating Data:					
Net interest income	$ 249,350	254,360	305,238	372,563	431,899
Loan servicing and systems revenue	455,255	440,027	223,000	214,846	239,858
Education technology, services, and payment processing revenue	277,331	221,962	193,188	175,682	120,365
Communications revenue	64,269	44,653	25,700	17,659	—
Other income	65,179	54,805	55,728	66,236	103,488
Net income attributable to Nelnet, Inc.	141,803	227,913	173,166	256,751	267,979
Earnings per common share attributable to Nelnet, Inc. shareholders - basic and diluted:	3.54	5.57	4.14	6.02	5.89
Dividends per common share	0.74	0.66	0.58	0.50	0.42
Other Data:					
Fixed rate floor income, net of derivative settlements	$ 89,869	121,712	117,272	152,336	184,746
Core loan spread (a)	1.18 %	1.32 %	1.23 %	1.28 %	1.43 %
Acquisition of loans (par value)	$ 2,007,563	3,897,007	330,251	356,110	4,036,333
Loan servicing volume ($) (at end of period)	472,987,628	464,615,053	211,413,959	194,821,646	176,436,497
ALLO - residential households served	47,744	37,351	20,428	9,814	7,600

	As of December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except share data)				
Balance Sheet Data:					
Cash and cash equivalents	$ 133,906	121,347	66,752	69,654	63,529
Loans receivable, net	20,669,371	22,377,142	21,814,507	24,903,724	28,324,552
Goodwill and intangible assets, net	238,444	271,202	177,186	195,125	197,062
Total assets	23,708,970	25,220,968	23,964,435	27,193,095	30,419,144
Bonds and notes payable	20,529,054	22,218,740	21,356,573	24,668,490	28,105,921
Nelnet, Inc. shareholders' equity	2,386,712	2,304,464	2,149,529	2,061,655	1,884,432
Tangible Nelnet, Inc. shareholders' equity (b)	2,148,268	2,033,262	1,972,343	1,866,530	1,687,370
Outstanding common shares	39,730,104	40,258,105	40,810,104	42,105,044	43,953,460
Book value per common share	60.07	57.24	52.67	48.96	42.87
Tangible book value per common share (b)	54.07	50.51	48.33	44.33	38.39
Ratios:					
Shareholders' equity to total assets	10.07 %	9.14 %	8.97 %	7.58 %	6.19 %

(a) Core loan spread is a non-GAAP measure. See the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis" for information on how core loan spread is computed and why management believes it is a useful measure, and a reconciliation to loan spread for 2019 and 2018.

(b) 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, 2019 and 2018. 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 subject to various risks and uncertainties 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.

A discussion related to the results of operations and changes in financial condition for the year ended December 31, 2019 compared to the year ended December 31, 2018 is presented below. A discussion related to the results of operations and changes in financial condition for the year ended December 31, 2018 compared to the year ended December 31, 2017 can be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2018 Annual Report on Form 10-K, which was filed with the United States Securities and Exchange Commission on February 27, 2019.

OVERVIEW

The Company is a diverse company with a purpose to serve others and a vision to make customers' dreams possible by delivering customer focused products and services. 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 both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate, early-stage and emerging growth companies, and renewable energy.

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,	
	2019	2018
GAAP net income attributable to Nelnet, Inc.	$ 141,803	227,913
Realized and unrealized derivative market value adjustments	76,195	(1,014)
Tax effect (a)	(18,287)	243
Net income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	$ 199,711	227,142
Earnings per share:		
GAAP net income attributable to Nelnet, Inc.	$ 3.54	5.57
Realized and unrealized derivative market value adjustments	1.90	(0.02)
Tax effect (a)	(0.45)	—
Net income attributable to Nelnet, Inc., excluding derivative market value adjustments (b)	$ 4.99	5.55

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

(b) "Derivative market value adjustments" includes 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. "Derivative market value 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.

The Company believes these point-in-time estimates of asset and liability values related to its derivative instruments that are subject to interest rate fluctuations are 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.

GAAP net income decreased for the year ended December 31, 2019 compared to the same period in 2018 primarily due to the following factors:

- The recognition of a net loss during 2019 as compared to a net gain in 2018 due to changes in the fair values of derivative instruments that do not qualify for hedge accounting;
- The recognition of $16.7 million ($12.7 million after tax) of expenses during 2019 to extinguish notes payable in certain asset-backed securitizations prior to the notes' contractual maturities;
- The decrease in the average balance of loans due to the amortization of the FFELP loan portfolio;
- The decrease in loan spread on the Company's loan portfolio and related derivative settlements; and
- The increase in the provision for loan losses related to the Company's growing portfolio of consumer loans.

These factors were partially offset by the following items:

- The contribution to net income from the Company's Loan Servicing and Systems and Education Technology, Services, and Payment Processing operating segments; and
- The recognition of a $17.3 million ($13.1 million after tax) gain from the sale of consumer loans in 2019.

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, 2019, the Company had a $20.7 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.8 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 Services ("NDS")
- Education Technology, Services, and Payment Processing ("ETS&PP") - referred to as Nelnet Business Services ("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, 2019 and 2018 (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. Net income excludes changes in fair values of derivatives, net of tax. For information regarding the exclusion of the impact from changes in fair values of derivatives adjustments, see "GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above.

Certain events and transactions from 2019 and 2018, which have impacted or will impact the operating results of the Company and its operating segments, are discussed below.

Loan Servicing and Systems

- On February 7, 2018, the Company acquired Great Lakes. The operating results of Great Lakes are reported in the Company's consolidated financial statements from the date of acquisition. Thus, there are twelve months of Great Lakes' operations included in 2019 as compared to approximately eleven months of activity in 2018.

- Nelnet Servicing, LLC ("Nelnet Servicing") and Great Lakes Educational Loan Services, Inc. ("Great Lakes") have student loan servicing contracts awarded by the Department in June 2009 to provide servicing for loans owned by the Department. As of December 31, 2019, Nelnet Servicing was servicing $183.8 billion of student loans for 5.6 million borrowers under its contract, and Great Lakes was servicing $240.0 billion of student loans for 7.4 million borrowers under its contract.

  Nelnet Servicing and Great Lakes' servicing contracts with the Department previously provided for expiration on June 16, 2019. On May 15, 2019, Nelnet Servicing and Great Lakes each received a contract extension from the Department's Office of Federal Student Aid ("FSA") pursuant to which FSA extended the expiration date of the current contracts to December 15, 2019. On November 26, 2019, Nelnet Servicing and Great Lakes each received an additional extension from FSA on their contracts through December 14, 2020. The contract extensions also provide the potential for two additional six-month extensions at the Department's discretion through December 14, 2021.

  FSA is conducting a contract procurement process entitled Next Generation Financial Services Environment ("NextGen") for a new framework for the servicing of all student loans owned by the Department. On January 15, 2019, FSA issued solicitations for three NextGen components:

  - NextGen Enhanced Processing Solution ("EPS")
  - NextGen Business Process Operations ("BPO")
  - NextGen Optimal Processing Solution ("OPS")

  On April 1, 2019 and October 4, 2019, the Company responded to the EPS component. On January 16, 2020, FSA released an amendment to the EPS component and the Company responded on February 3, 2020. In addition, on August 1, 2019, the Company responded to the BPO component. On January 10, 2020, FSA released an amendment to the BPO component and the Company responded on January 30, 2020. The Company is also part of a team that has

responded and intends to respond to various aspects of the OPS component; however, on November 12, 2019, FSA put an indefinite hold on the OPS solicitation. The EPS and BPO components are essentially for the loan processing and servicing to be performed on a new single system, which the Company believes could have the most significant potential impact on the Company. The Company cannot predict the timing, nature, or outcome of these solicitations.

- The Loan Servicing and Systems segment will incur additional costs in 2020 to meet increased service and security standards under the current Department servicing contracts and to be responsive to the Department's procurement. As a result, the Company currently expects a significant decrease in this segment's operating margin and net income in 2020 from recent historical results.

Education Technology, Services, and Payment Processing

- On November 20, 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. The results of TMS’ operations are reported in the Company’s consolidated financial statements from the date of acquisition.

- For the years ended December 31, 2019 and 2018, before tax operating margin (income before income taxes divided by net revenue) was 31.8 percent and 20.6 percent, respectively. The increase in the before tax operating margin in 2019 as compared to 2018 was due to operating leverage and cost reductions resulting from the Company's decision in October 2018 to terminate its investment in a proprietary payment processing platform.

Communications

- ALLO recognized losses of $23.5 million and $28.7 million for the years ended December 31, 2019 and 2018, respectively. The decrease in ALLO's net loss in 2019, as compared to 2018, was primarily due to a decrease in interest expense. ALLO recognized $10.0 million of interest expense to Nelnet, Inc. (parent company) during the year ended December 31, 2018. Subsequent to October 1, 2018, ALLO will not report interest expense in its income statement related to amounts contributed to ALLO from Nelnet, Inc. due to a recapitalization of ALLO. Excluding interest expense, the increase in ALLO's net loss in 2019 as compared to 2018 was due to an increase in depreciation from significant property and equipment purchases over the last several years to support the Lincoln, Nebraska network build-out that was substantially completed in 2019.

- 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. For the years ended December 31, 2019 and 2018, ALLO had positive EBITDA of $6.2 million and negative EBITDA of $4.5 million, respectively. EBITDA is a supplemental non-GAAP performance measure which the Company believes provides useful additional information regarding a key metric used by management to assess ALLO's performance. See "Communications Operating Segment - Results of Operations - Summary and Comparison of Operating Results" below for additional information regarding the computation and use of EBITDA for ALLO.

- ALLO has made significant investments in its communications network and currently provides fiber directly to homes and businesses in communities in Nebraska and Colorado. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to other communities in the Midwest. 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. As of the end of the first quarter of 2019, the build-out of the Lincoln community was substantially complete. For the year ended December 31, 2019, ALLO's capital expenditures were $45.0 million. The Company anticipates total ALLO network capital expenditures in 2020 will be approximately $35.0 million to $45.0 million. However, this amount could change based on customer demand for ALLO's services.

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

Asset Generation and Management

- For the year ended December 31, 2019, the AGM segment recognized net interest income of $238.6 million, compared with $249.1 million in 2018. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. The AGM segment recognized income from derivative settlements of $45.4 million in 2019, compared with income of $70.5 million in 2018. Derivative settlements for each applicable period should be evaluated with the Company's net interest income. Net interest income and derivative settlements for the AGM segment totaled $284.0 million and $319.6 million in 2019 and 2018, respectively.

- The Company's average balance of loans decreased to $21.7 billion in 2019, compared with $22.6 billion in 2018. Loan spread decreased to 0.96 percent in 2019, compared with 0.99 percent in 2018. Core loan spread, which includes the impact of derivative settlements, decreased to 1.18 percent in 2019, compared with 1.32 percent in 2018. 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 recognized $89.9 million and $121.7 million in fixed rate floor income in 2019 and 2018, respectively (which includes $40.2 million and $64.9 million, respectively, of settlement payments received on derivatives used to hedge student loans earning fixed rate floor income). Fixed rate floor income contributed 41 basis points and 55 basis points of core loan spread in 2019 and 2018, respectively. The decrease in gross fixed rate floor income was due to higher interest rates in 2019 as compared to 2018, and the decrease in derivative settlement payments received on derivatives used to hedge student loans earning fixed rate floor income was due to a decrease in the notional amount of derivatives outstanding in 2019 as compared to 2018, partially offset by higher interest rates.

- Provision for loan losses was $39.0 million and $23.0 million for 2019 and 2018, respectively.

  Provision for loan losses for federally insured loans was $8.0 million and $14.0 million for 2019 and 2018, respectively. During 2018, 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 in provision expense related to these loans.

  Provision for loan losses for consumer loans was $31.0 million and $9.0 million for 2019 and 2018, respectively. The increase in provision was a result of the increased amount of consumer loan purchases during 2019. The Company purchased $405.7 million of consumer loans during 2019 compared to $120.5 million during 2018.

- The Company recognized $16.7 million (pre-tax) of expenses in 2019 related to the extinguishment of notes payable in certain asset-backed securitizations prior to the notes' contractual maturities (as further described below). These expenses consisted of premium payments made by the Company of $14.0 million and the write-off of $2.7 million of debt issuance costs.

- During 2019, the Company sold $227.0 million (par value) of consumer loans to an unrelated third party who securitized such loans. As partial consideration received for the consumer loans sold, the Company received a percentage interest of the residual interest of the consumer loan securitizations. The Company recognized a gain of $17.3 million (pre-tax) from the sale of these loans.

Corporate and Other Activities

- The Company adopted a new lease accounting standard effective January 1, 2019. The most significant impact of the standard to the Company relates to (1) the recognition of new right-of-use ("ROU") assets and lease liabilities on its balance sheet primarily for office, data center, and dark fiber operating leases; (2) the deconsolidation of assets and liabilities for certain sale-leaseback transactions arising from build-to-suit lease arrangements for which construction was completed and the Company is leasing the constructed assets that did not qualify for sale accounting prior to the adoption of the new standard; and (3) significant new disclosures about the Company’s leasing activities.

  Adoption of the new standard resulted in recognizing lease liabilities of $33.7 million based on the present value of the remaining minimum rental payments. In addition, the Company recognized ROU assets of $32.8 million, which corresponds to the lease liabilities reduced by deferred rent expense as of the effective date. The Company also deconsolidated total assets of $43.8 million and total liabilities of $34.8 million for entities that had been consolidated

due to sale-leaseback transactions that failed to qualify for recognition as sales under the prior guidance. Deconsolidation of these entities reduced noncontrolling interests by $6.1 million.

Liquidity and Capital Resources

- As of December 31, 2019, the Company had cash and cash equivalents of $133.9 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 $52.7 million as of December 31, 2019.

- The Company has historically generated positive cash flow from operations. For the year ended December 31, 2019, the Company's net cash provided by operating activities was $298.9 million.

- On December 16, 2019, the Company amended its unsecured line of credit to, among other things, extend the maturity date of the facility from June 22, 2023 to December 16, 2024 and increase the size of the facility from $382.5 million to $455.0 million. As of December 31, 2019, the unsecured line of credit had $50.0 million outstanding and $405.0 million was available for future use. The line of credit provides that the Company may increase the aggregate financing commitments, through the existing lenders and/or through new lenders, up to a total of $550.0 million, subject to certain conditions.

- 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, 2019, the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately $1.89 billion, of which approximately $1.28 billion will be generated over the next six years.

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

  During 2019, the Company extinguished a total of $1.05 billion of notes payable in certain asset-backed securitizations, including six of the Company's eight Turbo Transactions, prior to the notes' contractual maturities, resulting in the release of $1.45 billion in student loans and accrued interest receivable that were previously encumbered in the asset-backed securitizations. Upon extinguishment of the notes payable throughout 2019, the Company refinanced the student loans in its FFELP warehouse facilities and new asset-backed securitizations, resulting in net cash proceeds of $387.1 million.

  The cash proceeds generated by the debt extinguishments were used to pay down a significant portion of the outstanding balance on the Company's unsecured line of credit and provides the Company with increased liquidity and the opportunity to invest the previously underutilized capital at higher returns.

- In 2019, the Company obtained a consumer loan warehouse facility with an aggregate maximum financing amount available of $200.0 million and a final maturity date of April 23, 2022. As of December 31, 2019, $116.6 million was outstanding under this facility and $83.4 million was available for future funding.

- During the year ended December 31, 2019, the Company completed seven FFELP asset-backed securitizations totaling $2.8 billion (par value). The proceeds from these transactions were used primarily to refinance student loans included in the Company's FFELP warehouse facilities and unencumbered student loans from the extinguishment of certain asset-backed securitizations.

- On June 25, 2019, the Company completed a private education loan asset-backed securitization totaling $47.2 million (par value). The proceeds from this transaction were used to refinance private education loans previously funded via a private loan repurchase agreement that was terminated on June 25, 2019.

- During 2019, the Company repurchased a total of 726,273 shares of Class A common stock for $40.4 million ($55.64 per share).

- On May 8, 2019, the Board of Directors authorized a new 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 7, 2022. As of

December 31, 2019, 4.8 million shares remained authorized for repurchase under the Company's stock repurchase program.

- During 2019, the Company paid cash dividends totaling $29.5 million ($0.74 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 year ended December 31, 2019 compared to 2018 is provided below.

The Company's operating results are primarily driven by the performance of its existing loan 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,		
	2019	2018	Additional information
Loan interest	$ 914,256	897,666	Increase was due primarily to an increase in the gross yield earned on loans, partially offset by a decrease in the average balance of loans and a decrease in gross fixed rate floor income due to higher interest rates in 2019 as compared to 2018.
Investment interest	34,421	26,600	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations. Increase was due to increases in interest-earning investments and interest rates.
Total interest income	948,677	924,266	
Interest expense	699,327	669,906	Increase was due to an increase in cost of funds, partially offset by a decrease in the average balance of debt outstanding.
Net interest income	249,350	254,360	See table below for additional analysis.
Less provision for loan losses	39,000	23,000	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	210,350	231,360	
Other income:			
LSS revenue	455,255	440,027	See LSS operating segment - results of operations.
ETS&PP revenue	277,331	221,962	See ETS&PP operating segment - results of operations.
Communications revenue	64,269	44,653	See Communications operating segment - results of operations.
Other income	65,179	54,805	See table below for the components of "other income."
Derivative settlements, net	45,406	70,071	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 adjustments, net	(76,195)	1,014	Includes 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. The majority of the derivative market value adjustments related to the changes in fair value of the Company's floor income interest rate swaps. Such changes reflect that a decrease in the forward yield curve during a reporting period results in a decrease in the fair value of the Company's floor income interest rate swaps, and an increase in the forward yield curve during a reporting period results in an increase in the fair value of the Company's floor income interest rate swaps. During 2019, there was a decrease in the forward yield curve resulting in a decrease in the fair value of the Company's floor income interest rate swaps that resulted in a significant loss in 2019 as compared to 2018.
Total other income	831,245	832,532	
Cost of services:			
Cost to provide education technology, services, and payment processing services	81,603	59,566	Represents primarily direct costs to provide payment processing services in the ETS&PP operating segment.
Cost to provide communications services	20,423	16,926	Represents costs of services primarily associated with television programming costs in the Communications operating segment.
Total cost of services	102,026	76,492	

Operating expenses:			
Salaries and benefits	463,503	436,179	Increase was due to (i) increases in personnel as a result of the TMS acquisition and to support the organic growth in revenue in the ETS&PP operating segment, (ii) increases in personnel at ALLO to support customer and network expansion, and (iii) increases in personnel as a result of the acquisition of Great Lakes on February 7, 2018 (twelve months of expenses in 2019 as compared to approximately eleven months in 2018). These items were partially offset by a decrease in salaries and benefits in the ETS&PP operating segment due to the Company's decision in October 2018 to terminate its investment in a proprietary processing platform. See each individual operating segment results of operations discussion for additional information.
Depreciation and amortization	105,049	86,896	Increase was primarily due to additional depreciation expense at ALLO as a result of significant property and equipment purchases to support the Lincoln, Nebraska network build-out that was substantially completed in 2019. See each individual operating segment results of operations discussion for additional information.
Other expenses	194,272	178,031	Other expenses includes expenses necessary for operations, such as postage and distribution, consulting and professional fees, occupancy, communications, and certain information technology-related costs. Increase was primarily due to the AGM operating segment recognizing $16.7 million of expenses in 2019 to extinguish notes payable from certain asset-backed securitizations prior to their contractual maturities. See each individual operating segment results of operations discussion for additional information.
Total operating expenses	762,824	701,106	
Income before income taxes	176,745	286,294	
Income tax expense	35,451	58,770	The effective tax rate was 20.0% and 20.5% for 2019 and 2018, respectively. The Company expects its future effective tax rate will range between 20 and 23 percent.
Net income	141,294	227,524	
Net loss attributable to noncontrolling interests	509	389	
Net income attributable to Nelnet, Inc.	$ 141,803	227,913	
Additional information:			
Net income attributable to Nelnet, Inc.	$ 141,803	227,913	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 adjustments.
Derivative market value adjustments, net	76,195	(1,014)	
Tax effect	(18,287)	243	
Net income attributable to Nelnet, Inc., excluding derivative market value adjustments	$ 199,711	227,142	

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 2019 and 2018 periods presented in the table under the caption "Income Statement Impact" in note 5 and in the table below.

	Year ended December 31,		
	2019	2018	Additional information
Variable loan interest margin	$ 174,954	181,488	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	5,214	5,577	Represents the net settlements received related to the Company's 1:3 basis swaps.
Variable loan interest margin, net of settlements on derivatives	180,168	187,065	
Fixed rate floor income	49,677	56,811	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	40,192	64,901	Represents the net settlements received related to the Company's floor income interest rate swaps.
Fixed rate floor income, net of settlements on derivatives	89,869	121,712	
Investment interest	34,421	26,600	
Corporate debt interest expense	(9,702)	(10,539)	Includes interest expense on the Junior Subordinated Hybrid Securities and unsecured line of credit.
Non-portfolio related derivative settlements	—	(407)	Represents the net settlements paid related to the Company's hybrid debt hedges.
Net interest income (net of settlements on derivatives)	$ 294,756	324,431	

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

	Year ended December 31,	
	2019	2018
Gain on sale of loans (a)	$ 17,261	—
Borrower late fee income	12,884	12,302
Management fee revenue (b)	8,838	6,497
Gain on investments and notes receivable, net of losses	6,136	9,579
Investment advisory services (c)	2,941	6,009
Other	17,119	20,418
Other income	$ 65,179	54,805

(a) During 2019, the Company sold $227.0 million (par value) of consumer loans to an unrelated third party who securitized such loans.

(b) Represents revenue earned from providing administrative support and marketing services primarily to Great Lakes' former parent company in accordance with a contract that expires in February 2021. The increase in 2019 compared to 2018 was due to twelve months of revenue under this contract in 2019 as compared to approximately eleven months of revenue (from the Great Lakes acquisition date) in 2018. Amount also includes revenue earned from marketing services provided to existing clients, which increased in 2019 compared to 2018 as a result of an increase in marketing services provided to such clients.

(c) The Company provides investment advisory services through Whitetail Rock Capital Management, LLC ("WRCM"), the Company's SEC-registered investment advisor subsidiary, under various arrangements. WRCM earns annual fees of 25 basis points on the majority of the outstanding balance of asset-backed securities under management and up to 50 percent of the gains from the sale of asset-backed securities or asset-backed securities being called prior to the full contractual maturity for which it provides advisory services. As of December 31, 2019, the outstanding balance of asset-backed securities under management subject to these arrangements was $983.0 million. In addition, WRCM earns annual management fees of five basis points for certain other investments under management. The decrease in advisory fees in 2019 as compared to 2018 was the result of a decrease in performance fees earned.

LOAN SERVICING AND SYSTEMS OPERATING SEGMENT – RESULTS OF OPERATIONS

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

Loan Servicing Volumes

	As of								
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Servicing volume (dollars in millions):									
Nelnet:									
Government	$ 172,669	176,605	176,179	179,283	179,507	183,093	181,682	184,399	183,790
FFELP	27,262	26,969	37,599	37,459	36,748	35,917	35,003	33,981	33,185
Private and consumer	11,483	12,116	15,016	15,466	15,666	16,065	16,025	16,286	16,033
Great Lakes:									
Government	—	242,063	241,902	232,741	232,694	237,050	236,500	240,268	239,980
FFELP (a)	—	11,136	—	—	—	—	—	—	—
Private and consumer (a)	—	1,927	31	—	—	—	—	—	—
Total	$ 211,414	470,816	470,727	464,949	464,615	472,125	469,210	474,934	472,988
Number of servicing borrowers:									
Nelnet:									
Government	5,877,414	5,819,286	5,745,181	5,805,307	5,771,923	5,708,582	5,592,989	5,635,653	5,574,001
FFELP	1,420,311	1,399,280	1,787,419	1,754,247	1,709,853	1,650,785	1,588,530	1,529,392	1,478,703
Private and consumer	502,114	508,750	672,520	692,763	696,933	699,768	693,410	701,299	682,836
Great Lakes:									
Government	—	7,456,830	7,378,875	7,486,311	7,458,684	7,385,284	7,300,691	7,430,165	7,396,657
FFELP (a)	—	461,553	—	—	—	—	—	—	—
Private and consumer (a)	—	118,609	3,987	—	—	—	—	—	—
Total	7,799,839	15,764,308	15,587,982	15,738,628	15,637,393	15,444,419	15,175,620	15,296,509	15,132,197
Number of remote hosted borrowers:	2,812,713	6,207,747	6,145,981	6,406,923	6,393,151	6,332,261	6,211,132	6,457,296	6,433,324

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

Summary and Comparison of Operating Results

	Year ended December 31,		
	2019	2018	Additional information
Net interest income	$ 1,916	1,351	Increase was due to additional interest earnings on cash deposits due to a higher balance of cash deposits and higher interest rates in 2019 as compared to 2018.
Loan servicing and systems revenue	455,255	440,027	See table below for additional analysis.
Intersegment servicing revenue	46,751	47,082	Represents revenue earned by the LSS operating segment as a result of servicing loans for the AGM operating segment. Decrease in 2019 compared to 2018 was due to the expected amortization of the FFELP portfolio. The decrease was partially offset by the purchase of FFELP loan portfolios by the AGM segment. Over time, FFELP intersegment servicing revenue will decrease as AGM's FFELP portfolio pays off.
Other income	9,736	7,284	Represents revenue earned from providing administrative support and marketing services primarily to Great Lakes' former parent company in accordance with a contract that expires in February 2021. Increase in 2019 compared to 2018 was due to twelve months of revenue in 2019 as compared to approximately eleven months of revenue (from the Great Lakes acquisition date) in 2018 and an increase in marketing services provided to other customers.
Total other income	511,742	494,393	
Salaries and benefits	276,136	267,458	Increase in 2019 compared to 2018 was due to twelve months of salaries and benefits from the Great Lakes acquisition included in 2019 as compared to approximately eleven months of expenses (from the Great Lakes acquisition date) in 2018, partially offset by a reduction of expenses from executing certain integration activities related to the Great Lakes acquisition.
Depreciation and amortization	34,755	32,074	Increase in 2019 as compared to 2018 was primarily due to the acquisition of Great Lakes on February 7, 2018.
Other expenses	71,064	67,336	Excluding a $3.9 million impairment charge related to external software development costs recognized by the Company in 2018, other expenses were $71.1 million and $63.4 million for 2019 and 2018, respectively. Increase was due to the Great Lakes acquisition on February 7, 2018.
Intersegment expenses	54,325	59,042	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. Decrease in 2019 as compared to 2018 was due to the completion of certain integration activities related to the Great Lakes acquisition.
Total operating expenses	436,280	425,910	
Income before income taxes	77,378	69,834	
Income tax expense	(18,571)	(16,954)	Reflects income tax expense at an effective tax rate of 24% on income before taxes and the net loss attributable to noncontrolling interest.
Net income	58,807	52,880	
Net loss attributable to noncontrolling interest	—	808	Represented 50 percent of the net loss of the GreatNet joint venture 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.	$ 58,807	53,688	
Before tax and noncontrolling interest operating margin	15.1 %	14.3 %	Excluding the impairment of external software development costs recognized in 2018 as discussed above, before tax and noncontrolling interest operating margin (income before income taxes and noncontrolling interest divided by total revenue) was 15.0% for 2018. The LSS segment will incur additional costs in 2020 to meet increased service and security standards under the Department servicing contracts and to be responsive to the Department's procurement. As a result, the Company currently expects a significant decrease in this segment's operating margin and net income in 2020 from recent historical results.

Loan servicing and systems revenue

	Year ended December 31,		
	2019	2018	Additional information
Government servicing - Nelnet	$ 157,991	157,091	Represents revenue from Nelnet Servicing's Department servicing contract. Increase in 2019 as compared to 2018 was due to an increase in revenue from the administration of the Total and Permanent Disability (TPD) Discharge program and fees earned from the Department from originating consolidation loans. These items were partially offset by a decrease in borrower servicing revenue due to a decrease in the number of servicing borrowers.
Government servicing - Great Lakes	185,656	168,298	Represents revenue from the Great Lakes' Department servicing contract. Increase in revenue was due to twelve months of revenue in 2019 as compared to approximately eleven months (from the Great Lakes acquisition date) of revenue in 2018.
Private education and consumer loan servicing	36,788	41,474	Excluding $4.6 million in revenue earned in 2018 related to a private loan customer deconverting from the Great Lakes servicing platform subsequent to the Company’s acquisition of Great Lakes on February 7, 2018, private education and consumer loan servicing revenue was $36.8 million and $36.9 million in 2019 and 2018, respectively.
FFELP servicing	25,043	31,542	Decrease was due to portfolio amortization. Over time, FFELP servicing revenue will continue to decrease as third-party customers' FFELP portfolios pay off. The decrease in 2019 as compared to 2018 was also due to purchases by the Company's AGM operating segment of third-party FFELP portfolios that are serviced by the LSS operating segment. Revenue earned by the LSS operating segment for servicing loans for the AGM operating segment is included in "intersegment servicing revenue." The decreases in revenue were partially offset by the acquisition of Great Lakes (twelve months of revenue in 2019 as compared to eleven months (from the Great Lakes acquisition date) of revenue in 2018).
Software services	41,077	32,929	Historically, the majority of software services revenue related to providing hosted student loan servicing. As a result of the Great Lakes acquisition, LSS added a significant unrelated third-party FFELP guaranty hosted servicing customer. Increase in 2019 as compared to 2018 was due to an increase in providing hosted guaranty services to the new guaranty servicing customer. In addition, the increase was due to twelve months of revenue from the new guaranty hosted servicing customer in 2019 as compared to approximately eleven months (from the Great Lakes acquisition date) of revenue in 2018.
Outsourced services and other	8,700	8,693	The majority of this revenue relates to providing contact center outsourcing activities.
Loan servicing and systems revenue	$ 455,255	440,027	

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.

On November 20, 2018, the Company acquired 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. The results of TMS' operations are reported in the Company's consolidated financial statements from the date of acquisition.

Summary and Comparison of Operating Results

	Year ended December 31,		
	2019	2018	Additional information
Net interest income	$ 9,198	4,444	Increase was due to additional interest earnings on cash deposits due to a higher balance of cash deposits and higher interest rates in 2019 as compared to 2018.
Education technology, services, and payment processing revenue	277,331	221,962	See table below for additional information.
Other income	259	—	
Total other income	277,590	221,962	
Cost to provide education technology, services, and payment processing services	81,603	59,566	See table below for additional information.
Salaries and benefits	94,666	81,080	Increase was due to the acquisition of TMS along with additional personnel to support the increase in services provided to customers, partially offset by cost reductions due to the Company's decision in October 2018 to terminate its investment in a proprietary payment processing platform.
Depreciation and amortization	12,820	13,484	Amortization of intangible assets related to business acquisitions was $12.1 million and $11.4 million for 2019 and 2018, respectively.
Other expenses	22,027	28,137	Decrease was due to the Company's decision in October 2018 to terminate its investment in a proprietary payment processing platform which resulted in the Company recognizing a $7.8 million impairment charge in 2018. Additional cost savings were also realized as a result of the decision resulting in total savings of approximately $3 million in 2019 as compared to 2018. These decreases were partially offset by an increase in other expenses as a result of the acquisition of TMS and additional costs to support the increase in services provided to customers.
Intersegment expenses, net	13,405	10,681	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	142,918	133,382	
Income before income taxes	62,267	33,458	
Income tax expense	(14,944)	(8,030)	Represents income tax expense at an effective tax rate of 24%.
Net income	$ 47,323	25,428	

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, 2019	Year ended December 31, 2018	Additional information
Tuition payment plan services	$ 106,682	85,381	Increase was due to an increase in the number of managed tuition payment plans resulting from the acquisition of TMS and the addition of new school customers.
Payment processing	110,848	84,289	Increase was due to the acquisition of TMS and an increase in payments volume from new and existing school and non-education customers.
Education technology and services	58,578	51,155	Increase was due to an increase in the number of customers using the Company's school administration software and services, higher revenues from financial needs assessment services, and the acquisition of TMS. Additionally, FACTS Education Solutions has experienced growth in the number of students and teachers receiving its professional development and educational instruction services.
Other	1,223	1,137	
Education technology, services, and payment processing revenue	277,331	221,962	
Cost to provide education technology, services, and payment processing services	81,603	59,566	Costs primarily relate to payment processing revenue. Increase was due to the acquisition of TMS and an increase in payments volume from new and existing school and non-education customers.
Net revenue	$ 195,728	162,396	
Before tax operating margin	31.8 %	20.6 %	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 (income before income taxes divided by net revenue) was 25.4% in 2018. The increase in margin in 2019 as compared to 2018 was due to operating leverage and the Company's decision to terminate its investment in a proprietary payment processing platform.

COMMUNICATIONS OPERATING SEGMENT - RESULTS OF OPERATIONS

Summary and Comparison of Operating Results

	Year ended December 31,		
	2019	**2018**	**Additional information**
Net interest income (expense)	$ 3	(9,983)	See note (a) below for additional information.
Communications revenue	64,269	44,653	Communications revenue is derived primarily from the sale of pure fiber optic services to residential and business customers in Nebraska and Colorado, including internet, television, and telephone services. Increase was due to additional residential households and businesses served as a result of the completion of the Lincoln, Nebraska network build out in 2019 and continued maturity of ALLO's existing markets. See additional financial and operating data for ALLO in the tables below.
Other income	1,509	1,075	
Total other income	65,778	45,728	
Cost to provide communications services	20,423	16,926	Cost of services 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	21,004	18,779	For the years ended December 31, 2019 and 2018, ALLO's average number of employees was 540 and 508, respectively. ALLO also uses temporary employees in the normal course of business. Certain costs qualify for capitalization as ALLO develops its network.
Depreciation and amortization	37,173	23,377	Depreciation reflects the allocation of the costs of ALLO's property and equipment over the period in which such assets are used. A significant amount of property and equipment purchases have been made to support the Lincoln, Nebraska network expansion. The gross property and equipment balances related to this segment as of December 31, 2019, 2018, and 2017 were $315.3 million, $273.9 million, and $186.4 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	15,165	11,900	Other expenses includes selling, general, and administrative expenses necessary for operations, such as advertising, occupancy, professional services, construction materials, and personal property taxes. Increase was due to expansion of new markets and increase in the number of households and businesses served.
Intersegment expenses	2,962	2,578	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	76,304	56,634	
Loss before income taxes	(30,946)	(37,815)	
Income tax benefit	7,427	9,075	Represents income tax benefit at an effective tax rate of 24%.
Net loss	$ (23,519)	(28,740)	The Company anticipates this operating segment will be dilutive to consolidated earnings as it continues to develop and add customers to 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	$ (23,519)	(28,740)	
Net interest (income) expense	(3)	9,983	
Income tax benefit	(7,427)	(9,075)	
Depreciation and amortization	37,173	23,377	
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	$ 6,224	(4,455)	For additional information regarding this non-GAAP measure, see the table below.

(a) Nelnet, Inc. (parent company) previously provided 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 the 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 the line of credit, including all accrued and unpaid interest. 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 not treated by ALLO as interest expense. Accordingly, subsequent to October 1, 2018, ALLO will not report 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,			
	2019		2018	
Residential revenue	$ 48,344	75.2 %	$ 33,434	74.9 %
Business revenue	15,689	24.4	10,976	24.6
Other revenue	236	0.4	243	0.5
Communications revenue	$ 64,269	100.0 %	$ 44,653	100.0 %
Internet	$ 38,239	59.5 %	$ 24,069	53.9 %
Television	16,196	25.2	12,949	29.0
Telephone	9,705	15.1	7,546	16.9
Other	129	0.2	89	0.2
Communications revenue	$ 64,269	100.0 %	$ 44,653	100.0 %
Net loss	$ (23,519)		$ (28,740)	
EBITDA (a)	6,224		(4,455)	
Capital expenditures	44,988		87,466	

	As of December 31, 2019	As of September 30, 2019	As of June 30, 2019	As of March 31, 2019	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
Residential customer information:									
Households served	47,744	45,228	42,760	40,338	37,351	32,529	27,643	23,541	20,428
Households passed (b)	140,986	137,269	132,984	127,253	122,396	110,687	98,538	84,475	71,426
Households served/passed	33.9 %	32.9 %	32.2 %	31.7 %	30.5 %	29.4 %	28.1 %	27.9 %	28.6 %
Total households in current markets and new markets announced (c)	160,884	159,974	159,974	152,840	152,840	142,602	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 services in Fort Morgan, Colorado. During the fourth quarter of 2018, ALLO began providing services in Hastings, Nebraska. During the second quarter of 2019, ALLO announced plans to expand its network to make services available in Breckenridge, Colorado. During the fourth quarter of 2019, ALLO announced plans to expand its network to make services available in Imperial, Nebraska. ALLO is now in eleven communities, including nine in Nebraska and two in Colorado.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

Loan Portfolio

As of December 31, 2019, the Company had a $20.7 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 8.8 years. For a summary of the Company's loan portfolio as of December 31, 2019 and 2018, 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,	
	2019	**2018**
Beginning balance	$ 22,520,498	21,995,877
Loan acquisitions:		
Federally insured student loans	1,530,294	3,708,188
Private education loans	71,543	68,337
Consumer loans	405,726	120,482
Total loan acquisitions	2,007,563	3,897,007
Repayments, claims, capitalized interest, and other	(2,511,641)	(2,282,631)
Consolidation loans lost to external parties	(990,720)	(1,066,043)
Consumer loans sold	(226,981)	—
Other loans sold	—	(23,712)
Ending balance	$ 20,798,719	22,520,498

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 2019 and 2018, and a summary of the Company's loan delinquency amounts as of December 31, 2019 and 2018, see note 3 of the notes to consolidated financial statements included in this report.

Provision for loan losses for federally insured loans was $8.0 million and $14.0 million, in 2019 and 2018, respectively. During 2018, 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 in provision expense related to such loans.

The Company did not record provision expense for private education loans in 2019 and 2018.

Provision for loan losses for consumer loans was $31.0 million and $9.0 million in 2019 and 2018, respectively. The increase in the provision in 2019 as compared to 2018 was a result of the increased amount of consumer loan purchases during 2019 as reflected in the "Loan Activity" table above.

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,	
	2019	**2018**
Variable loan yield, gross	4.80 %	4.52 %
Consolidation rebate fees	(0.83)	(0.84)
Discount accretion, net of premium and deferred origination costs amortization	0.02	0.04
Variable loan yield, net	3.99	3.72
Loan cost of funds - interest expense	(3.25)	(2.98)
Loan cost of funds - derivative settlements (a) (b)	0.03	0.03
Variable loan spread	0.77	0.77
Fixed rate floor income, gross	0.22	0.25
Fixed rate floor income - derivative settlements (a) (c)	0.19	0.30
Fixed rate floor income, net of settlements on derivatives	0.41	0.55
Core loan spread (d)	1.18 %	1.32 %
Average balance of loans	$ 21,698,094	22,596,436
Average balance of debt outstanding	21,259,309	22,181,932

A reconciliation of core loan spread, which includes the impact of derivative settlements on loan spread, to loan spread without derivative settlements follows.

	Year ended December 31,	
	2019	**2018**
Core loan spread	1.18 %	1.32 %
Derivative settlements (1:3 basis swaps)	(0.03)	(0.03)
Derivative settlements (fixed rate floor income)	(0.19)	(0.30)
Loan spread	0.96 %	0.99 %

(a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income (loan spread) as presented in this table. The Company reports this non-GAAP information because it believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included 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 2019 and 2018 periods presented in the table under the caption "Income Statement Impact" in note 5 and in this table.

(b) Derivative settlements consist of net settlements received related to the Company's 1:3 basis swaps.

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

(d) Core loan spread, excluding consumer loans, would have been 1.09% and 1.27% in 2019 and 2018, respectively. Other than consumer loans funded in the Company's consumer loan warehouse facility that was obtained on January 11, 2019, consumer loans were and continue to be funded by the Company using operating cash, until they can be funded in a secured financing transaction. Consumer loans funded with operating cash do not have a cost of funds (debt) associated with them. The average balance of consumer loans outstanding in 2019 and 2018 was $219.1 million, and $90.9 million, respectively. The average balance outstanding on the consumer loan warehouse facility in 2019 was $98.2 million.

A trend analysis of the Company's core and variable loan spreads by calendar year quarter 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 remained constant for the year ended December 31, 2019 as compared to 2018 due to the impact of the Company's consumer loan portfolio. Variable loan spread without consumer loans was 0.67% and 0.71% for the years ended December 31, 2019 and 2018, respectively. This decrease was due to the widening 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 difference between variable loan spread and core loan spread is fixed rate floor income earned on a portion of the Company's federally insured student loan portfolio. A summary of fixed rate floor income and its contribution to core loan spread follows:

	Year ended December 31,	
	2019	2018
Fixed rate floor income, gross	$ 49,677	56,811
Derivative settlements (a)	40,192	64,901
Fixed rate floor income, net	$ 89,869	121,712
Fixed rate floor income contribution to spread, net	0.41 %	0.55 %

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

The decrease in gross fixed rate floor income in 2019 compared to 2018 was due to higher interest rates in 2019 as compared to 2018. 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,		
	2019	**2018**	**Additional information**
Net interest income after provision for loan losses	$ 199,588	226,142	See table below for additional analysis.
Other income	30,349	12,723	The Company sold two portfolios of consumer loans during 2019 and recognized total gains of $17.3 million. The remaining component of other income is primarily earned from borrower late fees.
Derivative settlements, net	45,406	70,478	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 adjustments, net	(76,195)	(2,159)	Includes 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. The majority of the derivative market value adjustments related to the changes in fair value of the Company's floor income interest rate swaps. Such changes reflect that a decrease in the forward yield curve during a reporting period results in a decrease in the fair value of the Company's floor income interest rate swaps, and an increase in the forward yield curve during a reporting period results in an increase in the fair value of the Company's floor income interest rate swaps. During 2019, there was a significant decrease in the forward yield curve resulting in a decrease in the fair value of the Company's floor income interest rate swaps that resulted in a larger loss in 2019 as compared to 2018.
Total other income	(440)	81,042	
Salaries and benefits	1,545	1,526	
Other expenses	34,445	15,961	The Company recognized $16.7 million of expenses in 2019 to extinguish asset-backed notes from certain securitizations prior to their contractual maturities. The remaining component of other expenses is primarily servicing fees paid to third parties. Third party loan servicing fees increased in 2019 due to increased consumer loan volume.
Intersegment expenses	47,362	47,870	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. Intersegment expenses also include 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	83,352	65,357	Excluding the expenses recognized by the Company related to the extinguishment of debt securities prior to their contractual maturities (as described above), total operating expenses were 31 basis points and 29 basis points of the average balance of loans in 2019 and 2018, respectively.
Income before income taxes	115,796	241,827	
Income tax expense	(27,792)	(58,038)	Represents income tax expense at an effective tax rate of 24%.
Net income	$ 88,004	183,789	
Additional information:			
Net income	$ 88,004	183,789	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 adjustments. The decrease in net income, excluding derivative market value adjustments, in 2019 as compared to 2018 was due to debt extinguishment costs incurred in 2019, a decrease in the average balance of loans outstanding, a decrease in core loan spread, and an increase in provision for loan losses for consumer loans as a result of the increased amount of consumer loan purchases in 2019 as compared to 2018. These items were partially offset by the gains recognized in 2019 for the sale of consumer loan portfolios.
Derivative market value adjustments, net	76,195	2,159	
Tax effect	(18,287)	(518)	
Net income, excluding derivative market value adjustments	$ 145,912	185,430	

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,		
	2019	2018	Additional information
Variable interest income, gross	$ 1,040,785	1,021,326	Increase in 2019 as compared to 2018 was due to an increase in the gross yield earned on loans, partially offset by a decrease in the average balance of loans.
Consolidation rebate fees	(180,701)	(190,350)	Decrease was due to a decrease in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	4,495	9,879	Net discount accretion is due to the Company's purchases of loans at a net discount over the last several years. However, due to more recent purchases at a net premium, the net discount accretion decreased in 2019 as compared to 2018.
Variable interest income, net	864,579	840,855	
Interest on bonds and notes payable	(689,625)	(659,367)	Increase in 2019 as compared to 2018 was due to an increase in cost of funds, partially offset by a decrease in the average balance of debt outstanding.
Derivative settlements, net (a)	5,214	5,577	Derivative settlements include the net settlements received related to the Company's 1:3 basis swaps.
Variable loan interest margin, net of settlements on derivatives (a)	180,168	187,065	
Fixed rate floor income, gross	49,677	56,811	Fixed rate floor income decreased due to higher interest rates in 2019 as compared to 2018.
Derivative settlements, net (a)	40,192	64,901	Derivative settlements include the settlements received related to the Company's floor income interest rate swaps. The decrease in settlements in 2019 as compared to 2018 was due to a decrease in the notional amount of derivatives outstanding, partially offset by higher interest rates in 2019 as compared to 2018.
Fixed rate floor income, net of settlements on derivatives	89,869	121,712	
Core loan interest income (a)	270,037	308,777	
Investment interest	17,707	13,836	Increase was due to a higher balance of interest-earning investments and higher interest rates in 2019 as compared to 2018.
Intercompany interest	(3,750)	(2,993)	
Provision for loan losses - federally insured loans	(8,000)	(14,000)	See "Allowance for Loan Losses and Loan Delinquencies" included above under "Asset Generation and Management Operating Segment - Results of Operations."
Provision for loan losses - consumer loans	(31,000)	(9,000)	
Net interest income after provision for loan losses (net of settlements on derivatives) (a)	$ 244,994	296,620	

(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 2019 and 2018 periods presented in the table under the caption "Income Statement Impact" in note 5 and in this table.

As of December 31, 2019, the interest earned on a principal amount of $18.9 billion in the Company's FFELP student loan asset portfolio was indexed to one-month LIBOR, and the interest paid on a principal amount of $18.4 billion of the Company's FFELP student loan asset-backed debt securities was indexed to one-month or three-month LIBOR. In addition, the majority of the Company's derivative financial instrument transactions used to manage LIBOR interest rate risks are indexed to LIBOR. 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, as well as the Company's LIBOR-indexed derivative instruments. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate."

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.

Sources of Liquidity

The Company has historically generated positive cash flow from operations. For the years ended December 31, 2019 and 2018, the Company's net cash provided by operating activities was $298.9 million and $270.9 million, respectively.

As of December 31, 2019, the Company had cash and cash equivalents of $133.9 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 $52.7 million as of December 31, 2019.

The Company also has a $455.0 million unsecured line of credit that matures on December 16, 2024. As of December 31, 2019, there was $50.0 million outstanding on the unsecured line of credit and $405.0 million was available for future use. The line of credit provides that the Company may increase the aggregate financing commitments, through the existing lenders and/or through new lenders, up to a total of $550.0 million, subject to certain conditions. In addition, on May 30, 2019, the Company entered into a $22.0 million secured line of credit agreement that matures on May 30, 2022. As of December 31, 2019, the secured line of credit had $5.0 million outstanding with $17.0 million 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, 2019, 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, 2019, the Company generated $298.9 million from operating activities, compared to $270.9 million for the same period in 2018. The increase in cash flows from operating activities was due to:

- The adjustments to net income for derivative market value adjustments; and
- The impact of changes to accrued interest receivable and other liabilities in 2019 as compared to 2018.

These factors were partially offset by:

- The decrease in net income;
- Adjustments to net income for the impact of deferred taxes;
- Net payments to the derivative clearinghouse in 2019 of $70.7 million compared to net proceeds received in 2018 of $40.4 million related to the Company's derivative portfolio;
- Net payments to derivative counterparties to terminate derivatives in 2019 of $12.5 million compared to net proceeds received in 2018 of $10.3 million; and
- The impact of changes to accounts receivable and accrued interest payable in 2019 as compared to 2018.

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 provided by investing activities and used in financing activities for the year ended December 31, 2019 was $1,524.6 million and $1,793.3 million, respectively. Cash used in investing activities and provided by financing activities for the year ended December 31, 2018 was $732.4 million and $711.8 million, 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:

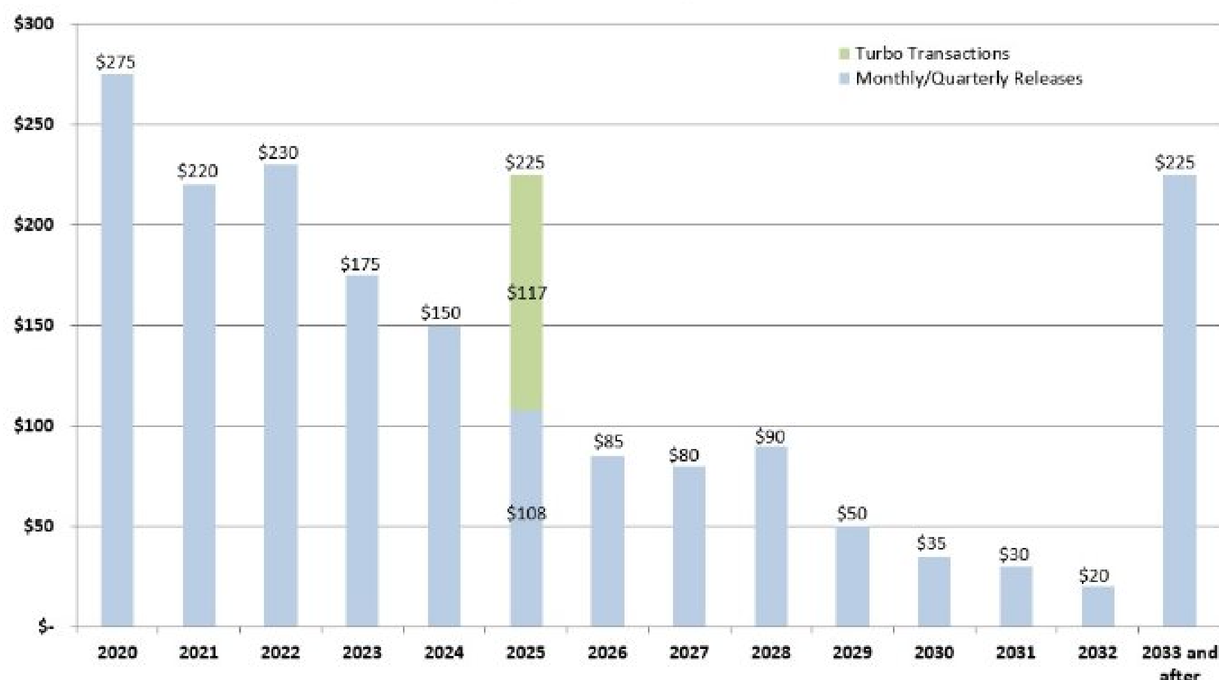
	As of December 31, 2019	
	Carrying amount	Final maturity
Bonds and notes issued in asset-backed securitizations	$ 19,833,135	5/27/25 - 01/25/68
FFELP and consumer loan warehouse facilities	894,664	5/20/21 - 5/31/22
	$ 20,727,799	

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, 2019, 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 $1.89 billion as detailed below.

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of December 31, 2019. As of December 31, 2019, the Company had $19.7 billion of loans included in asset-backed securitizations, which represented 94.8 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, 2019, private education and consumer loans funded with operating cash, and loans acquired subsequent to December 31, 2019.



The forecasted future undiscounted cash flows of approximately $1.89 billion include approximately $1.01 billion (as of December 31, 2019) 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 "accrued interest receivable." The difference between the total estimated future undiscounted cash flows and the overcollateralization of approximately $0.88 billion, or approximately $0.67 billion after income taxes based on the estimated effective tax rate, is expected to be accretive to the Company's December 31, 2019 balance of consolidated shareholders' equity.

Two of the Company's asset-backed securitizations as of December 31, 2019 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 outstanding principal generally 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 securitizations will be released to the Company, at which time the Company will have the option to refinance or sell these assets, or retain them on the balance sheet as unencumbered assets.

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

Prepayments: The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity, borrower default rates, and utilization of debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company's cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company's recent asset-backed securitization transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately $135 million to $165 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 $75 million to $95 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."

Extinguishment of Certain Asset-Backed Securitizations (Including Turbo Transactions)

During 2019, the Company extinguished $1.05 billion of notes payable in certain asset-backed securitizations, including six of the Company's eight Turbo Transactions (prior to the notes' contractual maturities). These transactions resulted in the release of $1.45 billion in student loans and accrued interest receivable that were previously encumbered in the asset-backed securitizations. To extinguish the notes, the Company paid premiums of $14.0 million and wrote off $2.7 million of debt issuance costs associated with these securitizations. In total, the Company recognized $16.7 million in expenses in 2019 to extinguish these notes. Upon extinguishment of the notes payable throughout 2019, the Company refinanced the student loans in its FFELP warehouse facilities and new asset-backed securitizations, resulting in net cash proceeds of $387.1 million.

The cash proceeds generated by the debt extinguishments were used to pay down a significant portion of the outstanding balance on the Company's unsecured line of credit and provides the Company with increased liquidity and the opportunity to invest the previously underutilized capital at higher returns.

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, 2019, the Company had two FFELP warehouse facilities with an aggregate maximum financing amount available of $1.1 billion, of which $0.8 billion was outstanding and $0.3 billion was available for additional funding. One warehouse facility has a static advance rate until the expiration date of the liquidity provisions (May 20, 2020). 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, 2021). The other warehouse facility has a static advance rate that requires initial equity for loan funding and does not require increased equity based on market movements. As of December 31, 2019, the Company had $42.6 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at December 31, 2019, see note 4 of the notes to consolidated financial statements included in this report.

On January 11, 2019, the Company obtained a consumer loan warehouse facility that has an aggregate maximum financing amount available of $200.0 million, an advance rate of 70 or 75 percent depending on the type of collateral and subject to certain concentration limits, liquidity provisions to April 23, 2021, and a final maturity date of April 23, 2022. As of December 31, 2019, $116.6 million was outstanding under this facility and $83.4 million was available for future funding. Additionally, as of December 31, 2019, the Company had $41.3 million advanced as equity support under this facility.

On January 31, 2020, the Company sold $124.2 (par value) of consumer loans to an unrelated third party. A portion of such loans were funded in the consumer loan warehouse. After completion of this loan sale, the outstanding balance under the consumer loan warehouse was $61.5 million, $138.5 million was available for future funding, and $1.3 million was advanced as equity support.

On February 13, 2020, the Company closed on a private loan warehouse facility with an aggregate maximum financing amount available of $100.0 million, with an additional $100.0 million available at the request of the Company and approval of the lender, an advance rate of 90 percent, liquidity provisions through February 15, 2021, and a final maturity date of February 11, 2022. The Company currently anticipates funding approximately $110 million of private loan assets in this facility.

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

The Company no longer originates new FFELP loans, but continues to acquire FFELP loan portfolios from third parties and believes additional loan purchase opportunities exist, including opportunities to purchase private education and consumer loans.

The Company plans to fund additional loan acquisitions using current cash and investments; using its Union Bank participation agreement (as described below); using its existing warehouse facilities (as described above); increasing the capacity under existing and/or 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, 2019, $749.6 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 $900.0 million or an amount in excess of $900.0 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 2019, the Company completed seven FFELP asset-backed securitizations totaling $2.8 billion (par value). The proceeds from these transactions were used primarily to refinance student loans included in the Company's FFELP warehouse facilities and unencumbered student loans from the extinguishment of certain asset-backed securitizations. On June 25, 2019, the Company completed a private education loan asset-backed securitization totaling $47.2 million (par value). The proceeds from this transaction were used to refinance private education loans previously funded via a private loan repurchase agreement that was terminated on June 25, 2019. See note 4 of the notes to consolidated financial statements included in this report for additional information on these securitizations.

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 student loans in its existing asset-backed securitizations.

Liquidity Impact Related to Hedging Activities

The Company utilizes derivative instruments to manage interest rate sensitivity. By using derivative instruments, the Company is exposed to market risk which could impact its liquidity. Based on the derivative portfolio outstanding as of December 31, 2019, 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 make variation margin payments to its third-party clearinghouse. However, if interest rates move materially and negatively impact the fair value of the Company's derivative portfolio, the replacement of LIBOR as a benchmark rate has significant adverse impacts on our derivatives, 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 make variation margin payments to its third-party clearinghouse. The collateral deposits or variation margin, if significant, could negatively impact the Company's liquidity and capital resources. In addition, clearing rules 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 communities in Nebraska and Colorado. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to other communities in the Midwest. In 2019, ALLO's capital expenditures were $45.0 million. The Company anticipates total ALLO network capital expenditures in 2020 will be approximately $35.0 million to $45.0 million. 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 $455.0 million unsecured line of credit with a maturity date of December 16, 2024. As of December 31, 2019, the unsecured line of credit had $50.0 million outstanding and $405.0 million was available for future use. On May 30, 2019, the Company entered into a $22.0 million secured line of credit agreement with a maturity date of May 30, 2022. As of December 31, 2019, the secured line of credit had $5.0 million outstanding with $17.0 million available for future use. The line of credit is secured by several Company-owned properties. Upon the maturity date of these facilities, there can be no assurance that the Company will be able to maintain these lines of credit, increase the amount outstanding under the lines, 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, 2019, the Company had $20.4 million of Hybrid Securities that remain outstanding.

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

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 7, 2022. As of December 31, 2019, 4,803,877 shares remain authorized for purchase under the Company's repurchase program. 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 2019 and 2018 are shown below. Certain of these repurchases were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Year ended December 31, 2019	726,273	$ 40,411	$ 55.64
Year ended December 31, 2018	868,147	45,331	52.22

Included in the shares repurchased during 2019 in the table above are a total of 180,000 shares of Class A common stock the Company purchased on June 17, 2019 from one of the Company's significant shareholders, Shelby J. Butterfield, the widow of Stephen F. Butterfield, the Company's former Vice-Chairman and significant shareholder who passed away in April 2018, and from the Butterfield Family Trust, an estate planning trust for the family of Mr. Butterfield. The shares were purchased at a discount to the closing market price of the Company's Class A common stock as of June 17, 2019, and the transaction was separately approved by the Company's Board of Directors. Immediately prior to the Company's purchase of such shares from Ms. Butterfield and the Butterfield Family Trust, the purchased shares were shares of the Company's Class B common stock that Ms. Butterfield and the Butterfield Family Trust converted to shares of Class A common stock.

Dividends

Dividends of $0.18 per share on the Company’s Class A and Class B common stock were paid on March 15, 2019, June 14, 2019, and September 13, 2019, respectively, and a dividend of $0.20 per share was paid on December 13, 2019.

The Company's Board of Directors declared a first quarter 2020 cash dividend on the Company's Class A and Class B common stock of $0.20 per share. The dividend will be paid on March 13, 2020, to shareholders of record at the close of business on February 28, 2020.

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, 2019				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable (a)	$ 20,803,180	—	899,664	50,000	19,853,516
Operating lease liabilities	38,883	10,178	11,557	6,207	10,941
Total	$ 20,842,063	10,178	911,221	56,207	19,864,457

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

As of December 31, 2019, the Company had a reserve of $15.9 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 qualitative factors.

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 qualitative factors. 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 the type of loan program.

The allowance for loan losses is made at a specific point in time and based on relevant information as discussed above. 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 numerous estimates made by management. These estimates are subjective in nature and involve uncertainties and matters of significant judgement. Changes in estimates could significantly affect the Company's recorded balance for the allowance for loan losses.

RECENT ACCOUNTING PRONOUNCEMENTS

Allowance for Loan Losses

In June 2016, the FASB issued accounting guidance regarding the measurement of credit losses on financial instruments, which changed 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 estimate of credit losses under the new guidance considers historical experience, current conditions, and reasonable and supportable forecasts of future conditions. The new guidance provides significant flexibility and permits companies to use judgment in selecting the approach that is most appropriate in their circumstances. This guidance was effective for the Company beginning January 1, 2020. Prior to the effective date, the Company used an incurred loss model when calculating its allowance for loan losses.

The new guidance will primarily impact the allowance for loan losses related to the Company’s federally insured student loans, which represented approximately 97.7 percent of the Company’s total loan portfolio as of December 31, 2019 and for which the Company’s loss exposure is limited by the applicable federal government guarantee, private education loans, and consumer loans. To calculate the allowance for loan losses, the Company has aggregated loans with similar risk characteristics into homogeneous pools based primarily on loan type and expects to use undiscounted cash flow and remaining life methodologies, which incorporate historical loss rates. The historical loss rates are adjusted for reasonable and supportable economic forecasts over a specific period, then reverting to the historical loss average using a straight line method. The national unemployment rate and the year over year change in gross domestic product are the key macroeconomic factors that are relevant to the Company's loan portfolio. The Company also adjusts the historical loss rates for qualitative factors to bring the allowance for loan losses to the level management believes is appropriate. The Company currently expects the impact upon adoption to increase the allowance for loan losses by $60 million to $80 million, which includes a reclassification of the non-accretable discount balance and premiums related to loans purchased with evidence of credit deterioration, and decrease retained earnings, net of tax, by $10 million to $20 million. The Company is in the process of finalizing the review of the loss models, economic forecasts, and qualitative adjustments and the models will be refined as needed. Future allowance for loan loss levels will depend on the characteristics of the Company's loan portfolio, economic conditions and forecasts, and other management judgments.

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, 2019		As of December 31, 2018	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 3,647,365	17.5 %	$ 2,792,734	12.4 %
Variable-rate loan assets	17,151,354	82.5	19,727,764	87.6
Total	$ 20,798,719	100.0 %	$ 22,520,498	100.0 %
Fixed-rate debt instruments	$ 562,203	2.7 %	$ 88,128	0.4 %
Variable-rate debt instruments	20,240,977	97.3	22,448,971	99.6
Total	$ 20,803,180	100.0 %	$ 22,537,099	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, 2019 and 2018. A summary of fixed rate floor income earned by the Company during these years follows.

	Year ended December 31,	
	2019	2018
Fixed rate floor income, gross	$ 49,677	56,811
Derivative settlements (a)	40,192	64,901
Fixed rate floor income, net	$ 89,869	121,712

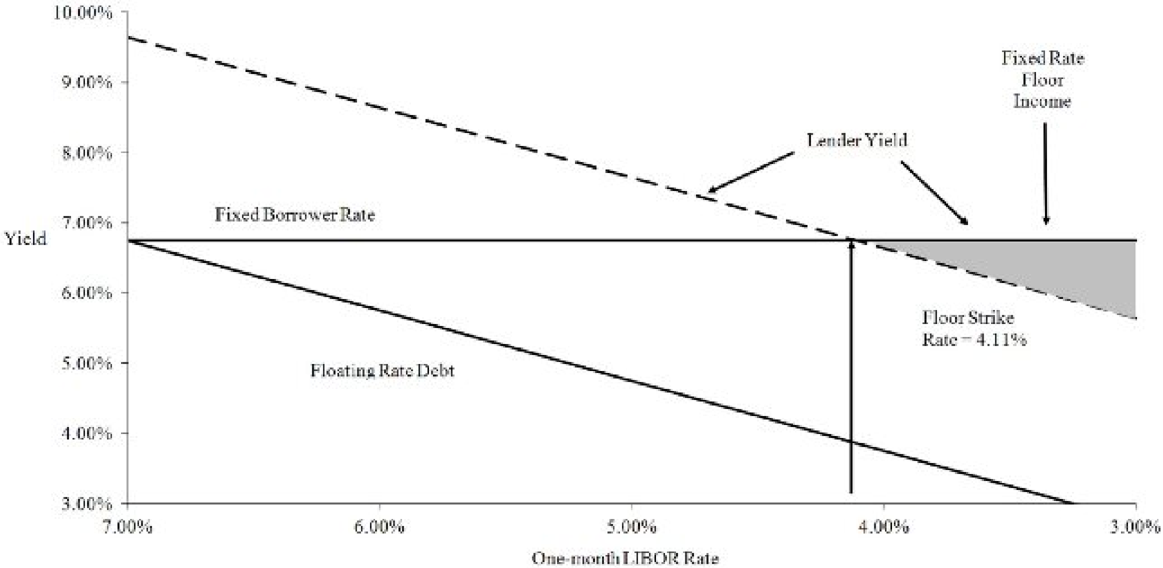
(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

Gross fixed rate floor income decreased in 2019 as compared to 2018 due to higher interest rates in 2019 as compared to 2018.

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

The decrease in derivative settlements from the floor income interest rate swaps in 2019 as compared to 2018 was due to a decrease in the notional amount of derivatives outstanding, partially offset by higher interest rates in 2019 as compared to 2018.

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, 2019:

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
4.5 - 4.99%	4.72%	2.08%	$ 727,086
5.0 - 5.49%	5.22%	2.58%	470,843
5.5 - 5.99%	5.67%	3.03%	320,031
6.0 - 6.49%	6.19%	3.55%	367,409
6.5 - 6.99%	6.70%	4.06%	357,842
7.0 - 7.49%	7.17%	4.53%	125,674
7.5 - 7.99%	7.71%	5.07%	224,635
8.0 - 8.99%	8.18%	5.54%	525,108
> 9.0%	9.05%	6.41%	197,829
			$ 3,316,457

(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, 2019, the weighted average estimated variable conversion rate was 3.72% and the short-term interest rate was 182 basis points.

The following table summarizes the outstanding derivative instruments as of December 31, 2019 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)
2020	$ 1,500,000	1.01 %
2021	600,000	2.15
2022 (b)	250,000	1.65
2023	150,000	2.25
	$ 2,500,000	1.42 %

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

(b) These derivatives have forward effective start dates in June 2021.

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, 2019:

Index	Frequency of variable resets	Assets	Funding of student loan assets
1 month LIBOR (a)	Daily	$ 18,871,312	—
3 month H15 financial commercial paper	Daily	842,100	—
3 month Treasury bill	Daily	615,131	—
1 month LIBOR	Monthly	—	10,956,371
3 month LIBOR (a)	Quarterly	—	7,472,627
Asset-backed commercial paper (b)	Varies	—	778,094
Auction-rate (c)	Varies	—	768,626
Fixed rate	—	—	512,836
Other (d)	—	1,360,457	1,200,446
		$ 21,689,000	21,689,000

(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, 2019.

Maturity	Notional amount (i)
2020	$ 1,000,000
2021	250,000
2022 (ii)	2,000,000
2023	750,000
2024	1,750,000
2026	1,150,000
2027	250,000
	$ 7,150,000

(i) The weighted average rate paid by the Company on the 1:3 Basis Swaps as of December 31, 2019 was one-month LIBOR plus 9.7 basis points.

(ii) $750 million of the notional amount of these derivatives have forward effective start dates in May 2020.

(b) The interest rates on the Company's warehouse facilities are indexed to asset-backed commercial paper rates.

(c) As of December 31, 2019, the Company was sponsor for $768.6 million of outstanding asset-backed securities that were set and provide for interest rates to be periodically reset via a "dutch auction" ("Auction Rate Securities"). Since the auction feature has essentially been inoperable for substantially all auction rate securities since 2008, 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.

(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 derivative instruments 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, 2019							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (23,199)	(13.1)%	$ (43,368)	(24.5)%	$ (9,462)	(5.3) %	$ (28,385)	(16.1)%
Impact of derivative settlements	28,793	16.3	86,380	48.8	6,780	3.8	20,340	11.5
Increase (decrease) in net income before taxes	$ 5,594	3.2 %	$ 43,012	24.3 %	$ (2,682)	(1.5) %	$ (8,045)	(4.6)%
Increase (decrease) in basic and diluted earnings per share	$ 0.11		$ 0.82		$ (0.05)		$ (0.15)	
	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)	

Financial Statement Impact – Derivatives

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, 2019. 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, 2019.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective January 1, 2019, the Company implemented ASC Topic 842, *Leases*. As a result, management made the following significant modifications to its internal control over financial reporting environment, including changes to accounting policies and procedures, operational processes, and documentation practices:

(a) Updated policies and procedures related to accounting for lease assets and liabilities and related income and expense.

(b) Modified contract review controls to consider the new criteria for determining whether a contract is or contains a lease, specifically to clarify the definition of a lease and align with the concept of control.

(c) Added controls for reevaluating significant assumptions and judgments regarding leases on a quarterly basis.

(d) Added controls to address related required disclosures regarding leases, including significant assumptions and judgments used in applying ASC Topic 842.

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, 2019 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, 2019, 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, 2019 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, 2019, 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, 2019, 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, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 27, 2020 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, 2020

ITEM 9B. OTHER INFORMATION

During the fourth quarter of 2019, 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, and corporate governance of the Company set forth under the captions “PROPOSAL 1 - ELECTION OF DIRECTORS,” “EXECUTIVE OFFICERS,” and “CORPORATE GOVERNANCE,” and the information as to any delinquent report under Section 16(a) of the Securities Exchange Act of 1934 set forth under the caption “SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - Delinquent Section 16(a) Reports," to the extent any such disclosure is required, 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 2020 Annual Meeting of Shareholders scheduled to be held on May 21, 2020 (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, 2019		
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	—	—	1,962,539 (1)
Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	1,962,539

(1) Includes 1,435,213, 97,698, and 429,628 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, 2019 and 2018	F-4
Consolidated Statements of Income for the years ended December 31, 2019, 2018, and 2017	F-5
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018, and 2017	F-6
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019, 2018, and 2017	F-7
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017	F-8
Notes to Consolidated Financial Statements	F-10

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	Composite Third Amended and Restated Articles of Incorporation of Nelnet, Inc., as amended on May 23, 2019, filed as Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 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*	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934.
4.2	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.

4.3	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.
4.4	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	Seventeenth Amendment of Amended and Restated Participation Agreement, dated as of August 1, 2019, by and between Union Bank and Trust Company and National Education Loan Network, Inc., filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and incorporated herein by reference.
10.4	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.
10.5	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.
10.6	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.
10.7	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.
10.8	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.
10.9	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.
10.10+	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.
10.11	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.
10.12	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.
10.13	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.

10.14	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.
10.15	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.
10.16	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.
10.17	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.
10.18	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.
10.19	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.
10.20+	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.
10.21*+	Amendment to Nelnet, Inc. Restricted Stock Plan, effective as of February 11, 2020.
10.22+	Nelnet, Inc. Directors Stock Compensation Plan, as amended through March 21, 2018, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 24, 2018 and incorporated herein by reference.
10.23+	Nelnet, Inc. Executive Officers Incentive Compensation Plan, effective as of January 1, 2019, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 23, 2019 and incorporated herein by reference.
10.24	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.
10.25	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.
10.26	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.
10.27	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.
10.28	Modification of Contract dated effective as of June 16, 2019 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 May 17, 2019 and incorporated herein by reference.
10.29	Modification of Contract dated effective as of November 25, 2019 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 November 27, 2019 and incorporated herein by reference.
10.30	Student Loan Servicing Contract between the United States Department of Education and Great Lakes Educational Loan Services, Inc., filed as Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on May 17, 2019 and incorporated herein by reference.
10.31	Modification of Contract dated effective as of May 21, 2014 for Student Loan Servicing Contract between the United States Department of Education and Great Lakes Educational Loan Services, Inc., filed as Exhibit 10.7 to the registrant's Current Report on Form 8-K filed on May 17, 2019 and incorporated herein by reference.

10.32	Modification of Contract dated effective as of September 1, 2014 for Student Loan Servicing Contract between the United States Department of Education and Great Lakes Educational Loan Services, Inc., filed as Exhibit 10.8 to the registrant's Current Report on Form 8-K filed on May 17, 2019 and incorporated herein by reference.
10.33	Modification of Contract dated effective as of June 16, 2019 for Student Loan Servicing Contract between the United States Department of Education and Great Lakes Educational Loan Services, Inc., filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on May 17, 2019 and incorporated herein by reference.
10.34	Modification of Contract dated effective as of November 25, 2019 for Student Loan Servicing Contract between the United States Department of Education and Great Lakes Educational Loan Services, Inc., filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on November 27, 2019 and incorporated herein by reference.
10.35	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.
10.36	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.
10.37	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.
10.38	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.
10.39	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.
10.40	Amended Appendix A, dated May 8, 2019, to 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 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 and incorporated herein by reference.
10.41	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.
10.42	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.
10.43	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.
10.44	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.
10.45	Management Agreement dated as of August 8, 2019 between 1867 – Riley Road, LLC (of which Farmers & Merchants Investment Inc., North Central Bancorp, Inc., and Nelnet Solar, LLC are members) and 1867 Capital-1, LLC (a wholly owned subsidiary of Nelnet, Inc.), filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and incorporated herein by reference.
10.46	Subordination Agreement effective as of July 26, 2019, by and between Union Bank and Trust Company, Nelnet, Inc., and Agile Sports Technologies, Inc., filed as Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and incorporated herein by reference.
10.47	Second Amended and Restated Credit Agreement dated as of December 16, 2019, among Nelnet, Inc., U.S. Bank National Association, as Administrative Agent; Wells Fargo Bank, National Association, as Syndication Agent; Citibank, N.A. and Royal Bank of Canada, as Co-Documentation Agents; U.S. Bank National Association and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Book Runners; and various lender parties thereto, filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 16, 2019 and incorporated herein by reference.

10.48	Second Amended and Restated Guaranty dated as of December 16, 2019, 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 Current Report on Form 8-K filed on December 16, 2019 and incorporated herein by reference.
10.49	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., filed as Exhibit 10.42 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference.
10.50	Aircraft Joint Ownership Agreement dated as of January 1, 2019, by and between National Education Loan Network, Inc. and MSD711, LLC, filed as Exhibit 10.43 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference.
10.51	Aircraft Management Agreement, dated as of January 1, 2019, by and between Duncan Aviation, Inc. and National Education Loan Network, Inc. and MSD711, LLC, filed as Exhibit 10.44 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference.
10.52	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.
10.53	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.
10.54±	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.
10.55±	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.
10.56*±±	Private Student Loan Purchase Agreement dated as of November 19, 2019, by and among National Education Loan Network, Inc., as Purchaser, Union Bank and Trust Company, and Purchaser Lender Trustee, and Union Bank and Trust Company, as Seller.
10.57	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.
10.58	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.
10.59	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.
10.60	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.
10.61	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.
10.62	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.
10.63	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.

10.64	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, filed as Exhibit 10.57 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference.
10.65±±	Amended and Restated Trust Agreement, dated effective as of January 11, 2019, by and among Nelnet Private Student Loan Financing Corporation, as Depositor, Union Bank and Trust Company, as Trustee, National Education Loan Network, Inc., as Administrator, and U.S. Bank Trust National Association, as Delaware Trustee, filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and incorporated herein by reference.
10.66±±	Interim Trust Agreement, dated effective as of January 11, 2019, by and among ACM F Acquisition, LLC, as ACM Seller, National Education Loan Network, Inc., as NELN Seller, and Union Bank and Trust Company, as Interim Trustee, filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and incorporated herein by reference.
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*	Inline 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*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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(a)(5) of Regulation S-K, certain schedules and similar attachments to the exhibit have been omitted. 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.

±± Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K because the information in such portions is both not material and would likely cause competitive harm to the registrant if publicly disclosed.

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, 2020

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, 2020
/s/ JAMES D. KRUGER James D. Kruger	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 27, 2020
/s/ MICHAEL S. DUNLAP Michael S. Dunlap	Executive Chairman	February 27, 2020
/s/ JAMES P. ABEL James P. Abel	Director	February 27, 2020
/s/ PREETA D. BANSAL Preeta D. Bansal	Director	February 27, 2020
/s/ WILLIAM R. CINTANI William R. Cintani	Director	February 27, 2020
/s/ KATHLEEN A. FARRELL Kathleen A. Farrell	Director	February 27, 2020
/s/ DAVID S. GRAFF David S. Graff	Director	February 27, 2020
/s/ THOMAS E. HENNING Thomas E. Henning	Director	February 27, 2020
/s/ KIMBERLY K. RATH Kimberly K. Rath	Director	February 27, 2020
/s/ MICHAEL D. REARDON Michael D. Reardon	Director	February 27, 2020

NELNET, INC. AND SUBSIDIARIES

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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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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, 2019, 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, 2020 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for loan losses for loans collectively evaluated for impairment

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company's allowance for loan losses related to the Company's loans collectively evaluated for impairment (ALL) was $61.9 million as of December 31, 2019. The Company estimated the ALL using a historical loss rate methodology adjusted for qualitative factors. The federally insured loans ALL is based on periodic evaluations of the loans 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 qualitative factors. The private education and consumer loans ALL is based on periodic evaluations of the loans considering 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 qualitative factors.

We identified the assessment of the ALL as a critical audit matter because it involved significant measurement uncertainty requiring complex auditor judgment, and knowledge and experience in the industry. This assessment encompassed the evaluation of the ALL methodology, inclusive of the factors and assumptions used to estimate the historical loss rates, including (1) historical losses in the portfolio over time, (2) the loss emergence period, and (3) qualitative factor adjustments.

The primary procedures we performed to address the critical audit matter included the following. We tested certain internal controls related to the Company's ALL process, including controls over the (1) development and approval of the ALL methodology, (2) determination of the key factors and assumptions used to estimate historical loss rates and qualitative factor adjustments, and (3) analysis of the ALL results, trends, and ratios. We tested the Company's process to develop the ALL estimate. Specifically, we tested the sources of data, factors, and assumptions that the Company used and considered the relevance and reliability of such data, factors, and assumptions. We tested the historical losses over time by evaluating (1) if loss data in the historical loss period was representative of the credit characteristics of the current portfolio and (2) the sufficiency of loss data within the historical loss period. We tested the loss emergence period assumptions by (1) testing the accuracy of those calculations and inputs, (2) considering the Company's credit risk policies, and (3) testing observable loss data. We evaluated the methodology used to develop the resulting qualitative adjustments and the effect of those adjustments on the ALL compared with relevant credit risk factors and consistency with credit trends.

/s/ KPMG LLP

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

Lincoln, Nebraska
February 27, 2020

NELNET, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2019 and 2018

		2019	2018
		(Dollars in thousands, except share data)	
Assets:			
Loans receivable (net of allowance for loan losses of $61,914 and $60,388 respectively)	$	20,669,371	22,377,142
Cash and cash equivalents:			
Cash and cash equivalents - not held at a related party		13,922	9,472
Cash and cash equivalents - held at a related party		119,984	111,875
Total cash and cash equivalents		133,906	121,347
Investments and notes receivable		246,973	249,370
Restricted cash		650,939	701,366
Restricted cash - due to customers		437,756	369,678
Accrued interest receivable		733,623	679,197
Accounts receivable (net of allowance for doubtful accounts of $4,455 and $3,271, respectively)		115,391	59,531
Goodwill		156,912	156,912
Intangible assets, net		81,532	114,290
Property and equipment, net		348,259	344,784
Other assets		134,308	45,533
Fair value of derivative instruments		—	1,818
Total assets	$	23,708,970	25,220,968
Liabilities:			
Bonds and notes payable	$	20,529,054	22,218,740
Accrued interest payable		47,285	61,679
Other liabilities		303,781	256,092
Due to customers		437,756	369,678
Total liabilities		21,317,876	22,906,189
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 28,458,495 shares and 28,798,464 shares, respectively		285	288
Class B, convertible, $0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,271,609 shares and 11,459,641 shares, respectively		113	115
Additional paid-in capital		5,715	622
Retained earnings		2,377,627	2,299,556
Accumulated other comprehensive earnings		2,972	3,883
Total Nelnet, Inc. shareholders' equity		2,386,712	2,304,464
Noncontrolling interests		4,382	10,315
Total equity		2,391,094	2,314,779
Total liabilities and equity	$	23,708,970	25,220,968
Supplemental information - assets and liabilities of consolidated education and other lending variable interest entities:			
Loans receivable	$	20,664,126	22,359,655
Restricted cash		639,816	677,611
Loan accrued interest receivable and other assets		735,286	679,735
Bonds and notes payable		(20,742,798)	(22,146,374)
Accrued interest payable and other liabilities		(158,067)	(163,327)
Net assets of consolidated education and other lending variable interest entities	$	1,138,363	1,407,300

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2019, 2018, and 2017

	2019	2018	2017
	(Dollars in thousands, except share data)		
Interest income:			
Loan interest	$ 914,256	897,666	757,731
Investment interest	34,421	26,600	12,695
Total interest income	948,677	924,266	770,426
Interest expense:			
Interest on bonds and notes payable	699,327	669,906	465,188
Net interest income	249,350	254,360	305,238
Less provision for loan losses	39,000	23,000	14,450
Net interest income after provision for loan losses	210,350	231,360	290,788
Other income:			
Loan servicing and systems revenue	455,255	440,027	223,000
Education technology, services, and payment processing revenue	277,331	221,962	193,188
Communications revenue	64,269	44,653	25,700
Other income	65,179	54,805	55,728
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	(30,789)	71,085	(18,554)
Total other income	831,245	832,532	479,062
Cost of services:			
Cost to provide education technology, services, and payment processing services	81,603	59,566	48,678
Cost to provide communications services	20,423	16,926	9,950
Total cost of services	102,026	76,492	58,628
Operating expenses:			
Salaries and benefits	463,503	436,179	301,885
Depreciation and amortization	105,049	86,896	39,541
Other expenses	194,272	178,031	143,112
Total operating expenses	762,824	701,106	484,538
Income before income taxes	176,745	286,294	226,684
Income tax expense	35,451	58,770	64,863
Net income	141,294	227,524	161,821
Net loss attributable to noncontrolling interests	509	389	11,345
Net income attributable to Nelnet, Inc.	$ 141,803	227,913	173,166
Earnings per common share:			
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 3.54	5.57	4.14
Weighted average common shares outstanding - basic and diluted	40,047,402	40,909,022	41,791,941

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2019, 2018, and 2017

	2019	2018	2017
	(Dollars in thousands)		
Net income	$ 141,294	227,524	161,821
Other comprehensive (loss) income:			
Available-for-sale securities:			
Unrealized holding (losses) gains arising during period, net	(1,199)	1,056	2,349
Reclassification adjustment for gains recognized in net income, net of losses	—	(978)	(2,528)
Income tax effect	288	(69)	66
Total other comprehensive (loss) income	(911)	9	(113)
Comprehensive income	140,383	227,533	161,708
Comprehensive loss attributable to noncontrolling interests	509	389	11,345
Comprehensive income attributable to Nelnet, Inc.	$ 140,892	227,922	173,053

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years ended December 31, 2019, 2018, and 2017

	Nelnet, Inc. Shareholders										
		Common stock shares									
	Preferred stock shares	Class A	Class B	Preferred stock	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings	Noncontrolling interests	Total equity
	(Dollars in thousands, except share data)										
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
Issuance of noncontrolling interests	—	—	—	—	—	—	—	—	—	4,756	4,756
Net income (loss)	—	—	—	—	—	—	—	141,803	—	(509)	141,294
Other comprehensive loss	—	—	—	—	—	—	—	—	(911)	—	(911)
Distribution to noncontrolling interests	—	—	—	—	—	—	—	—	—	(4,103)	(4,103)
Cash dividends on Class A and Class B common stock - $0.74 per share	—	—	—	—	—	—	—	(29,485)	—	—	(29,485)
Issuance of common stock, net of forfeitures	—	198,272	—	—	2	—	4,849	—	—	—	4,851
Compensation expense for stock based awards	—	—	—	—	—	—	6,401	—	—	—	6,401
Repurchase of common stock	—	(726,273)	—	—	(7)	—	(6,157)	(34,247)	—	—	(40,411)
Impact of adoption of new accounting standard	—	—	—	—	—	—	—	—	—	(6,077)	(6,077)
Conversion of common stock	—	188,032	(188,032)	—	2	(2)	—	—	—	—	—
Balance as of December 31, 2019	—	28,458,495	11,271,609	$ —	285	113	5,715	2,377,627	2,972	4,382	2,391,094

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2019, 2018, and 2017

	2019	2018	2017
		(Dollars in thousands)	
Net income attributable to Nelnet, Inc.	$ 141,803	227,913	173,166
Net loss attributable to noncontrolling interests	(509)	(389)	(11,345)
Net income	141,294	227,524	161,821
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:			
Depreciation and amortization, including debt discounts and loan premiums and deferred origination costs	192,662	184,682	137,823
Loan discount accretion	(35,824)	(40,800)	(44,812)
Provision for loan losses	39,000	23,000	14,450
Derivative market value adjustments	76,195	(1,014)	(26,379)
Unrealized foreign currency transaction adjustment	—	—	45,600
(Payments to) proceeds from termination of derivative instruments, net	(12,530)	10,283	(30,382)
Loss on extinguishment of debt	16,689	—	—
(Payments to) proceeds from clearinghouse - initial and variation margin, net	(70,685)	40,382	76,325
Gain from sale of loans	(17,261)	—	—
Deferred income tax (benefit) expense	(7,265)	10,981	(1,544)
Non-cash compensation expense	6,781	6,539	4,416
Impairment expense	—	11,721	3,626
Other	(2,647)	(11,049)	(2,410)
Increase in accrued interest receivable	(54,586)	(248,869)	(39,203)
(Increase) decrease in accounts receivable	(55,949)	3,059	(4,234)
Increase in other assets	(11,065)	(4,069)	(42,270)
(Decrease) increase in accrued interest payable	(14,394)	11,640	4,362
Increase (decrease) in other liabilities	40,422	(12,506)	(2,341)
Increase in due to customers	68,078	59,388	67,419
Net cash provided by operating activities	298,915	270,892	322,267
Cash flows from investing activities, net of acquisitions:			
Purchases of loans	(2,008,207)	(3,922,251)	(325,476)
Net proceeds from loan repayments, claims, and capitalized interest	3,462,391	3,322,783	3,363,526
Proceeds from sale of loans	196,564	23,712	53,203
Purchases of available-for-sale securities	(1,010)	(46,424)	(128,523)
Proceeds from sales of available-for-sale securities	105	71,415	156,540
Purchases of investments and issuance of notes receivable	(103,250)	(67,040)	(29,339)
Proceeds from investments and notes receivable	70,472	23,039	11,545
Purchases of property and equipment	(92,499)	(125,023)	(156,005)
Business (acquisitions) sale, net of cash and restricted cash acquired	—	(12,562)	4,511
Net cash provided by (used in) investing activities	1,524,566	(732,351)	2,949,982
Cash flows from financing activities:			
Payments on bonds and notes payable	(4,698,878)	(3,113,503)	(5,403,224)
Proceeds from issuance of bonds and notes payable	2,997,972	3,922,962	1,984,558
Payments of debt issuance costs	(14,406)	(13,808)	(6,497)
Payments to extinguish debt	(14,030)	—	—
Payment of contingent consideration	—	—	(850)
Dividends paid	(29,485)	(26,839)	(24,097)
Repurchases of common stock	(40,411)	(45,331)	(68,896)
Proceeds from issuance of common stock	1,552	1,359	678
Acquisition of noncontrolling interest	—	(13,449)	—
Issuance of noncontrolling interests	4,650	918	19,473
Distribution to noncontrolling interests	(235)	(525)	(1,645)
Net cash (used in) provided by financing activities	(1,793,271)	711,784	(3,500,500)
Net increase (decrease) in cash, cash equivalents and restricted cash	30,210	250,325	(228,251)
Cash, cash equivalents, and restricted cash, beginning of year	1,192,391	942,066	1,170,317
Cash, cash equivalents, and restricted cash, end of year	$ 1,222,601	1,192,391	942,066

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

	Year ended December 31,		
	2019	**2018**	**2017**
Supplemental disclosures of cash flow information:			
Cash disbursements made for interest	$ 657,436	591,394	390,278
Cash disbursements made for income taxes, net of refunds and credits (a)	$ 17,672	473	96,271
Noncash investing and financing activity:			
Receipt of beneficial interest in consumer loan securitizations	$ 39,780	—	—
Distribution to noncontrolling interests	$ 3,868	—	—

(a) For 2019 and 2018, the Company utilized $31.8 million and $14.7 million of federal and state tax credits, respectively, related primarily to renewable energy.

Supplemental disclosures of noncash activities regarding the adoption of the new lease standard on January 1, 2019 are contained in notes 2 and 17.

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

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

	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
Total cash and cash equivalents	$ 133,906	121,347	66,752	69,654
Restricted cash	650,939	701,366	688,193	980,961
Restricted cash - due to customers	437,756	369,678	187,121	119,702
Cash, cash equivalents, and restricted cash	$ 1,222,601	1,192,391	942,066	1,170,317

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 purpose to serve others and a vision to make customers' dreams possible by delivering customer focused products and services. 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, early-stage and emerging growth companies, and renewable energy. 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”)

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 large 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 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 primarily 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

NBS provides service and technology to administrators, teachers, students, and families of K-12 schools and higher education institutions. The Company's payment processing services and technologies also serve customers outside of education.

In the K-12 market, the Company (known as FACTS) offers (i) financial management, including actively managed tuition payment plans, financial needs assessment (grant and aid), incidental billing, advanced accounting, and payment forms; (ii) school administration solutions, including school information system software that automates the flow of information between school administrators, teachers, and parents and includes administrative processes such as admissions, enrollment, scheduling, cafeteria management, attendance, and grade book management; (iii) advancement (giving management), including a comprehensive donation platform that streamlines donor communications, organizes donor information, and provides access to data analysis and reporting; (iv) enrollment and communications, including website design and cost effective admissions software; (v) professional development and educational instruction services; and (vi) innovative technology products that aid in teacher and student evaluations. In the higher education market, the Company (known as Nelnet Campus Commerce) offers solutions including (i) actively managed tuition payment plans and (ii) payment technology and processing.

Outside of the education market, the Company also offers technology and payment 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. Additionally, the Company may earn revenue for payment processing fees when families make tuition payments.

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, governmental, 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 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 loan assets are held in a series of 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 and renewable energy (solar)
- 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 Company assesses its partnerships and joint ventures to determine if the entity meets the qualifications of a VIE. The Company performs a qualitative assessment of each VIE to determine if 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 examines specific criteria and uses judgment when determining whether an entity is a VIE and whether it is the primary beneficiary. The Company performs this review initially at the time it enters into a partnership or joint venture agreement and reassess upon reconsideration events.

VIEs - Consolidated

The Company is required to consolidate VIEs in which it has determined it is the primary beneficiary.

The Company's education and other lending subsidiaries are engaged in the securitization of finance assets. These lending subsidiaries hold beneficial interests in eligible loans, subject to creditors with specific interests. The liabilities of the Company's lending subsidiaries are not the direct obligations of Nelnet, Inc. or any of its other subsidiaries. Each 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 lending subsidiaries and owns the residual interest of the securitization trusts. For accounting purposes, the transfers of 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, 2019, the Company owned 98.9 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) contributed additional equity 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 15, "Disaggregated Revenue and Deferred Revenue," for disclosure of ALLO's disaggregated revenue and deferred revenue, 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.

VIEs - Not consolidated

The Company is not required to consolidate VIEs in which it has determined it is not the primary beneficiary.

The Company makes investments in entities that promote renewable energy sources (solar). The Company's investments in these entities generate a return primarily through the realization of federal income tax credits, operating cash flows, and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. These investments are included in "investments and notes receivable" on the consolidated balance sheets. The carrying value of these investments are reduced by tax credits earned when the solar project is placed in service. The Company's unfunded capital and other commitments related to these unconsolidated VIEs are included in "other liabilities" on the consolidated balance sheet. The Company's maximum exposure to loss from these unconsolidated VIEs include the investment, unfunded capital commitments, and previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. The tax credit recapture period ratably decreases over five years from when the project is placed in service. While the Company believes potential losses from these investments are remote, the maximum exposure was determined by assuming a scenario where the energy-producing projects completely fail and do not meet certain government compliance requirements resulting in recapture of the related tax credits.

The following table provides a summary of solar investment VIEs that the Company has not consolidated:

	As of December 31,	
	2019	2018
Investment carrying amount	$ 7,562	2,724
Tax credits subject to recapture	67,069	11,345
Unfunded capital and other commitments	14,006	—
Maximum exposure to loss (a)	$ 88,637	14,069

(a) Amount includes $3.0 million as of December 31, 2019 syndicated to other investors in certain solar projects.

Accounting Standard Adopted in 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification Topic 842, *Leases* ("ASC Topic 842"). The standard requires the identification of arrangements that should be accounted for as leases by lessees and the disclosure of key information about leasing arrangements. The standard establishes a right-of-use ("ROU") model 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 either operating or financing, with the income statement reflecting lease expense for operating leases and amortization/interest expense for financing leases.

The Company adopted the standard effective January 1, 2019, using the effective date as its date of initial application. Consequently, financial information is not updated and the disclosures required under the new standard are not provided for dates and periods before January 1, 2019. The Company elected to utilize the 'package of practical expedients', which permitted it to not reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs.

The most significant impact of the standard relates to (1) the recognition of new ROU assets and lease liabilities on the Company's consolidated balance sheet; (2) the deconsolidation of assets and liabilities for certain sale-leaseback transactions arising from build-to-suit lease arrangements for which construction was completed and the Company is leasing the constructed assets that did not qualify for sale accounting prior to the adoption of the new standard; and (3) significant new disclosures about the Company's leasing activities. The build-to-suit lease arrangements have been reassessed as operating leases as of the effective date under ASC Topic 842.

Adoption of the new standard resulted in recognizing lease liabilities of $33.7 million based on the present value of the remaining minimum rental payments. In addition, the Company recognized ROU assets of $32.8 million, which corresponds to the lease liabilities reduced by deferred rent expense as of the effective date. The Company also deconsolidated total assets of $43.8 million and total liabilities of $34.8 million for entities that had been consolidated due to sale-leaseback transactions that failed to qualify for recognition as sales under the prior guidance. Deconsolidation of these entities reduced noncontrolling

interests by $6.1 million. The cumulative effect of the changes made to the Company's consolidated balance sheet as of January 1, 2019 for the adoption of the new lease standard was as follows:

	Balances at December 31, 2018	Adjustments from adoption of new lease standard		Balances at January 1, 2019
		ROU assets and lease liabilities	Deconsolidation of sale-leaseback transactions	
Assets				
Cash and cash equivalents	$ 121,347	—	(646)	120,701
Investments and notes receivable	249,370	—	(23,134)	226,236
Accounts receivable	59,531	—	(89)	59,442
Property and equipment, net	344,784	—	(16,974)	327,810
Other assets	45,533	32,831	(27)	78,337
Liabilities				
Bonds and notes payable	22,218,740	—	(33,182)	22,185,558
Other liabilities	256,092	32,831	(1,611)	287,312
Equity				
Noncontrolling interests	10,315	—	(6,077)	4,238

Reclassifications

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

- Reclassifying "gain from debt repurchases" to "other income"; and
- Reclassifying "loan servicing fees to third parties" to "other expenses."

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. Subsequently, the Company contributed additional equity to increase its ownership interest in ALLO to 98.9 percent. Per ALLO's operating agreement, currently all operating results of ALLO are allocated to the Company.

In addition, the Company has established entities for the purpose of investing in renewable energy (solar) and federal opportunity zone programs in which it has noncontrolling members.

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, 2019 and 2018.

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 using a historical loss rate methodology adjusted for qualitative factors separately on each of its federally insured, private education, and consumer loan portfolios. These evaluation processes are subject to numerous judgments and uncertainties including the selection of loss rates over time and determination of the loss emergence period.

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 qualitative factors. The federal government guarantees 97 percent of the principal of and the 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 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 qualitative 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, private education, and consumer loan portfolios meet 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, 2019 and 2018, 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 $112.9 million and $181.0 million in 2019 and 2018, respectively. The amount of purchased loan accrued interest in 2017 was not significant.

Investments

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

The Company classifies its residual interest in consumer loan securitizations as held-to-maturity beneficial interest investments. The Company measures accretable yield initially as the excess of all cash flows expected to be collected attributable to the beneficial interest estimated at the acquisition/transaction date over the initial investment and recognizes interest income over the life of the beneficial interest using the effective interest method. The Company continues to update, over the life of the beneficial interest, the expectation of cash flows to be collected. Beneficial interest investments are evaluated for impairment by comparing the present value of the remaining cash flows as estimated at the initial transaction date (or the last date previously revised) to the present value of the cash flows expected to be collected at the current financial reporting date, both discounted using the same effective rate equal to the current yield used to accrete the beneficial interest.

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 estimate 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.

Leases

At the inception of an arrangement, the Company determines if the arrangement is, or contains, a lease and records the lease in the consolidated financial statements upon lease commencement, which is the date when the underlying asset is made available by the lessor. The Company primarily leases dark fiber to support its telecommunications operations and office and data center space. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The lease expense for these leases is recognized on a straight-line basis over the lease term. All other lease assets (ROU assets) and lease liabilities are recognized based on the present value of lease payments over the lease term at the commencement date. The Company classifies each lease as operating or financing, with the income statement reflecting lease expense for operating leases and amortization/interest expense for financing leases. When the discount rate implicit in the lease cannot be readily determined, the Company uses its incremental borrowing rate.

The Company has elected to utilize the practical expedient to account for lease and non-lease components together as a single, combined lease component for its office and data center space. 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 has also elected to utilize the practical expedient to account for those services and associated leases as a single, combined component. The non-lease services are 'predominant' in those contracts. Therefore, the combined component is considered a single performance obligation under ASC Topic 606, *Revenue from Contracts with Customers*.

Most leases include one or more options to renew, with renewal terms that can be extended. The exercise of lease renewal options for the majority of leases is at the Company's discretion. Renewal options that the Company is reasonably certain to exercise are included in the lease term.

Certain leases include escalating rental payments or rental payments adjusted periodically for inflation. None of the lease agreements include any residual value guarantees, a transfer of title, or a purchase option that is reasonably certain to be exercised.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, such as ROU assets, 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.

Revenue Recognition

The Company applies the provisions of ASC Topic 606*, Revenue from Contracts with Customers* ("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.

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.

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 and pre-production contract fulfillment costs 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.

Additional information related to revenue earned in its Asset Generation and Management operating segment is provided below. See note 15, "Disaggregated Revenue and Deferred Revenue" for additional information related to the Company's fee-based operating segments.

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. 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.

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

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.

The CME legally characterizes variation margin payments for over-the-counter derivatives they clear as settlements of the derivatives’ exposure rather than collateral against the exposure. For accounting and presentation purposes, the Company considers variation margin and the corresponding derivative instrument as a single unit of account. As such, variation margin payments are considered in determining the fair value of the centrally cleared derivative portfolio. The Company records derivative contracts on its balance sheet with a fair value of zero 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 consolidated statements of income as realized derivative market value adjustments in "derivative market value and foreign currency transaction adjustments and derivative settlements, net."

The Company records derivative instruments that are not required to be cleared at a clearinghouse (non-centrally cleared derivatives) in the consolidated balance sheets on a gross basis as either an asset or liability measured at its fair value. Certain non-centrally cleared derivatives are subject to right of offset provisions with counterparties. For these derivatives, the Company does not offset fair value amounts executed with the same counterparty under a master netting arrangement. In addition, the Company does not offset fair value amounts recognized for derivative instruments with respect to the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable).

The Company determines the fair value for its derivative instruments using either (i) pricing models that consider current market conditions and the contractual terms of the derivative instrument or (ii) counterparty valuations. The factors that impact the fair value of the Company's derivatives include interest rates, time value, forward interest rate curve, and volatility factors. Pricing models and their underlying assumptions impact the amount and timing of realized and unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Management has structured all of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of derivative instruments is reported in current period earnings. Changes or shifts in the forward yield curve can significantly impact the valuation of the Company’s derivatives, and therefore impact the financial position and results of operations of the Company. Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date, or to amend the terms of an existing derivative, are included in the Company's consolidated statements of income and are accounted for as a change in fair value of such derivative. The changes in fair value of derivative instruments, as well as the settlement payments made on such derivatives, are included in “derivative market value and foreign currency adjustments and derivative settlements, net” on the consolidated statements of income.

Foreign Currency

During 2006, the Company issued Euro-denominated bonds, which were included in “bonds and notes payable” on the consolidated balance sheets. Transaction gains and losses resulting from exchange rate changes when re-measuring these bonds to U.S. dollars at the balance sheet date were included in “derivative market value and foreign currency adjustments and derivative settlements, net” on the consolidated statements of income. The Company entered into a cross-currency interest rate swap in connection with the issuance of the Euro-denominated bonds. 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 and the Company terminated the cross-currency interest rate swap.

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 credits related to state tax incentives and investments that generate investment tax credits. The investment tax credits are recognized as a reduction to the related asset.

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

Compensation Expense for Stock Based Awards

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

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

3. Loans Receivable and Allowance for Loan Losses

Loans receivable consisted of the following:

	As of December 31,	
	2019	2018
Federally insured student loans:		
Stafford and other	$ 4,684,314	4,969,667
Consolidation	15,644,229	17,186,229
Total	20,328,543	22,155,896
Private education loans	244,258	225,975
Consumer loans	225,918	138,627
	20,798,719	22,520,498
Loan discount, net of unamortized loan premiums and deferred origination costs	(35,036)	(53,572)
Non-accretable discount (a)	(32,398)	(29,396)
Allowance for loan losses:		
Federally insured loans	(36,763)	(42,310)
Private education loans	(9,597)	(10,838)
Consumer loans	(15,554)	(7,240)
	$ 20,669,371	22,377,142

(a) At December 31, 2019 and 2018, the non-accretable discount related to purchased loan portfolios of $5.4 billion and $5.7 billion, respectively.

On May 1, 2019 and October 17, 2019, the Company sold $47.7 million (par value) and $179.3 million (par value) of consumer loans, respectively, to an unrelated third party who securitized such loans. The Company recognized a $1.7 million (pre-tax) and $15.6 million (pre-tax) gain, respectively, as part of these transactions. As partial consideration received for the consumer loans sold, the Company received an 11.0 percent and 28.7 percent residual interest, respectively, in the consumer loan securitizations that are included in "investments and notes receivable" on the Company's consolidated balance sheet.

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	Loan sale and other	Balance at end of period
	Year ended December 31, 2019					
Federally insured loans	$ 42,310	8,000	(13,547)	—	—	36,763
Private education loans	10,838	—	(1,965)	724	—	9,597
Consumer loans	7,240	31,000	(12,498)	812	(11,000)	15,554
	$ 60,388	39,000	(28,010)	1,536	(11,000)	61,914
	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

Student Loan Status and Delinquencies

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

	As of December 31,					
	2019		2018		2017	
Federally insured loans:						
Loans in-school/grace/deferment (a)	$ 1,074,678		$ 1,298,493		$ 1,260,394	
Loans in forbearance (b)	1,339,821		1,430,291		1,774,405	
Loans in repayment status:						
Loans current	15,410,993	86.0 %	16,882,252	86.9 %	16,477,004	88.2 %
Loans delinquent 31-60 days (c)	650,796	3.6	683,084	3.5	682,586	3.7
Loans delinquent 61-90 days (c)	428,879	2.4	427,764	2.2	374,534	2.0
Loans delinquent 91-120 days (c)	310,851	1.7	283,831	1.5	287,922	1.5
Loans delinquent 121-270 days (c)	812,107	4.5	806,692	4.2	629,480	3.4
Loans delinquent 271 days or greater (c)(d)	300,418	1.8	343,489	1.7	235,281	1.2
Total loans in repayment	17,914,044	100.0 %	19,427,112	100.0 %	18,686,807	100.0 %
Total federally insured loans	$ 20,328,543		$ 22,155,896		$ 21,721,606	
Private education loans:						
Loans in-school/grace/deferment (a)	$ 4,493		$ 4,320		$ 6,053	
Loans in forbearance (b)	3,108		1,494		2,237	
Loans in repayment status:						
Loans current	227,013	95.9 %	208,977	95.0 %	196,720	96.5 %
Loans delinquent 31-60 days (c)	2,814	1.2	3,626	1.6	1,867	0.9
Loans delinquent 61-90 days (c)	1,694	0.7	1,560	0.7	1,052	0.5
Loans delinquent 91 days or greater (c)	5,136	2.2	5,998	2.7	4,231	2.1
Total loans in repayment	236,657	100.0 %	220,161	100.0 %	203,870	100.0 %
Total private education loans	$ 244,258		$ 225,975		$ 212,160	
Consumer loans:						
Loans in repayment status:						
Loans current	$ 220,404	97.5 %	$ 136,130	98.2 %	$ 61,344	98.7 %
Loans delinquent 31-60 days (c)	2,046	0.9	1,012	0.7	289	0.5
Loans delinquent 61-90 days (c)	1,545	0.7	832	0.6	198	0.3
Loans delinquent 91 days or greater (c)	1,923	0.9	653	0.5	280	0.5
Total loans in repayment	225,918	100.0 %	138,627	100.0 %	62,111	100.0 %
Total consumer loans	$ 225,918		$ 138,627		$ 62,111	

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

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

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

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

4. Bonds and Notes Payable

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

	As of December 31, 2019		
	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	$ 18,428,998	1.98% - 3.61%	5/27/25 - 1/25/68
Bonds and notes based on auction	768,626	2.75% - 3.60%	3/22/32 - 11/26/46
Total FFELP variable-rate bonds and notes	19,197,624		
Fixed-rate bonds and notes issued in FFELP loan asset-backed securitizations	512,836	2.00% - 3.45%	10/25/67 / 11/25/67
FFELP warehouse facilities	778,094	1.98% / 2.07%	5/20/21 / 5/31/22
Consumer loan warehouse facility	116,570	1.99%	4/23/22
Variable-rate bonds and notes issued in private education loan asset-backed securitizations	73,308	3.15% / 3.54%	12/26/40 / 6/25/49
Fixed-rate bonds and notes issued in private education loan asset-backed securitization	49,367	3.60% / 5.35%	12/26/40 / 12/28/43
Unsecured line of credit	50,000	3.29%	12/16/24
Unsecured debt - Junior Subordinated Hybrid Securities	20,381	5.28%	9/15/61
Other borrowings	5,000	3.44%	5/30/22
	20,803,180		
Discount on bonds and notes payable and debt issuance costs	(274,126)		
Total	$ 20,529,054		

	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		

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, 2019, the Company had two FFELP warehouse facilities as summarized below.

	NFSLW-I	NHELP-II	Total
Maximum financing amount	$ 550,000	500,000	1,050,000
Amount outstanding	489,303	288,791	778,094
Amount available	$ 60,697	211,209	271,906
Expiration of liquidity provisions	May 20, 2020	May 31, 2020	
Final maturity date	May 20, 2021	May 31, 2022	
Advanced as equity support	$ 21,670	20,882	42,552

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

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

Asset-backed securitizations

The following tables summarize the asset-backed securitization transactions completed in 2019 and 2018.

	Securitizations completed during the year ended December 31, 2019												
	2019-1			**2019-2**	**Private education loan 2019-A**	**2019-3**	**2019-4**	**2019-5**	**2019-6**	**2019-7**			**Total**
	Class A-1 Notes	Class A-2 Notes	2019-1 total							Class A-1 Notes	Class A-2 Notes	2019-7 total	
Date securities issued	2/27/19	2/27/19	2/27/19	4/30/19	6/25/19	7/24/19	8/22/19	9/25/19	10/30/19	12/19/19	12/19/19	12/19/19	
Total original principal amount	$ 35,700	448,000	496,800	416,100	47,159	498,300	418,600	374,500	145,200	210,300	200,000	420,800	2,817,459
Class A senior notes:													
Total principal amount	$ 35,700	448,000	483,700	405,000	47,159	485,800	408,000	364,500	140,200	210,300	200,000	410,300	2,744,659
Bond discount	—	—	—	—	—	—	—	(114)	(26)	—	—	—	(140)
Issue price	$ 35,700	448,000	483,700	405,000	47,159	485,800	408,000	364,386	140,174	210,300	200,000	410,300	2,744,519
Cost of funds	1-month LIBOR plus 0.30%	1-month LIBOR plus 0.75%		1-month LIBOR plus 0.90%	Prime rate less 1.60%	1-month LIBOR plus 0.80%	1-month LIBOR plus 0.87%	2.53%	2.46%	1-month LIBOR plus 0.50%	1-month LIBOR plus 1.00%		
Final maturity date	4/25/67	4/25/67		6/27/67	6/25/49	8/25/67	9/26/67	10/25/67	11/25/67	1/25/68	1/25/68		
Class B subordinated notes:													
Total principal amount			$ 13,100	11,100		12,500	10,600	10,000	5,000			10,500	72,800
Bond discount			—	—		—	—	(4)	(913)			—	(917)
Issue price			$ 13,100	11,100		12,500	10,600	9,996	4,087			10,500	71,883
Cost of funds			1-month LIBOR plus 1.40%	1-month LIBOR plus 1.50%		1-month LIBOR plus 1.55%	1-month LIBOR plus 1.65%	3.45%	2.00%			1-month LIBOR plus 1.75%	
Final maturity date			4/25/67	6/27/67		8/25/67	9/26/67	10/25/67	11/25/67			1/25/68	

During 2019, the Company extinguished $1.05 billion of notes payable included in certain FFELP asset-backed securitizations prior to the notes' contractual maturities. To extinguish the notes, the Company paid premiums of $14.0 million and wrote off $2.7 million of debt issuance costs. In total, the Company recognized $16.7 million (pre-tax) in expenses to extinguish these notes, which is included in "other expenses" on the consolidated statements of income.

	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	

Auction Rate Securities

The interest rates on certain of the Company's FFELP asset-backed securities were set and provide for interest rates to be periodically reset via a "dutch auction" ("Auction Rate Securities"). As of December 31, 2019, the Company is currently the sponsor on $768.6 million of Auction Rate Securities. Since the auction feature has essentially been inoperable for substantially all auction rate securities since 2008, 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.

Consumer Loan Warehouse Facility

During 2019, the Company obtained a consumer loan warehouse facility that has an aggregate maximum financing amount available of $200.0 million, an advance rate of 70 or 75 percent depending on the type of collateral and subject to certain concentration limits, liquidity provisions to April 23, 2021, and a final maturity date of April 23, 2022. As of December 31, 2019, $116.6 million was outstanding under this warehouse facility and $83.4 million was available for future funding. Additionally, as of December 31, 2019, the Company had $41.3 million advanced as equity support under this facility.

Unsecured Line of Credit

The Company has a $455.0 million unsecured line of credit that has a maturity date of December 16, 2024. The line of credit provides that the Company may increase the aggregate financing commitments, through the existing lenders and/or through new lenders, up to a total of $550.0 million, subject to certain conditions. As of December 31, 2019, $50.0 million was outstanding on the line of credit and $405.0 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, among others, maintaining:

- A minimum consolidated net worth
- A minimum recourse indebtedness to adjusted EBITDA (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, 2019, 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 other debt 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 5.28% at December 31, 2019. 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 was $41.4 million, subject to this repurchase agreement.

During 2018, the Company entered into a repurchase agreement, the proceeds of which were collateralized by private education loans. On June 25, 2019, the Company terminated this repurchase agreement. Included in "other borrowings" as of December 31, 2018 was $45.0 million subject to this repurchase agreement.

On May 30, 2019, the Company entered into a $22.0 million secured line of credit agreement with a maturity date of May 30, 2022 and an interest rate of one-month LIBOR plus 1.75%. As of December 31, 2019, $5.0 million was outstanding under this line of credit and $17.0 million was available for future use. The line of credit is secured by several Company-owned properties.

The Company had other notes payable included in its consolidated financial statements which were issued by partnerships for certain real estate development projects in Lincoln, Nebraska. Although the Company’s ownership interests in these partnerships are 50 percent or less, because the Company was the developer of and is a current tenant in the associated buildings, the operating results of these partnerships were included in the Company’s consolidated financial statements. On January 1, 2019, the Company adopted a new accounting standard for leases (see note 2). As a result of the adoption of this new standard, these real estate entities were deconsolidated, including $33.9 million of related debt. Prior to January 1, 2019, this debt was included in "other borrowings."

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, 2019.

Maturity Schedule

Bonds and notes outstanding as of December 31, 2019 are due in varying amounts as shown below.

2020	$	—
2021		489,303
2022		410,361
2023		—
2024		50,000
2025 and thereafter		19,853,516
	$	20,803,180

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 lending subsidiaries.

Debt Repurchases

The following table summarizes the Company's repurchases of its own debt in 2018 and 2017. There were no debt repurchases in 2019. Gains (losses) recorded by the Company from the repurchase of debt are included in "other income" on the Company’s consolidated statements of income.

	Year ended December 31,					
	2018			2017		
	Par value	Purchase price	Gain (loss)	Par value	Purchase price	Gain (loss)
Unsecured debt - Hybrid Securities	$ —	—	—	29,803	25,357	4,446
Asset-backed securities	12,905	12,546	359	154,407	155,951	(1,544)
	$ 12,905	12,546	359	184,210	181,308	2,902

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. 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 are discussed below.

Basis Swaps

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

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

As of December 31, 2019, the Company had $18.9 billion, $0.8 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 $7.5 billion of debt indexed to three-month LIBOR, the indices for which reset quarterly, and $11.0 billion of debt indexed to one-month LIBOR, the indices for which reset monthly.

The Company has used derivative instruments to hedge its basis risk and repricing risk. The Company has entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays one-month LIBOR plus or minus a spread as defined in the agreements (the 1:3 Basis Swaps).

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

	As of December 31,	
	2019	2018
Maturity	Notional amount	Notional amount
2019	$ —	3,500,000
2020	1,000,000	1,000,000
2021	250,000	250,000
2022 (a)	2,000,000	2,000,000
2023	750,000	750,000
2024	1,750,000	250,000
2026	1,150,000	1,150,000
2027	250,000	375,000
2028	—	325,000
2029	—	100,000
2031	—	300,000
	$ 7,150,000	10,000,000

(a) $750 million of the notional amount of these derivatives have forward effective start dates of May 2020.

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of December 31, 2019 and 2018, was one-month LIBOR plus 9.7 basis points and 9.4 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, 2019 and 2018, the Company had $3.3 billion and $2.6 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 3.72% and 4.24%, 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, 2019		As of December 31, 2018	
Maturity	**Notional amount**	**Weighted average fixed rate paid by the Company (a)**	**Notional amount**	**Weighted average fixed rate paid by the Company (a)**
2019	$ —	— %	$ 3,250,000	0.97 %
2020	1,500,000	1.01	1,500,000	1.01
2021	600,000	2.15	100,000	2.95
2022 (b)	250,000	1.65	—	—
2023	150,000	2.25	400,000	2.24
2024	—	—	300,000	2.28
2027	—	—	25,000	2.35
	$ 2,500,000	1.42 %	$ 5,575,000	1.18 %

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

(b) These derivatives have forward effective start dates in June 2021.

Interest Rate Swap Options – Floor Income Hedges

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 gave the Company the right, but not the obligation, to enter into interest rate swaps during the third quarter of 2019 in which the Company would pay a weighted average fixed amount of 3.21 percent and receive discrete one-month or three-month LIBOR through 2024. The Company did not exercise its rights on these options, and such swap options expired.

Interest Rate Caps

In June 2015 and June 2019, the Company paid $2.9 million and $0.3 million, respectively, for interest rate cap contracts to mitigate a rise in interest rates and its impact on earnings related to its student loan portfolio earning a fixed rate. In the event that the one-month LIBOR or three-month LIBOR rate rises above the applicable strike rate, the Company will receive monthly payments related to the spread difference. The following table summarizes these derivative instruments as of December 31, 2019.

Notional Amount	Strike rate	Maturity date
$ 125,000	2.50% (1-month LIBOR)	July 15, 2020
150,000	4.99 (1-month LIBOR)	July 15, 2020
500,000	2.25 (3-month LIBOR)	September 25, 2020

Interest Rate Swaps - Unsecured Debt Hedges

The Company has unsecured debt (Hybrid Securities) outstanding in which it pays interest at three-month LIBOR plus 3.375%. The Company had $25.0 million (notional amount) of derivative financial instruments that were used to effectively convert the variable interest rate on a designated notional amount of this debt to a fixed rate. These derivatives were terminated during the fourth quarter of 2018.

Derivative Terminations

During the year ended December 31, 2019, the Company terminated certain derivatives for net payments of $12.5 million, including payments of $14.4 million on the termination of floor income hedges, proceeds of $1.4 million on the termination of other hedges, and proceeds of $0.5 million on the termination of 1:3 basis swaps. 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.

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. There is no difference between the gross amounts of recognized assets presented in the consolidated balance sheets related to the Company's derivative portfolio and the net amount when excluding derivatives subject to enforceable master netting arrangements and cash collateral received.

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of December 31, 2019	As of December 31, 2018	As of December 31, 2019	As of December 31, 2018
Interest rate swap options - floor income hedges	$ —	1,465	—	—
Interest rate caps	—	353	—	—
Total	$ —	1,818	—	—

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,		
	2019	2018	2017
Settlements:			
1:3 basis swaps	$ 5,214	5,577	(3,069)
Interest rate swaps - floor income hedges	40,192	64,901	10,838
Interest rate swaps - hybrid debt hedges	—	(407)	(781)
Cross-currency interest rate swap	—	—	(6,321)
Total settlements - income	45,406	70,071	667
Change in fair value:			
1:3 basis swaps	1,515	12,573	(8,224)
Interest rate swaps - floor income hedges	(77,027)	(10,962)	3,585
Interest rate swap options - floor income hedges	(1,465)	(3,848)	(2,433)
Interest rate caps	(628)	78	(893)
Interest rate swaps - hybrid debt hedges	—	3,173	279
Cross-currency interest rate swap	—	—	34,208
Other	1,410	—	(143)
Total change in fair value - (expense) income	(76,195)	1,014	26,379
Re-measurement of Euro Notes (foreign currency transaction adjustment)	—	—	(45,600)
Derivative market value and foreign currency transaction adjustments and derivative settlements, net - (expense) income	$ (30,789)	71,085	(18,554)

Derivative Instruments - Credit and Market Risk

For non-centrally cleared derivatives, the Company is exposed to credit risk. However, the majority of the Company's derivatives currently outstanding and anticipated to be executed in future periods are and will be executed and cleared at a regulated clearinghouse, thus, significantly reducing counterparty credit risk associated with the Company's derivative portfolio.

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/or make 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, 2019				As of December 31, 2018			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	**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)	$ 48,790	3,911	—	52,701	47,931	5,109	—	53,040
Equity securities	9,622	4,561	(1,283)	12,900	12,909	5,145	(407)	17,647
Total investments (at fair value)	$ 58,412	8,472	(1,283)	65,601	60,840	10,254	(407)	70,687
Other Investments and Notes Receivable (not measured at fair value):								
Venture capital and funds:								
Measurement alternative (b)				72,760				70,939
Equity method				15,379				16,191
Other				1,175				900
Total venture capital and funds				89,314				88,030
Real estate:								
Equity method				44,159				29,483
Other				867				34,211
Total real estate				45,026				63,694
Solar:								
Equity method				7,562				2,724
Beneficial interest in consumer loan securitizations (c)				33,187				—
Tax liens and affordable housing				6,283				7,862
Notes receivable				—				16,373
Total investments and notes receivable (not measured at fair value)				181,372				178,683
Total investments and notes receivable				$ 246,973				249,370

(a) As of December 31, 2019, 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) During 2018, the Company recorded upward adjustments of $7.2 million (pre-tax) 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 also recorded $0.8 million (pre-tax) in impairments in 2018 on these investments.

(c) The Company's current expectation of cash flows from the beneficial interest in consumer loan securitizations is approximately three years.

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

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The fair value assigned to the acquisition of the noncontrolling interest in GreatNet reduced the total consideration allocated to the assets acquired and liabilities assumed of Great Lakes from $150.0 million to $136.6 million.

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

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

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

The Great Lakes assets acquired and liabilities assumed were recorded by the Company at their respective fair values at the date of acquisition, and Great Lakes' operating results from the date of acquisition forward are included in the Company's consolidated operating results. During 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet Servicing's servicing platform. In addition, the Company began to combine certain shared services and overhead functions between Great Lakes and the Company. As a result of these operational changes, the results of operations for the year ended December 31, 2018 attributed to Great Lakes since the acquisition are not provided since the results of the Great Lakes legal entity are no longer reflective of the entity acquired.

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

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

Tuition Management Systems, LLC ("TMS")

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

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

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

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

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

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

8. Intangible Assets

Intangible assets consist of the following:

	Weighted average remaining useful life as of December 31, 2019 (months)	As of December 31,	
		2019	2018
Amortizable intangible assets, net:			
Customer relationships (net of accumulated amortization of $60,553 and $33,968, respectively)	80	$ 71,900	98,484
Trade names (net of accumulated amortization of $2,792 and $5,825, respectively)	96	7,478	10,868
Computer software (net of accumulated amortization of $3,233 and $15,420, respectively)	14	2,154	4,938
Total - amortizable intangible assets, net	80	$ 81,532	114,290

The Company recorded amortization expense on its intangible assets of $32.8 million, $30.2 million, and $9.4 million during the years ended December 31, 2019, 2018, and 2017, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of December 31, 2019, the Company estimates it will record amortization expense as follows:

2020	$ 29,515
2021	18,761
2022	7,172
2023	6,925
2024	6,511
2025 and thereafter	12,648
	$ 81,532

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, 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 and 2019	$ 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.

For the 2019 and 2018 annual reviews 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.

In 2017, due to the sale of a reporting unit at the Corporate segment, the Company recognized an impairment expense of $3.6 million (pre-tax) which is included in "other expenses" in the consolidated statements of income.

10. Property and Equipment

Property and equipment consisted of the following:

		As of December 31,	
	Useful life	2019	2018
Non-communications:			
Computer equipment and software	1-5 years	$ 160,319	137,705
Building and building improvements	5-48 years	37,904	50,138
Office furniture and equipment	1-10 years	21,245	22,796
Leasehold improvements	1-15 years	9,517	9,327
Transportation equipment	5-10 years	5,049	5,123
Land	—	1,400	3,328
Construction in progress	—	13,738	3,578
		249,172	231,995
Accumulated depreciation - non-communications		(142,270)	(123,003)
Non-communications, net property and equipment		106,902	108,992
Communications:			
Network plant and fiber	4-15 years	254,560	215,787
Customer located property	2-4 years	27,011	21,234
Central office	5-15 years	17,672	15,688
Transportation equipment	4-10 years	6,611	6,580
Computer equipment and software	1-5 years	5,574	4,943
Other	1-39 years	3,702	3,219
Land	—	70	70
Construction in progress	—	54	6,344
		315,254	273,865
Accumulated depreciation - communications		(73,897)	(38,073)
Communications, net property and equipment		241,357	235,792
Total property and equipment, net		$ 348,259	344,784

The Company recorded depreciation expense on its property and equipment of $72.3 million, $56.7 million, and $30.2 million during the years ended December 31, 2019, 2018, and 2017, 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 (pre-tax) 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 (pre-tax) within its Education Technology, Services, and Payment Processing operating segment. The charge primarily represents computer equipment and external software development costs related to the payment processing platform.

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 7, 2022 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, 2019, 4.8 million shares may still be purchased under the Company's stock repurchase program. Shares repurchased by the Company during 2019, 2018, and 2017 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, 2019	726,273	$ 40,411	$ 55.64
Year ended December 31, 2018	868,147	45,331	52.22
Year ended December 31, 2017	1,473,054	68,896	46.77

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,								
	2019			2018			2017		
	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.	$ 139,946	1,857	141,803	225,170	2,743	227,913	171,442	1,724	173,166
Denominator:									
Weighted-average common shares outstanding - basic and diluted	39,523,082	524,320	40,047,402	40,416,719	492,303	40,909,022	41,375,964	415,977	41,791,941
Earnings per share - basic and diluted	$ 3.54	3.54	3.54	5.57	5.57	5.57	4.14	4.14	4.14

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, 2019, a cumulative amount of 193,411 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, 2019, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $20.1 million, which is included in “other liabilities” on the consolidated balance sheet. Of this total, $15.9 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 $6.4 million prior to December 31, 2020 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 $6.4 million decrease, $5.1 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,	
	2019	2018
Gross balance - beginning of year	$ 23,445	28,421
Additions based on tax positions of prior years	651	1,405
Additions based on tax positions related to the current year	1,339	2,044
Settlements with taxing authorities	(1,810)	(915)
Reductions for tax positions of prior years	(380)	(5,109)
Reductions due to lapse of applicable statutes of limitations	(3,097)	(2,401)
Gross balance - end of year	$ 20,148	23,445

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, 2019 and 2018, $5.0 million and $4.9 million in accrued interest and penalties, respectively, were included in “other liabilities” on the consolidated balance sheets. The Company recognized interest expense of $0.1 million, $0.4 million, and $0.8 million related to uncertain tax positions for the years ended December 31, 2019, 2018, and 2017, respectively. The impact to the consolidated statements of income related to penalties for uncertain tax positions was not significant for the years 2019, 2018, and 2017. 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 2016. 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, 2019, the Company has tax uncertainties that remain unsettled in the jurisdiction of California (2010 through 2015).

The provision for income taxes consists of the following components:

	Year ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 38,931	45,822	65,196
State	3,546	1,969	1,246
Foreign	239	(2)	(35)
Total current provision	42,716	47,789	66,407
Deferred:			
Federal	(4,280)	11,783	(8,270)
State	(2,922)	(883)	6,618
Foreign	(63)	81	108
Total deferred provision	(7,265)	10,981	(1,544)
Provision for income tax expense	$ 35,451	58,770	64,863

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,		
	2019	2018	2017
Tax expense at federal rate	21.0 %	21.0 %	35.0 %
Increase (decrease) resulting from:			
State tax, net of federal income tax benefit	2.5	2.4	1.6
Tax credits	(3.0)	(1.9)	(1.3)
Provision for uncertain federal and state tax matters	(0.7)	(1.0)	—
Reduction of statutory federal rate (a)	—	—	(8.0)
Other	0.2	—	—
Effective tax rate	20.0 %	20.5 %	27.3 %

(a) The Tax Cuts and Jobs Act (the "Tax Act"), signed into law on December 22, 2017, changed existing United States tax law and included numerous provisions that affect businesses, including the Company. The Tax Act, for instance, introduced 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 which resulted 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 Tax Act.

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

	As of December 31,	
	2019	**2018**
Deferred tax assets:		
Deferred revenue	$ 18,037	16,633
Student loans	15,479	15,054
Tax credit carryforwards	9,394	—
Lease liability	5,891	—
Accrued expenses	4,112	3,254
Stock compensation	2,167	2,041
Securitizations	1,261	2,014
State net operating losses	551	528
Total gross deferred tax assets	56,892	39,524
Less valuation allowance	(548)	(527)
Net deferred tax assets	56,344	38,997
Deferred tax liabilities:		
Partnership basis	56,741	47,488
Depreciation	11,489	9,469
Lease right of use asset	5,684	—
Intangible assets	5,399	9,903
Loan origination services	4,647	6,243
Debt and equity investments	3,775	1,363
Basis in certain derivative contracts	2,730	22,042
Other	1,003	1,172
Total gross deferred tax liabilities	91,468	97,680
Net deferred tax asset (liability)	$ (35,124)	(58,683)

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 or eligible for utilization of a tax credit carryforward. 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 losses, 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, 2019 and 2018, the Company had a current income tax receivable of $27.3 million and $6.4 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 and renewable energy (solar)
- Interest expense incurred on unsecured debt transactions
- Other product and service offerings that are not considered reportable operating segments including, but not limited to, WRCM, the SEC-registered investment advisor subsidiary

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

Segment Results

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

	Year ended December 31, 2019						
	Loan Servicing and Systems	**Education Technology, Services, and Payment Processing**	**Communications**	**Asset Generation and Management**	**Corporate and Other Activities**	**Eliminations**	**Total**
Total interest income	$ 2,031	9,244	3	931,963	9,232	(3,796)	948,677
Interest expense	115	46	—	693,375	9,587	(3,796)	699,327
Net interest income (expense)	1,916	9,198	3	238,588	(355)	—	249,350
Less provision for loan losses	—	—	—	39,000	—	—	39,000
Net interest income (loss) after provision for loan losses	1,916	9,198	3	199,588	(355)	—	210,350
Other income:							
Loan servicing and systems revenue	455,255	—	—	—	—	—	455,255
Intersegment servicing revenue	46,751	—	—	—	—	(46,751)	—
Education technology, services, and payment processing revenue	—	277,331	—	—	—	—	277,331
Communications revenue	—	—	64,269	—	—	—	64,269
Other income	9,736	259	1,509	30,349	23,327	—	65,179
Derivative settlements, net	—	—	—	45,406	—	—	45,406
Derivative market value and foreign currency transactions adjustments, net	—	—	—	(76,195)	—	—	(76,195)
Total other income	511,742	277,590	65,778	(440)	23,327	(46,751)	831,245
Cost of services:							
Cost to provide education technology, services, and payment processing services	—	81,603	—	—	—	—	81,603
Cost to provide communications services	—	—	20,423	—	—	—	20,423
Total cost of services	—	81,603	20,423	—	—	—	102,026
Operating expenses:							
Salaries and benefits	276,136	94,666	21,004	1,545	70,152	—	463,503
Depreciation and amortization	34,755	12,820	37,173	—	20,300	—	105,049
Other expenses	71,064	22,027	15,165	34,445	51,571	—	194,272
Intersegment expenses, net	54,325	13,405	2,962	47,362	(71,303)	(46,751)	—
Total operating expenses	436,280	142,918	76,304	83,352	70,720	(46,751)	762,824
Income (loss) before income taxes	77,378	62,267	(30,946)	115,796	(47,748)	—	176,745
Income tax (expense) benefit	(18,571)	(14,944)	7,427	(27,792)	18,428	—	(35,451)
Net income (loss)	58,807	47,323	(23,519)	88,004	(29,320)	—	141,294
Net loss (income) attributable to noncontrolling interests	—	—	—	—	509	—	509
Net income (loss) attributable to Nelnet, Inc.	$ 58,807	47,323	(23,519)	88,004	(28,811)	—	141,803
Total assets as of December 31, 2019	$ 290,311	506,382	303,347	22,128,917	627,897	(147,884)	23,708,970

	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 (expense)	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	12,723	33,724	—	54,805
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 revenue	—	—	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
Other expenses	67,336	28,137	11,900	15,961	54,697	—	178,031
Intersegment expenses, net	59,042	10,681	2,578	47,870	(73,088)	(47,082)	—
Total operating expenses	425,910	133,382	56,634	65,357	66,905	(47,082)	701,106
Income (loss) before income taxes	69,834	33,458	(37,815)	241,827	(21,011)	—	286,294
Income tax (expense) benefit	(16,954)	(8,030)	9,075	(58,038)	15,177	—	(58,770)
Net income (loss)	52,880	25,428	(28,740)	183,789	(5,834)	—	227,524
Net loss (income) attributable to noncontrolling interests	808	—	—	—	(419)	—	389
Net income (loss) attributable to Nelnet, Inc.	$ 53,688	25,428	(28,740)	183,789	(6,253)	—	227,913
Total assets as of December 31, 2018	$ 226,445	471,719	286,816	23,806,321	563,841	(134,174)	25,220,968

	Year ended December 31, 2017						
	Loan Servicing and Systems	**Education Technology, Services, and Payment Processing**	**Communications**	**Asset Generation and Management**	**Corporate and Other Activities**	**Eliminations**	**Total**
Total interest income	$ 513	17	3	764,225	13,643	(7,976)	770,426
Interest expense	3	—	5,427	464,256	3,477	(7,976)	465,188
Net interest income (expense)	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	—	—	—	11,857	43,871	—	55,728
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 services	—	—	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
Other expenses	39,126	17,897	8,074	26,634	51,381	—	143,112
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

15. Disaggregated Revenue and Deferred Revenue

The following provides additional revenue recognition information for the Company's fee-based reportable operating segments.

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,		
	2019	2018	2017
Government servicing - Nelnet	$ 157,991	157,091	155,829
Government servicing - Great Lakes	185,656	168,298	—
Private education and consumer loan servicing	36,788	41,474	28,060
FFELP servicing	25,043	31,542	15,542
Software services	41,077	32,929	17,782
Outsourced services and other	8,700	8,693	5,787
Loan servicing and systems revenue	$ 455,255	440,027	223,000

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 primarily includes (i) assistance with financial needs assessment, (ii) school information system software that automates administrative processes such as admissions, enrollment, scheduling, cafeteria management, 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 payment technology and processing that allow for electronic billing and payment of campus charges. 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,		
	2019	**2018**	**2017**
Tuition payment plan services	$ 106,682	85,381	76,753
Payment processing	110,848	84,289	71,652
Education technology and services	58,578	51,155	44,539
Other	1,223	1,137	244
Education technology, services, and payment processing revenue	$ 277,331	221,962	193,188

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,		
	2019	2018	2017
Internet	$ 38,239	24,069	11,976
Television	16,196	12,949	8,018
Telephone	9,705	7,546	5,603
Other	129	89	103
Communications revenue	$ 64,269	44,653	25,700
Residential revenue	$ 48,344	33,434	17,696
Business revenue	15,689	10,976	7,744
Other	236	243	260
Communications revenue	$ 64,269	44,653	25,700

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

Other Income

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

	Year ended December 31,		
	2019	2018	2017
Gain on sale of loans	$ 17,261	—	—
Borrower late fee income	12,884	12,302	11,604
Management fee revenue	8,838	6,497	—
Gain on investments and notes receivable, net of losses	6,136	9,579	939
Investment advisory services	2,941	6,009	12,723
Peterson's revenue	—	—	12,572
Other	17,119	20,418	17,890
Other income	$ 65,179	54,805	55,728

- *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 providing administrative support and marketing services provided primarily 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 educational digital marketing and content solution products and services under the brand name Peterson's. On December 31, 2017, the Company sold Peterson's.

Deferred Revenue

Activity in the deferred revenue balance, which is included in "other liabilities" on the consolidated balance sheets, is shown below:

	Loan Servicing and Systems	Education, Technology, Services, and Payment Processing	Communications	Corporate and Other Activities	Total
Balance as of December 31, 2016	$ 6,105	24,708	963	1,365	33,141
Deferral of revenue	3,406	73,445	15,217	2,721	94,789
Recognition of revenue	(4,543)	(73,989)	(14,515)	(2,607)	(95,654)
Balance as of December 31, 2017	4,968	24,164	1,665	1,479	32,276
Deferral of revenue	5,117	77,297	25,325	5,553	113,292
Recognition of revenue	(5,672)	(70,905)	(24,439)	(5,430)	(106,446)
Balance as of December 31, 2018	4,413	30,556	2,551	1,602	39,122
Deferral of revenue	3,585	93,373	36,024	3,505	136,487
Recognition of revenue	(5,286)	(91,855)	(35,343)	(3,479)	(135,963)
Balance as of December 31, 2019	$ 2,712	32,074	3,232	1,628	39,646

16. Major Customer

Nelnet Servicing earns loan servicing revenue from a servicing contract with the Department. Revenue earned by Nelnet Servicing related to this contract was $158.0 million, $157.1 million, and $155.8 million for the years ended December 31, 2019, 2018, and 2017, respectively.

In addition, Great Lakes, which was acquired by the Company on February 7, 2018, also earns loan servicing revenue from a similar servicing contract with the Department. Revenue earned by Great Lakes related to this contract was $185.7 million for the year ended December 31, 2019. Revenue of $168.3 million was earned for the period from February 7, 2018 to December 31, 2018.

Nelnet Servicing and Great Lakes' servicing contracts with the Department previously provided for expiration on June 16, 2019. On May 15, 2019, Nelnet Servicing and Great Lakes each received a contract extension from the Department's Office of Federal Student Aid (“FSA”) pursuant to which FSA extended the expiration date of the current contracts to December 15, 2019. On November 26, 2019, Nelnet Servicing and Great Lakes each received an additional extension from FSA on their contracts through December 14, 2020. The contract extensions also provided the potential for two additional six-month extensions at the Department’s discretion through December 14, 2021.

FSA is conducting a contract procurement process entitled Next Generation Financial Services Environment (“NextGen”) for a new framework for the servicing of all student loans owned by the Department. On January 15, 2019, FSA issued solicitations for three NextGen components:

- NextGen Enhanced Processing Solution (“EPS”)
- NextGen Business Process Operations (“BPO”)
- NextGen Optimal Processing Solution (“OPS”)

On April 1, 2019 and October 4, 2019, the Company responded to the EPS component. On January 16, 2020, FSA released an amendment to the EPS component and the company responded on February 3, 2020. In addition, on August 1, 2019, the Company responded to the BPO component. On January 10, 2020, FSA released an amendment to the BPO component and the Company responded on January 30, 2020. The Company is also part of a team that has responded and intends to respond to various aspects of the OPS component; however, on November 12, 2019, FSA put an indefinite hold on the OPS solicitation. The Company cannot predict the timing, nature, or outcome of these solicitations.

17. Leases

The following table provides supplemental balance sheet information related to leases:

	As of December 31, 2019
Operating lease ROU assets, which is included in "other assets" on the consolidated balance sheet	$ 32,770
Operating lease liabilities, which is included in "other liabilities" on the consolidated balance sheet	$ 33,689

The following table provides components of lease expense:

	Year ended December 31, 2019
Rental expense, which is included in "other expenses" on the consolidated statements of income (a)	$ 11,171
Rental expense, which is included in "cost to provide communications services" on the consolidated statements of income (a)	1,609
Total operating rental expense	$ 12,780

(a) Includes short-term and variable lease costs, which are immaterial.

The following table provides supplemental cash flow information related to leases:

	Year ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows related to operating leases	$ 9,966
Supplemental noncash activity:	
Operating ROU assets obtained in exchange for lease obligations, excluding impact of adoption	$ 8,731

Weighted average remaining lease term and discount rate are shown below:

	As of December 31, 2019
Weighted average remaining lease term (years)	7.29
Weighted average discount rate	3.93 %

Maturity of lease liabilities are shown below:

2020	$ 10,178
2021	6,905
2022	4,652
2023	3,640
2024	2,567
2025 and thereafter	10,941
Total lease payments	38,883
Imputed interest	(5,194)
Total	$ 33,689

The Company adopted the new lease standard using the effective date as its date of initial application (January 1, 2019) as noted above, and as required, the following disclosure is provided for periods prior to adoption. Future minimum lease payments as of December 31, 2018 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 prior to the adoption of the new lease standard was $8.4 million and $5.7 million during 2018 and 2017, respectively.

18. 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 percent 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 $10.8 million, $9.8 million, and $6.2 million during the years ended December 31, 2019, 2018, and 2017, respectively.

19. Stock Based Compensation Plans

Restricted Stock Plan

The following table summarizes restricted stock activity:

	Year ended December 31,		
	2019	**2018**	**2017**
Non-vested shares at beginning of year	532,336	398,210	447,380
Granted	186,281	279,441	107,237
Vested	(109,651)	(100,035)	(131,988)
Canceled	(59,121)	(45,280)	(24,419)
Non-vested shares at end of year	549,845	532,336	398,210

As of December 31, 2019, there was $17.0 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.

2020	$ 5,927
2021	3,839
2022	2,587
2023	1,731
2024	1,157
2025 and thereafter	1,793
	$ 17,034

For the years ended December 31, 2019, 2018, and 2017, the Company recognized compensation expense of $6.4 million, $6.2 million, and $4.2 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, 2019, 2018, and 2017, the Company recognized compensation expense of $0.3 million, $0.3 million, and $0.2 million respectively, in connection with issuing 33,250 shares, 28,744 shares, and 16,989 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, 2019, 2018, and 2017, the Company recognized $1.2 million, $1.0 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, 2019, 2018, and 2017.

	Shares issued - not deferred	Shares issued-deferred	Total
Year ended December 31, 2019	9,588	11,212	20,800
Year ended December 31, 2018	8,029	10,680	18,709
Year ended December 31, 2017	6,855	10,974	17,829

As of December 31, 2019, a cumulative amount of 193,411 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.

20. 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 non-convertible 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, and as a Director of Union Bank. Ms. Muhleisen serves as a Director and Chief Executive Officer of F&M and as a Director, Chairperson, President, and Chief Executive Officer of Union Bank. Union Bank is deemed to have beneficial ownership of a significant number of shares of the Company because it serves in a capacity of trustee or account manager for various trusts and accounts holding shares of the Company, and may share voting and/or investment power with respect to such shares. Mr. Dunlap and Ms. Muhleisen beneficially own a significant percent of the voting rights of the Company's outstanding common stock.

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

Loan Purchases

The Company purchased $67.7 million (par value) and $2.9 million (par value) of private education loans from Union Bank in 2019 and 2017, respectively. There were no private education loan purchases in 2018. In addition, the Company purchased $32.6 million (par value), $74.7 million (par value), and $10.3 million (par value) of consumer loans from Union Bank in 2019, 2018, and 2017, respectively. The net premium paid by the Company on these loan acquisitions was $1.2 million in 2019. The premiums paid by the Company in 2018 and 2017 were not significant.

The Company has an agreement with Union Bank in which the Company provides marketing, origination, and loan servicing services to Union Bank related to private education loans. Union Bank paid $1.8 million in marketing fees to the Company in 2019 under this agreement.

Loan Servicing

The Company serviced $395.5 million, $405.5 million, and $462.3 million of FFELP and private education loans for Union Bank as of December 31, 2019, 2018, and 2017, respectively. Servicing and origination fee revenue earned by the Company from servicing loans for Union Bank was $0.6 million, $0.5 million, and $0.5 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Funding - Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company uses this facility as a source to fund FFELP student loans. As of December 31, 2019 and 2018, $749.6 million and $664.3 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 $900 million or an amount in excess of $900 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.

Funding - Real Estate

12100.5 West Center, LLC ("West Center") is an entity that was established in 2016 for the sole purpose of acquiring, developing, and owning a commercial real estate property in Omaha, Nebraska. The Company owns 33.33% of West Center. On October 31, 2019, Union Bank, as lender, received a $2.9 million promissory note from West Center. The promissory note carries an interest rate of 3.85% and has a maturity date of October 30, 2024.

Operating Cash Accounts

The majority of the Company's cash operating accounts are maintained at Union Bank. The Company also invests amounts in the Short term Federal Investment Trust ("STFIT") of the Student Loan Trust Division of Union Bank, which are included in "cash and cash equivalents - held at a related party" and "restricted cash - due to customers" on the accompanying consolidated balance sheets. As of December 31, 2019 and 2018, the Company had $390.5 million and $147.2 million, respectively, invested in the STFIT or deposited at Union Bank in operating accounts, of which $270.5 million and $35.3 million as of December 31, 2019 and 2018, 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, 2019, 2018, and 2017, was $1.6 million, $1.0 million, and $0.9 million, respectively.

529 Plan Administration Services

The Company provides certain 529 Plan administration services to certain college savings plans (the "College Savings Plans") through a contract with Union Bank, as the program manager. Union Bank is entitled to a fee as program manager pursuant to its program management agreement with the College Savings Plans. For the years ended December 31, 2019, 2018, and 2017, the Company has received fees of $3.7 million, $3.2 million, and $2.0 million, respectively, from Union Bank related to the administration services provided to the College Savings Plans.

Lease Arrangements

Union Bank leases approximately 4,000 square feet in the Company's corporate headquarters building. Union Bank paid the Company approximately $79,000, $76,000, and $74,000 for commercial rent and storage income during 2019, 2018, and 2017, respectively. The lease agreement expires on June 30, 2023.

Other Fees Paid to Union Bank

During the years ended December 31, 2019, 2018, and 2017, the Company paid Union Bank approximately $213,000, $128,000, and $127,000, respectively, in cash management and trustee fees.

Other Fees Received from Union Bank

During the years ended December 31, 2019, 2018, and 2017, Union Bank paid the Company approximately $317,000, $231,000, and $231,000, respectively, under certain employee sharing arrangements. During the years ended December 31, 2019, 2018, and 2017, Union Bank paid the Company approximately $92,000, $34,000, and $5,000, respectively, for communications services. In addition, during the years ended December 31, 2019, 2018, and 2017, Union Bank paid the Company approximately $1,000, $4,000, and $11,000 in payment processing fees (net of merchant fees of approximately $4,000, $13,000, and $1,000), respectively.

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 $366,000, $313,000, and $241,000 during the years ended December 31, 2019, 2018, and 2017, 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. WRCM, an SEC-registered investment advisor and a subsidiary of the Company, has 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, 2019, the outstanding balance of investments in the trusts was $756.3 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, 2019, 2018, and 2017, the Company earned $1.8 million, $4.5 million, and $9.2 million, respectively, of fees under this agreement.

WRCM also has management agreements with Union Bank under which it is designated to serve as investment advisor with respect to the assets (principally Nelnet stock) within several trusts established by Mr. Dunlap and his spouse and Stephen F. Butterfield, former Vice Chairman and former member of the board of directors of the Company who passed away in April 2018, and his spouse Shelby J. Butterfield. 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. As of December 31, 2019, WRCM was the investment advisor with respect to a total of 6.3 million shares of the Company's Class B common stock held directly by these trusts, and the 50% interest held by the Butterfield Family Trust, an estate planning trust for the family of Mr. Butterfield, in Union Financial Services, Inc. (“UFS”), which holds a total of 1.6 million shares of the Company’s Class B common stock and the other 50% interest in which is owned by Mr. Dunlap. For the years ended December 31, 2019, 2018, and 2017, the Company earned approximately $219,000, $172,000, and $161,000, 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, 2019, the outstanding balance of investments in these funds was $152.1 million. The Company paid Union Bank $0.3 million in each of 2019, 2018, and 2017 as custodian of the funds.

Transactions with F&M

During the third quarter of 2019, the Company, F&M, and the holding company of BankFirst of Norfolk, Nebraska ("BankFirst"), of which Mr. Dunlap is a member of the Board of Directors, co-invested $0.7 million, $2.1 million, and $2.1 million, respectively, in a Company-managed limited liability company that invests in renewable energy (solar). As part of

these transactions, the Company receives management and performance fees under a management agreement. During the third quarter of 2019, the Company earned a total of approximately $138,000 of management fees under this agreement, allocable in equal amounts of approximately $69,000 to the investments of each of F&M and BankFirst.

Transactions with UFS

UFS is owned 50 percent by Mr. Dunlap and 50 percent by the Butterfield Family Trust, an estate planning trust for the family of Mr. Butterfield.

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, the Company purchased an additional 17.5 percent interest in the aircraft from UFS for $717,500, which reflected what available information indicated was the aircraft's fair market value at the time of sale. As a result of this transaction, the Company's ownership in the aircraft increased to 82.5 percent. On December 31, 2018, UFS also contributed a 17.5 percent interest in the aircraft to an entity owned by Mr. Dunlap.

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. The Company and Mr. Dunlap, along with his children, currently hold combined direct and indirect equity ownership interests in Hudl of 19.2% and 3.7%, 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. As of December 31, 2019, the carrying amount of the Company's investment in Hudl is $51.8 million, and is included in "investments and notes receivable" in the Company's consolidated balance sheet.

On July 26, 2019, the Company, as lender, received a $16.0 million promissory note from Hudl. The promissory note carried a 14 percent interest rate and was due 180 days from the date of issuance. In connection with this promissory note, the Company entered into a Subordination Agreement with Union Bank, effective as of July 26, 2019, which required the Company to subordinate its promissory note from Hudl to existing notes Union Bank holds from Hudl. The $16.0 million promissory note from Hudl was paid in full to the Company in August 2019.

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, 2019, 2018, and 2017, Nelnet Business Solutions, a subsidiary of the Company, paid $1.7 million, $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, $1.3 million, and $1.4 million in 2019, 2018, and 2017, respectively, and the Company's insurance subsidiary paid claims on such reinsurance to Assurity of $0.9 million, $0.9 million, and $0.7 million in 2019, 2018, and 2017, respectively. In addition, Assurity pays Nelnet Business Solutions a partial refund annually based on claim experience, which was approximately $56,000, $84,000, and $10,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

21. 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, 2019.

	As of December 31, 2019			As of December 31, 2018		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Investments (a):						
Student loan asset-backed securities - available-for-sale	$ —	52,597	52,597	—	52,936	52,936
Equity securities	6	—	6	2,722	—	2,722
Equity securities measured at net asset value (b)			12,894			14,925
Debt securities - available-for-sale	104	—	104	104	—	104
Total investments	110	52,597	65,601	2,826	52,936	70,687
Derivative instruments (c)	—	—	—	—	1,818	1,818
Total assets	$ 110	52,597	65,601	2,826	54,754	72,505

(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, 2019				
	Fair value	Carrying value	Level 1	Level 2	Level 3
Financial assets:					
Loans receivable	$ 21,477,630	20,669,371	—	—	21,477,630
Cash and cash equivalents	133,906	133,906	133,906	—	—
Investments (at fair value)	65,601	65,601	110	52,597	—
Beneficial interest in consumer loan securitizations	33,258	33,187	—	—	33,258
Restricted cash	650,939	650,939	650,939	—	—
Restricted cash – due to customers	437,756	437,756	437,756	—	—
Accrued interest receivable	733,623	733,623	—	733,623	—
Financial liabilities:					
Bonds and notes payable	20,479,095	20,529,054	—	20,479,095	—
Accrued interest payable	47,285	47,285	—	47,285	—
Due to customers	437,756	437,756	437,756	—	—

	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	—	—
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	—	—

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. 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.

Beneficial Interest in Consumer Loan Securitizations

Fair values for beneficial interest in consumer loan securitizations were determined by modeling securitization cash flows and internally-developed assumptions. 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, 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.

22. 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.

23. Quarterly Financial Information (Unaudited)

	2019			
	First quarter	**Second quarter**	**Third quarter**	**Fourth quarter**
Net interest income	$ 58,816	59,825	66,457	64,252
Less provision for loan losses	7,000	9,000	10,000	13,000
Net interest income after provision for loan losses	51,816	50,825	56,457	51,252
Loan servicing and systems revenue	114,898	113,985	113,286	113,086
Education technology, services, and payment processing revenue	79,159	60,342	74,251	63,578
Communications revenue	14,543	15,758	16,470	17,499
Other income	9,067	16,152	13,439	26,522
Derivative market value and foreign currency transaction adjustments and derivative settlements, net	(11,539)	(24,088)	1,668	3,170
Cost to provide education technology, services, and payment processing services	(21,059)	(15,871)	(25,671)	(19,002)
Cost to provide communications services	(4,759)	(5,101)	(5,236)	(5,327)
Salaries and benefits	(111,059)	(111,214)	(116,670)	(124,561)
Depreciation and amortization	(24,213)	(24,484)	(27,701)	(28,651)
Other operating expenses	(43,816)	(45,417)	(58,329)	(46,710)
Income tax (expense) benefit	(11,391)	(6,209)	(8,829)	(9,022)
Net income	41,647	24,678	33,135	41,834
Net loss (income) attributable to noncontrolling interests	(56)	(59)	77	546
Net income attributable to Nelnet, Inc.	$ 41,591	24,619	33,212	42,380
Earnings per common share:				
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	$ 1.03	0.61	0.83	1.06

	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	18,557	9,580	16,673	9,998
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)
Other operating expenses	(36,553)	(43,613)	(48,281)	(49,583)
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

24. Condensed Parent Company Financial Statements

The following represents the condensed balance sheets as of December 31, 2019 and 2018 and condensed statements of income, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2019 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 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, 2019 and 2018

	2019	2018
Assets:		
Cash and cash equivalents	$ 73,144	36,890
Investments and notes receivable	137,229	140,582
Investment in subsidiary debt	13,818	13,818
Restricted cash	9,567	16,217
Investment in subsidiaries	2,181,122	2,448,540
Notes receivable from subsidiaries	42,552	56,973
Other assets	100,059	57,555
Fair value of derivative instruments	—	1,818
Total assets	$ 2,557,491	2,772,393
Liabilities:		
Notes payable	$ 67,655	369,725
Other liabilities	97,952	94,016
Total liabilities	165,607	463,741
Equity:		
Nelnet, Inc. shareholders' equity:		
Common stock	398	403
Additional paid-in capital	5,715	622
Retained earnings	2,377,627	2,299,556
Accumulated other comprehensive earnings	2,972	3,883
Total Nelnet, Inc. shareholders' equity	2,386,712	2,304,464
Noncontrolling interest	5,172	4,188
Total equity	2,391,884	2,308,652
Total liabilities and shareholders' equity	$ 2,557,491	2,772,393

Statements of Income

(Parent Company Only)

Years ended December 31, 2019, 2018, and 2017

	2019	2018	2017
Investment interest income	$ 4,925	17,707	13,060
Interest expense on bonds and notes payable	9,588	9,270	3,315
Net interest (expense) income	(4,663)	8,437	9,745
Other income:			
Other income	8,384	13,944	3,483
Gain from debt repurchases	136	359	2,964
Equity in subsidiaries income	182,346	158,364	170,897
Derivative market value adjustments and derivative settlements, net	(30,789)	71,085	(603)
Total other income	160,077	243,752	176,741
Operating expenses	19,561	4,795	6,117
Income before income taxes	135,853	247,394	180,369
Income tax benefit (expense)	5,950	(19,481)	(7,491)
Net income	141,803	227,913	172,878
Net loss attributable to noncontrolling interest	—	—	288
Net income attributable to Nelnet, Inc.	$ 141,803	227,913	173,166

Statements of Comprehensive Income

(Parent Company Only)

Years ended December 31, 2019, 2018, and 2017

	2019	2018	2017
Net income	$ 141,803	227,913	172,878
Other comprehensive (loss) income:			
Available-for-sale securities:			
Unrealized holding (losses) gains arising during period, net	(1,199)	1,056	2,349
Reclassification adjustment for gains recognized in net income, net of losses	—	(978)	(2,528)
Income tax effect	288	(69)	66
Total other comprehensive (loss) income	(911)	9	(113)
Comprehensive income	140,892	227,922	172,765
Comprehensive loss attributable to noncontrolling interest	—	—	288
Comprehensive income attributable to Nelnet, Inc.	$ 140,892	227,922	173,053

Statements of Cash Flows

(Parent Company Only)

Years ended December 31, 2019, 2018, and 2017

	2019	2018	2017
Net income attributable to Nelnet, Inc.	$ 141,803	227,913	173,166
Net loss attributable to noncontrolling interest	—	—	(288)
Net income	141,803	227,913	172,878
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	467	442	420
Derivative market value adjustments	76,195	(1,014)	7,591
(Payments to) proceeds from termination of derivative instruments, net	(12,530)	10,283	2,100
(Payments to) proceeds from clearinghouse - initial and variation margin, net	(70,685)	40,382	76,325
Equity in earnings of subsidiaries	(182,346)	(158,364)	(170,897)
Deferred income tax (benefit) expense	(19,183)	21,814	(8,056)
Non-cash compensation expense	6,781	6,539	4,416
Other	(4,586)	(16,306)	(3,454)
(Increase) decrease in other assets	(10,672)	25,252	4,171
Increase (decrease) in other liabilities	29,384	(9,621)	10,104
Net cash (used in) provided by operating activities	(45,372)	147,320	95,598
Cash flows from investing activities:			
Purchases of available-for-sale securities	—	(46,382)	(127,567)
Proceeds from sales of available-for-sale securities	—	75,605	156,727
Capital distributions/contributions from/to subsidiaries, net	449,602	(334,280)	29,426
Decrease (increase) in notes receivable from subsidiaries	14,421	(31,325)	(50,793)
Increase in guaranteed payment from subsidiary	—	(70,270)	—
Proceeds from investments and notes receivable	27,926	7,783	4,823
Proceeds from (purchases of) subsidiary debt, net	—	61,841	(3,844)
Purchases of investments and issuances of notes receivable	(47,106)	(28,610)	(18,023)
Net cash provided by (used in) investing activities	444,843	(365,638)	(9,251)
Cash flows from financing activities:			
Payments on notes payable	(361,272)	(8,651)	(27,480)
Proceeds from issuance of notes payable	60,000	300,000	61,059
Payments of debt issuance costs	(1,129)	(827)	—
Dividends paid	(29,485)	(26,839)	(24,097)
Repurchases of common stock	(40,411)	(45,331)	(68,896)
Proceeds from issuance of common stock	1,552	1,359	678
Acquisition of noncontrolling interest	—	(13,449)	—
Issuance of noncontrolling interest	878	13	—
Net cash (used in) provided by financing activities	(369,867)	206,275	(58,736)
Net increase (decrease) in cash, cash equivalents, and restricted cash	29,604	(12,043)	27,611
Cash, cash equivalents, and restricted cash, beginning of period	53,107	65,150	37,539
Cash, cash equivalents, and restricted cash, end of period	$ 82,711	53,107	65,150
Cash disbursements made for:			
Interest	$ 9,501	8,628	2,882
Income taxes, net of refunds and credits	$ 17,672	473	96,721
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

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;

- 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; and

- For loans that are in repayment status on or before September 28, 2018, the borrower is eligible for deferment during periods the borrower is undergoing treatment for cancer and the 6 months following treatment.

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;

- 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; and

- For loans that are in repayment status on or before September 28, 2018, the borrower is eligible for deferment during periods the borrower is undergoing treatment for cancer and the 6 months following treatment.

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.

For a borrower who is eligible for the Cancer Treatment Deferment, interest that accrues during the period of deferment on any subsidized loan is subsidized. For cancer treatment deferment periods on any Unsubsidized Stafford Loan, the interest during such periods is not charged to the borrower.

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.

Exhibit 4.1

DESCRIPTION OF SECURITIES
REGISTERED UNDER SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

Nelnet, Inc., a Nebraska corporation (referred to in this exhibit by the terms “Nelnet,” “our,” “us,” and “we”) has one class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934: our Class A Common Stock, par value $0.01 per share (referred to in this exhibit as “Class A common stock”). The following Description of Capital Stock includes a description of our Class A common stock, as well as our Class B Common Stock, par value $0.01 per share (referred to in this exhibit as “Class B common stock”), shares of which are convertible into shares of Class A common stock. Such description is a summary that is subject to and qualified in its entirety by reference to the complete text of our articles of incorporation and bylaws, each of which is filed with or incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part, as well as the complete text of the applicable provisions of the Nebraska Model Business Corporation Act and the Nebraska Shareholders Protection Act.

DESCRIPTION OF CAPITAL STOCK

Authorized Capital Stock

Our articles of incorporation provide that we have the authority to issue up to 600,000,000 shares of Class A common stock, with par value of $0.01 per share, and 60,000,000 shares of Class B common stock, with par value of $0.01 per share.

Our articles of incorporation also provide that we have the authority to issue up to 50,000,000 shares of preferred stock, with par value of $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 discussed below. As of the date of the Annual Report on Form 10-K of which this exhibit is a part, no shares of preferred stock are issued and outstanding.

All of the issued and outstanding shares of Class B common stock were issued prior to our initial public offering of shares of Class A common stock on December 11, 2003. No additional shares of Class B common stock have been issued subsequent to December 11, 2003, and our articles of incorporation provide that, except for shares of Class B common stock issued in connection with stock splits, stock dividends and other similar distributions, we cannot issue additional shares of Class B common stock unless approved by the affirmative votes of the holders of a majority in voting power of the stock of Nelnet entitled to vote thereon.

Common Stock

General Voting Rights

Holders of shares of Class A common stock are entitled to one vote per share and holders of shares of Class B common stock are entitled to ten votes per share on all matters submitted to a vote of shareholders. Except as otherwise required by applicable law, shares of Class A common stock and shares of Class B common stock shall vote as a single class on all matters to be voted on by the shareholders, including, without limitation, any consolidation or merger of us into or with any other corporation or the sale or transfer by us of all or substantially all of our assets. With the approval of a majority of the shares of Class B common stock, voting separately as a class, we may lower the number of votes per share that each share of Class B common stock shall be entitled to have.

Our bylaws provide that if a quorum is present, action on a matter by a shareholder voting group under the Nebraska Model Business Corporation Act shall be approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater number of affirmative votes is required by law, and provided further that, as set forth in our articles of incorporation, in all elections of directors, directors shall be elected by a majority of the votes cast by the shares entitled to vote in the election, and not by a plurality of such votes.

The Nebraska Model Business Corporation Act provides that, unless the corporation's articles of incorporation or board of directors requires 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 or series 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 within the voting group 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. Our articles of incorporation contain a proviso whereby the affirmative vote of the holders of a majority of the voting power of all the shares of our capital stock 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 our articles of incorporation inconsistent with certain existing provisions regarding rights with respect to future issuances and sales of our securities, certain existing provisions regarding shareholder actions and meetings of shareholders, or such proviso.

Cumulative Voting Rights in the Election of Directors

With respect to the election of directors, our shareholders 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.

Classification of Board of Directors

Under our articles of incorporation, we have 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, as near as may be practicable, and with the directors in each class serving staggered three-year terms. The classified board framework fosters continuity and stability in the board's leadership and policies by effectively providing that any given time a majority of the directors will have prior experience with us, and therefore will be familiar with our business and operations. However, the classified board framework also has the effect of reducing the impact of cumulative voting rights 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.

Dividend Rights

Holders of our Class A common stock and Class B 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.

Conversion Provisions

Shares of Class A common stock are not convertible. 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, and each share of Class B common stock shall automatically convert into one share of Class A common stock, without any action by us or further action by the holder thereof, upon the transfer of such share of Class B common stock, 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 (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) 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;

- 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 us.

Notwithstanding the above provisions, a share of Class B common stock will automatically convert into one share of Class A common stock upon any transfer thereof pursuant to a divorce or separation agreement, decree or order.

In the event at any time the shares of Class B common stock outstanding constitute less than 50% of the 14,023,454 shares of Class B common stock outstanding as of the date of the final prospectus relating to our initial public offering of shares of Class A common stock (which date was December 10, 2003), each remaining share of Class B common stock outstanding shall automatically be converted into one share of Class A common stock.

Other Rights

Upon liquidation, dissolution or winding up of Nelnet, after payment in full of the amounts required to be paid to the holders of any outstanding preferred stock, all holders of Class A common stock and Class B common stock are entitled to receive ratably any assets available for distribution to holders thereof after the payment of all of our debts and other liabilities. No shares of Class A common stock or Class B common stock have preemptive rights to purchase additional shares. All outstanding shares of Class A common stock and Class B common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of Class A

common stock and Class B 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.

Preferred Stock

Our board of directors is authorized, subject to limitations of applicable law, without further shareholder approval, to issue from time to time up to an aggregate of 50,000,000 shares of preferred stock in one or more series and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. Such rights and restrictions include dividend rights, conversion rights, voting rights, terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of such series. The exercise of this authority eliminates delays associated with obtaining shareholder approval in specific instances.

Provisions of Articles of Incorporation, Bylaws and Nebraska Law with Potential Anti-Takeover Effects

Provisions of our articles of incorporation and bylaws and the Nebraska Shareholders Protection Act discussed below could discourage unsolicited potential acquisition or takeover proposals and could delay or prevent a change in control of Nelnet. These provisions of our articles of incorporation and bylaws are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by the board of directors and to discourage types of transactions that may involve an actual or threatened change in control of Nelnet.

Classification of Board of Directors

Our classified board of directors framework as described above may increase the amount of time required for a potential acquirer to obtain control of us without the cooperation of our board. With restrictions on the ability to obtain immediate control of the board, a potential acquirer may face other impediments to its intended acquisition of us, such as the issuance to another party of preferred stock with rights and preferences adverse to the interests of the potential acquirer. Therefore, the classified board framework could discourage certain change of control transactions. Further, the classified board framework makes it more difficult for shareholders to change the majority composition of the board.

Filling Vacancies on the Board of Directors

Our articles of incorporation and bylaws provide that any vacancies on the board of directors for any reason and any newly created directorships resulting by reason of any increase in the number of directors may be filled only by the board of directors, acting by a majority of the remaining directors then in office, although less than a quorum, or by a sole remaining director. This prevents a third party or a majority of shareholders from removing incumbent

directors and simultaneously gaining control of the board of directors by filling, with its own nominees, the vacancies created by removal.

Special Meetings of Shareholders

Our articles of incorporation provide that special meetings of our shareholders may be called only by our board of directors or by shareholders holding at least 25% of all the votes entitled to be cast on an issue proposed to be considered at the proposed special meeting, except as may otherwise be provided or required by the Nebraska Model Business Corporation Act.

Advance Notice Requirements for Shareholder Proposals and Director Nominations

Our bylaws establish advance notice procedures for shareholder proposals of business to be brought before an annual meeting of shareholders and shareholder nominations of candidates for election as directors at meetings of shareholders. For a shareholder nomination or proposal of other business to be properly brought before a meeting of shareholders, the shareholder must comply with the advance notice requirements and provide us with certain information. Generally, to be timely for an annual meeting of shareholders, a shareholder's notice must be delivered to us not less than 90 days nor more than 120 days in advance of the first anniversary of the preceding year's annual meeting. Our bylaws also specify requirements as to the form and content of a shareholder's notice.

Although the advance notice provisions do not give the board of directors any power to approve or disapprove a shareholder's nomination or proposal for action by us, they may have the effect of preventing a contest for the election of directors or the consideration of shareholder proposals if the procedures established by our bylaws are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its proposal, without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our shareholders. The purpose of requiring advance notice is to afford the board of directors an opportunity to consider the qualifications of the proposed nominees or the merits of other shareholder proposals and, to the extent deemed necessary or desirable by the board of directors, to inform shareholders about those matters.

Preferred Stock

The ability of our board of directors to issue preferred stock without further shareholder approval as described above, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of our outstanding voting stock.

Rights to Purchase Securities

Our articles of incorporation authorize our board of directors to create and issue, whether or not in connection with the issuance and sale of any of our securities or properties, rights entitling the holders thereof to purchase our securities or securities issued by any other entity.

The times at which and the terms upon which such rights are to be issued are to be determined by the board of directors and set forth in the contracts or other instruments that evidence such rights. The authority of the board of directors with respect to such rights shall include, without limitation, the determination of the initial purchase price, the times and circumstances under which such rights may be exercised, provisions denying holders of a specified percentage of our outstanding capital stock the right to exercise such rights and provisions to permit us to redeem or exchange such rights. These provisions could have the effect of discouraging third parties from seeking, or impairing their ability to seek, to acquire a significant portion of our outstanding securities, to engage in any transaction which might result in a change in control of us or to enter into any agreement, arrangement or understanding with another party to accomplish the foregoing or for the purpose of acquiring, holding, voting or disposing of any of our securities.

Nebraska Shareholders Protection Act

We are a Nebraska corporation and are therefore subject to the provisions of the Nebraska Shareholders Protection Act. The Nebraska Shareholders Protection Act, subject to certain exemptions, prohibits a Nebraska corporation from engaging in any of a broad range of "business combinations" involving an "interested" shareholder, or any affiliate or associate of such interested shareholder, for a period of five years following the date that such shareholder became an interested shareholder, unless prior to such date the board of directors of the corporation approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder. A "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested shareholder. The Nebraska Shareholders Protection Act also provides that shares acquired in a control-share acquisition have no voting rights with respect to matters other than the election of directors unless approved by a vote of shareholders of the corporation, and that any such control-share acquisition shall be approved by the affirmative vote of the holders of a majority of the corporation's voting shares that are not "interested" shares. A control-share "acquisition" is an acquisition of voting stock in a corporation that, when added to the shares the shareholder had prior to the acquisition, would elevate the shareholder's voting power into one of the three following ranges: (i) between 20% and 33 1/3%, (ii) between 33 1/3% and 50% and (iii) over 50%. For purposes of the Nebraska Shareholders Protection Act, an "interested shareholder" is a person who owns 10% or more of a corporation's outstanding voting stock, or an affiliate or associate of the corporation that owns, or within the preceding five years did own, 10% or more of the corporation's outstanding voting stock. These provisions may have the effect of discouraging, delaying, deferring or preventing a change in control of Nelnet.

Exclusive Forum Provisions

Our articles of incorporation provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, a specifically designated Nebraska state court located in Lincoln, Nebraska (or, if that court does not have jurisdiction, the federal district court for the District of Nebraska located in Lincoln, Nebraska) will be the sole and exclusive forum for:

- any derivative action or proceeding brought on behalf or in the right of us;

- any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or employees to us or our shareholders;
- any action asserting a claim arising under any provision of the Nebraska Model Business Corporation Act or our articles of incorporation or bylaws (as each may be amended from time to time); or
- any action asserting a claim governed by the internal affairs doctrine.

These exclusive forum provisions may limit the ability of our shareholders to commence litigation in a forum that they prefer, which may discourage such lawsuits against us and our current or former directors, officers, and employees.

Limitation on Liability of Directors

Our articles of incorporation contain a provision which eliminates the personal liability of each of our directors to us or our shareholders for money damages for any action taken, or any failure to take any action, as one of our directors, except liability for:

- the amount of a financial benefit received by a director to which the director is not entitled;
- an intentional infliction of harm on us or our shareholders;
- a violation of provisions of the Nebraska Model Business Corporation Act relating to unlawful payments of dividends or unlawful stock repurchases; or
- an intentional violation of criminal law.

The inclusion of this provision in our articles of incorporation may have the effect of reducing the likelihood of derivative litigation against our directors, and may discourage or deter shareholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited us and our shareholders. Management believes that this provision will assist us in attracting and retaining qualified individuals to serve as directors.

Indemnification and Insurance

Our articles of incorporation provide that, to the fullest extent permitted by Nebraska law, we will indemnify and hold harmless and advance expenses to any person who was, is, or is threatened to be made a party or is otherwise involved in any proceeding by reason of the fact that such person, or a person for whom such person is the legal representative, is or was a director or officer of us, against all liability and loss suffered and expenses actually and reasonably incurred by such person in connection with such proceeding.

In addition, our articles of incorporation provide that we may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of us

against any liability asserted against or incurred by such person in such capacity or arising out of such person's status as such, whether or not we would have the power to indemnify or advance expenses to him or her against such liability under our articles of incorporation or the Nebraska Model Business Corporation Act. Our articles of incorporation further provide that we may, to the extent and in the manner permitted by the Nebraska Model Business Corporation Act, indemnify any of our employees or agents against liability, expenses and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that such person is or was an employee or other agent of us. We have obtained insurance for the benefit of our officers and directors insuring such persons against liabilities, including liabilities under the securities laws.

Registration Rights

In connection with our initial public offering of shares of Class A common stock in December 2003, we entered into a registration rights agreement with Michael S. Dunlap, Stephen F. Butterfield (who passed away in April 2018), persons related to them and trusts in which they have beneficial interests, under which they have the right to make two written demands of Nelnet for registration with the Securities and Exchange Commission of all or part of their common stock. However, we need not effect a demand registration unless it includes securities with an aggregate offering price, net of underwriting discounts and commissions, of at least $5 million. The second such demand may not be made within twelve months after the first such demand. We are obligated to comply with any such demand unless our independent directors determine that such sale would be contrary to the best interests of Nelnet. Our independent directors may consider several factors in making any such determination, including share price performance after the date of the initial public offering, equity market conditions and our operating results. These shareholders also have piggyback registration rights for their common stock. The number of securities to be included in an offering by these shareholders will be subject to reduction by the applicable underwriter in some cases. We will bear all expenses incident to our performance of our registration obligations, other than some of the costs or expenses of selling shareholders. The foregoing registration rights are not transferable and may be amended or waived only with the written consent of Nelnet and the applicable shareholders.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare.

NYSE Listing

Our Class A common stock is listed on the New York Stock Exchange under the symbol "NNI."

Exhibit 10.21

AMENDMENT
TO THE
NELNET, INC.
RESTRICTED STOCK PLAN
Effective as of February 11, 2020

WHEREAS, Nelnet, Inc., a Nebraska corporation ("Nelnet), has previously established the Nelnet, Inc. Restricted Stock Plan, as amended through May 22, 2014 (the "Plan"), which provides for grants of awards of restricted shares and restricted stock units to employees of Nelnet and its subsidiaries and affiliates;

WHEREAS, in November 2019, Nelnet re-filed an application with the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions to establish Nelnet Bank, a Utah-chartered industrial bank and wholly owned subsidiary of Nelnet;

WHEREAS, in connection with such application and in view of potential future awards under the Plan to employees of an institution subject to additional banking regulatory oversight, it has been determined that an amendment to the Plan as set forth below (the "Amendment"), in order to clarify that awards under the Plan shall be subject not only to compliance with all applicable laws, rules and regulations, but also to compliance with applicable regulatory guidance and directives, is desirable and in the best interests of Nelnet and its shareholders; and

WHEREAS, Section 7(d) of the Plan provides that the Nelnet Board of Directors may amend the Plan without shareholder approval unless otherwise required by applicable stock exchange rules, and in connection therewith it has been determined that the Amendment does not constitute a material revision to the Plan and thus does not require separate approval by the shareholders of Nelnet under the applicable rules and guidance of the New York Stock Exchange.

NOW, THEREFORE, pursuant to such action of the Board, Section 7(a) of the Plan is hereby amended in its entirety to read as follows:

> Compliance with Legal, Regulatory and Trading Requirements. The Plan, the granting and exercising of Awards thereunder, and the other obligations of the Company under the Plan and any Award Agreement, shall be subject to compliance with all applicable federal, state and foreign laws, rules and regulations, and regulatory guidance and directives, and to such approvals by any regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under any Award until completion of such stock exchange or market system listing or registration or qualification of such Shares or other required action under any state or federal law, rule or regulation, or applicable regulatory guidance or directives as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations, and regulatory guidance and directives. No provisions of the Plan shall be interpreted or construed to obligate the Company to register any Shares under federal, state or foreign law. The Shares issued under the Plan may be subject to such other restrictions on transfer as determined by the Committee.

Except as specifically amended in the Amendment, the Plan shall remain in full force and effect in accordance with its terms.

[*End of Document*]

Exhibit 10.56

Certain information identified by "[***]" has been excluded from this exhibit pursuant to Item 601(b)(10)(iv) of Regulation S-K because it is both not material and would likely cause competitive harm to the registrant if publicly disclosed.

PRIVATE STUDENT LOAN PURCHASE AGREEMENT

by and among

NATIONAL EDUCATION LOAN NETWORK, INC.,
as Purchaser,

UNION BANK AND TRUST COMPANY,
as Purchaser Lender Trustee,

UNION BANK AND TRUST COMPANY,
as Seller.

Dated as of November 19, 2019

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EXHIBIT A LOAN TRANSFER ADDENDUM
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PRIVATE STUDENT LOAN PURCHASE AGREEMENT

THIS PRIVATE STUDENT LOAN PURCHASE AGREEMENT (this "Private Student Loan Purchase Agreement") is made and entered into as of November 19, 2019, by and among **NATIONAL EDUCATION LOAN NETWORK, INC.**, a corporation duly organized under the laws of the State of Nebraska (the "Purchaser"), **UNION BANK AND TRUST COMPANY**, a state banking corporation and trust company duly organized under the laws of the State of Nebraska, not in its individual capacity but solely as lender trustee for the Purchaser (in such capacity, the "Purchaser Lender Trustee"), **UNION BANK AND TRUST COMPANY**, a state banking corporation duly organized under the laws of the State of Nebraska, in its individual capacity (in such capacity, the "Seller").

W I T N E S S E T H :

WHEREAS, the Purchaser (with legal title to any Student Loans (as defined below) to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) desires to purchase (with legal title to any Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) from the Seller certain Student Loans, legal title to which will be held by and through the Purchaser Lender Trustee, acting on behalf of the Purchaser pursuant to a Lender Trustee Agreement, dated as of November 19, 2019 (as amended and supplemented pursuant to the terms thereof, the "Purchaser Lender Trustee Agreement"), between the Purchaser Lender Trustee and the Purchaser, and the Seller desire to sell to the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) certain Student Loans to the Purchaser and the Purchaser Lender Trustee, acting on behalf of the Purchaser, in accordance with the terms and conditions of this Private Student Loan Purchase Agreement (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser).

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

◦ **Definitions**. Terms used herein shall have the meanings set forth in this Section.

"*Cut-Off Date*" means a date established by the Purchaser as the cut-off date for payments received on a portfolio of Transferred Loans being acquired or accepted by the Purchaser, which date shall not be more than two weeks preceding the purchase date of such Transferred Loans and is the date specified in the related Loan Transfer Schedule.

"*Eligible Loan*" means, as of its date of purchase under this Private Student Loan Purchase Agreement, an "Eligible Loan" means a Student Loan originated by or on behalf of the Seller, and satisfying each of the representations and warranties set forth in Exhibit E attached hereto, except to the extent that such term requires the existence or occurrence of a condition or characteristic of the Eligible Loan after the date of such purchase, or imposes any obligation on the Seller with respect thereto after the date of such purchase that is not otherwise set forth in this Private Student Loan Purchase Agreement.

“*Loan Transfer Addendum*” means a Loan Transfer Addendum, substantially in the form set forth in Exhibit A attached hereto, executed and delivered by the Seller, the Purchaser and the Purchaser Lender Trustee.

“*Loan Transfer Date*” means each date on which the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) purchases Student Loans from the Seller, as described in Section 2 hereof.

“*Loan Transfer Schedule*” means a written schedule (which may be in electronic form) on a form provided by the Purchaser or its servicing agent identifying the Student Loans being purchased under this Private Student Loan Purchase Agreement and attached to the applicable Loan Transfer Addendum.

“*Obligor*” means one or more Persons obligated to make payments with respect to a Student Loan including the student and, if applicable, any cosigner.

“*Person*” means an individual, partnership, corporation (including a business or statutory trust), limited liability company, joint stock company, trust, unincorporated association, joint venture, government (or any agency or political subdivision thereof) or other entity.

“*Principal Balance*” means, with respect to any Student Loan and any specified date, the original principal amount of such Student Loan, plus capitalized interest thereon, if any, minus prior payments of principal by or on behalf of the Obligor of such Student Loan as of such date.

“*Private Student Loan Purchase Agreement*” means this Private Student Loan Purchase Agreement, including all exhibits and schedules attached hereto, and any addenda, supplements or amendments hereto.

“*Program Manual*” means the materials utilized by the Seller with respect to guidelines governing the Seller’s Student Loan origination program, underwriting guidelines and documentation related thereto.

“*Purchaser*” has the meaning set forth in the introductory paragraph to this Private Student Loan Purchase Agreement.

“*Purchaser Lender Trustee*” has the meaning set forth in the introductory paragraph to this Private Student Loan Purchase Agreement.

“*Seller*” has the meaning set forth in the introductory paragraph to this Private Student Loan Purchase Agreement.

“*Student Loan*” means a loan to an Obligor for or in connection with post-secondary education and related post-secondary education expenses or to refinance such a loan that is made pursuant to the Program Manual, inclusive of the related promissory note and the related documentation in connection with each thereof.

“*Transferred Loans*” has the meaning set forth in Section 2(a) hereof.

Section 2. Purchase of Student Loans.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Seller agrees to sell to the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser), and the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) agrees to buy from the Seller, Student Loans together with all promissory notes and related documentation evidencing the indebtedness represented by such Student Loans and all proceeds of the foregoing including, without limitation, all payments made after the applicable Cut-Off Date by the Obligors thereunder or with respect thereto, and all rights to receive such payments, but excluding any proceeds of the sale made hereby (collectively with respect to a Loan Transfer Addendum, the "Transferred Loans"), from time to time, such agreement to be evidenced by the execution and delivery of a Loan Transfer Addendum for each such purchase of Student Loans in the form set forth in Exhibit A hereto. All purchases of Student Loans shall be governed in all respects by this Private Student Loan Purchase Agreement together with the Loan Transfer Addendum pertaining to such Student Loans. Student Loans may be purchased under this Private Student Loan Purchase Agreement from time to time in the future, if the parties hereto execute and deliver a related Loan Transfer Addendum for each such purchase of a portfolio substantially in the form set forth in Exhibit A hereto, and if the Seller executes and delivers to the Purchaser all documents required under Section 4 hereof as of the applicable Loan Transfer Date.

(b) Delivery and payment for the Transferred Loans shall take place at a location and on the Loan Transfer Date specified by the Purchaser.

(c) Subject to the terms and conditions of this Private Student Loan Purchase Agreement, the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) agrees to purchase the Transferred Loans being purchased hereunder at a price equal to the purchase price to be set forth in the applicable Loan Transfer Addendum, which purchase price is acknowledged by the Seller to be the fair market value, fair consideration and reasonably equivalent value in consideration of the sale of the Transferred Loans sold hereby and thereby, and the Purchaser Lender Trustee, on behalf of the Purchaser, agrees to accept legal title to the Transferred Loans sold to the Purchaser hereunder. The Seller shall continue due diligence servicing in compliance with the Program Manual, at the Seller's cost, up to the applicable Loan Transfer Date; thereafter, servicing shall be paid for by, and shall be the responsibility of, the Purchaser.

(d) The Seller shall provide such information regarding the Student Loans to be purchased hereunder as is requested by the Purchaser to evaluate such Student Loans.

Section 3. Representations, Warranties, Covenants and Agreements of the Seller.

(a) With respect to Student Loans sold to the Purchaser on a Loan Transfer Date, the Seller hereby makes the representations and warranties set forth in Exhibit E hereto as of such Loan Transfer Date.

(b) The Seller shall not organize under the law of any jurisdiction other than the state under which it is organized as of the initial Loan Transfer Date (whether changing its jurisdiction of organization or organizing under an additional jurisdiction) without giving 30 days' prior written notice of such action to the Purchaser. Before effecting such change, the Seller shall prepare and file in the appropriate filing office any financing statements, amendments thereto and continuations thereof or other statements necessary to continue the perfection of the Purchaser's and the Purchaser Lender Trustee's security interests in the Transferred Loans.

Section 4. Conditions of Purchase. The Purchaser's obligation to purchase and pay for the Student Loans hereunder as of any applicable Loan Transfer Date shall be subject to each of the following conditions precedent:

(a) All representations, warranties and statements by or on behalf of the Seller contained in this Private Student Loan Purchase Agreement shall be true and correct on the applicable Loan Transfer Date.

(b) The entire interest of the Seller in each Transferred Loan shall have been duly assigned by endorsement in the form set forth in Exhibit C hereto, such endorsement to be without recourse except as provided in Section 5 hereof.

(c) Physical custody and possession of the Transferred Loans (including all information and documentation which is described in the Seller's Closing Certificate as specified in Exhibit B hereof) shall be transferred in the manner directed by the Purchaser.

(d) Delivery by the Seller to the Purchaser on or before the applicable Loan Transfer Date of the following documentation: Seller's Closing Certificate in the form of Exhibit B hereto; blanket endorsement in the form of Exhibit C hereto; bill of sale in the form of Exhibit D hereto; if requested by the Purchaser, UCC-1 financing statements evidencing the transfer from the Seller to the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) (naming the Seller, as debtor, and the Purchaser and the Purchaser Lender Trustee, secured parties); UCC lien searches sufficiently in advance of the date hereof so as to permit review thereof by the Purchaser to its satisfaction, if requested by the Purchaser; and UCC termination statements or releases, if any, releasing any security interest granted by the Seller in any Transferred Loan.

(e) Delivery by the Seller to the Purchaser, prior to the Loan Transfer Date, of a fully executed and completed Loan Transfer Addendum substantially in the form of Exhibit A hereto with respect to Transferred Loans referred to in the bill of sale, and delivery of a Loan Transfer Schedule, as required in Section 2(a) hereof.

(f) Adequate funds being available to the Purchaser, together with other available funds of the Purchaser, to acquire the Transferred Loans being purchased under this Student Loan Purchase Agreement.

Section 5. Repurchase Obligation. If any representation or warranty set forth in Exhibit E hereto made or furnished by the Seller with respect to a Transferred Loan shall prove to

have been materially incorrect as of the date made, then the Seller shall, upon obtaining knowledge thereof, notify the Purchaser thereof, and the Seller shall within five (5) Business Days of a request by the Purchaser or the Purchaser Lender Trustee repurchase such Transferred Loan by paying to the Purchaser an amount (the "Repurchase Price") equal to [***]% of the then outstanding Principal Balance of such Transferred Loan, plus [***]% of all interest accrued and unpaid on such Transferred Loan and any attorneys' fees, legal expenses, court costs, servicing fees or other expenses incurred by the Purchaser, the Purchaser Lender Trustee or the appropriate successors or assigns in connection with such Transferred Loan.

Section 6. Notification to Obligors. The Seller, shall, to the extent required by applicable law, notify the Obligors of the Student Loans purchased hereunder of the assignment and transfer of the interest in such Student Loans to the Purchaser and the Purchaser Lender Trustee, acting on behalf of the Purchaser. The Seller shall direct each Obligor to make all payments thereon directly to the Purchaser or as it may otherwise designate.

Section 7. Obligations to Forward Payments and Communications.

(a) To the extent required by applicable law, the Seller shall promptly remit, or cause to be remitted, to the Purchaser all funds received by the Seller after the applicable Cut-Off Date which constitute payments of principal or interest accrued after the applicable Cut-Off Date with respect to any Transferred Loan.

(b) The Seller shall immediately transmit to the Purchaser any communication received by the Seller after the applicable Loan Transfer Date with respect to a Transferred Loan or the Obligor under such a Transferred Loan. Such communication shall include, but not be limited to, letters, notices of death or disability, adjudication of bankruptcy and similar documents and forms requesting deferment of repayment or loan cancellations.

Section 8. Payment of Expenses and Taxes. The Seller and Purchaser shall each pay their own expenses incurred in connection with the preparation, execution and delivery of this Private Student Loan Purchase Agreement and the transactions herein contemplated, including, but not limited to, the fees and disbursements of its counsel and its respective Lender Trustee and its Lender Trustee's counsel; provided, however, that Seller shall pay any transfer or other taxes and recording or filing fees payable in connection with the sale and purchase of the Transferred Loans.

Section 9. Indemnification. The Seller specifically acknowledges that the Purchaser will be making representations and warranties regarding the Transferred Loans based in part on the accuracy of the Seller's representations and warranties in this Private Student Loan Purchase Agreement. The Seller agrees to indemnify and save the Purchaser and the Purchaser Lender Trustee (together with each of their respective successors, assignees, officers, directors, agents and employees) harmless from and against any and all loss, liability, cost, damage or expense (including reasonable attorneys' fees, court costs and costs of litigation and any losses incurred in connection with the enforcement of this indemnification or any other obligation or the successful defense, in whole or part, of any claim that the Purchaser Lender Trustee breached its standard of care), incurred by reason of any breach of the Seller's warranties, representations or covenants hereunder or any false or misleading representations of the Seller or any failure to disclose any

matter which makes the warranties and representations herein misleading or any inaccuracy in any information furnished by the Seller in connection herewith, excluding, however, any loss attributable to credit or yield losses due to defaulted or delinquent Student Loans or which would otherwise constitute credit recourse; provided, however, it is understood that all risks relating to the collectability of Student Loans transferred to the Purchaser and the Purchaser Lender Trustee under this Private Student Loan Purchase Agreement are assumed by the Purchaser and the Purchaser Lender Trustee (in such capacity) and the aforesaid indemnity shall not be construed to cover such risks. This indemnity obligation shall survive the termination or assignment of this Private Student Loan Purchase Agreement or removal or resignation of the Purchaser Lender Trustee.

Section 10. Special Provisions Relating to the Transferred Loans.

(a) It is the intention of the Seller that the transfer from the Seller to the Purchaser constitutes a true sale to the Purchaser (with legal title to the Student Loans to be held by the Purchaser Lender Trustee, acting on behalf of the Purchaser) of the Transferred Loans and that neither the interest in nor title to the Transferred Loans shall continue to be or in the future be deemed property of the Seller for any purpose under applicable law. In the event, however, that it were determined by a court of competent jurisdiction that the transactions evidenced by this Private Student Loan Purchase Agreement constitute a loan and not a purchase and sale, the parties hereto intend that this Private Student Loan Purchase Agreement constitute a security agreement under applicable law and that the Seller shall be deemed to have granted, and do hereby grant, to the Purchaser and the Purchaser Lender Trustee a first priority perfected security interest in all of the Seller's right, title and interest, whether now owned or hereafter acquired, in, to and under all Transferred Loans. Additionally, in the event that any such transfer is deemed to be a transfer for security, notwithstanding the intention of the parties, each of the Seller and the Purchaser hereby represents that the remittance of the purchase price by the Purchaser to the Seller and each remittance of collections to the Purchaser hereunder will have been in payment of a debt incurred by the Seller in the ordinary course of business or financial affairs of the Seller and the Purchaser and made in the ordinary course of business of the Seller and the Purchaser. The Seller hereby authorizes the Purchaser and the Purchaser Lender Trustee to file UCC-1 financing statements, all amendments thereto and continuations thereof deemed necessary or appropriate by the Purchaser and the Purchaser Lender Trustee that identify the Seller as debtor and the Purchaser or the Purchaser Lender Trustee as secured party and describe the interests, rights and properties transferred hereunder, including, without limitation, the Transferred Loans, which UCC-1 financing statements may be assigned. Such financing statements and any amendments thereto may describe such interests, rights and properties or may indicate such interests, rights and properties as being of an equal or greater scope or with greater or lesser detail than as set forth in the definition of "Transferred Loans" (the terms of which shall be binding on the Seller). The preparation or filing of such UCC-l financing statements is solely for additional protection of the Purchaser's and the Purchaser Lender Trustee's interests in the Transferred Loans and shall not be deemed to contradict the express intent of the Seller, the Purchaser and the Purchaser Lender Trustee that the transfer of Transferred Loans under this Private Student Loan Purchase Agreement is an absolute sale and assignment of such Transferred Loans and is not a transfer of such Transferred Loans as security for a

debt. Notwithstanding the foregoing, the Purchaser shall file any necessary financing statements or continuation statements in connection with this Private Student Loan Purchase Agreement, and the Purchaser Lender Trustee shall have no responsibility for the filing of any financing statements or continuation statements in connection herewith.

(b) The Seller hereby represents and warrants that the Seller is "located" (for purposes of the applicable UCC) in the State of Nebraska and the Seller is duly formed as a corporation under the laws of the State of Nebraska.

(c) This Private Student Loan Purchase Agreement creates a valid and continuing security interest (as defined in the applicable Uniform Commercial Code in effect in the State of Nebraska) in the Transferred Loans in favor of the Purchaser, which security interest is prior to all other liens, charges, security interests, mortgages or other encumbrances, and is enforceable as such as against creditors of and purchasers from the Seller.

(d) The Transferred Loans constitute promissory notes, instruments or payment intangibles as provided by the Uniform Commercial Code as in effect in the State of Nebraska.

(e) The Seller hereby represents and warrants that immediately prior to the sale thereof hereunder the Seller owns and has good and marketable title to the Transferred Loans free and clear of any lien, charge, security interest, mortgage or other encumbrance, claim or encumbrance of any Person.

(f) The Seller hereby represents and warrants that the Seller has caused or will have caused, within ten (10) days, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the ownership and backup security interest in the Transferred Loans sold to the Purchaser and the Purchaser Lender Trustee hereunder.

(g) The Seller hereby represents and warrants that no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either (i) for the grant by the Seller of the security interest granted hereby or for the execution, delivery or performance of this Private Student Loan Purchase by the Seller or (ii) for the perfection of or the exercise by the Purchaser and the Purchaser Lender Trustee of its rights and remedies hereunder, other than the filing in the office of the Secretary of State of Nebraska, of a UCC financing statement describing the Transferred Loans and naming the Seller as debtor and the Purchaser and the Purchaser Lender Trustee as secured parties.

(h) The Seller hereby represents and warrants that all originally executed promissory notes (or authorized copies thereof in the case of electronically executed Student Loans) that constitute or evidence the Transferred Loans have been delivered to the Purchaser.

(i) The Seller hereby represents and warrants that other than security interests released on or prior to the date of sale hereunder and the security interest granted to the

Purchaser and the Purchaser Lender Trustee pursuant to this Private Student Loan Purchase Agreement, the Seller has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Transferred Loans. The Seller has not authorized the filing of and is not aware of any financing statements against the Seller that include a description of collateral covering the Transferred Loans other than any financing statement relating to the security interest granted to the Purchaser hereunder or that has been terminated. The Seller is not aware of any judgment or tax lien filings against the Seller.

(j) The representations and warranties set forth in this Section shall survive the termination of this Private Student Loan Purchase Agreement.

(k) The Purchaser shall not waive any of the representations and warranties set forth in this Section.

(l) The Purchaser hereby approves of and agrees to be bound by Obligor benefit or incentive programs and policies offered by the Seller or any prior owner of the Eligible Loans, and the Purchaser covenants to continue, following the Loan Transfer Date, to recognize and honor eligibility of those Obligors who are eligible for such benefits or incentives on Eligible Loans purchased hereunder.

Section 11. Other Provisions.

(a) The Seller shall, at its expense, furnish to the Purchaser and the Purchaser Lender Trustee such additional information concerning the Seller's Student Loan portfolio as the Purchaser or the Purchaser Lender Trustee may reasonably request.

(b) The Seller executes or causes to be executed all other documents and take all other steps as may be requested by the Purchaser or the Purchaser Lender Trustee from time to time to effect the sale hereunder of the Transferred Loans.

(c) This Private Student Loan Purchase Agreement, including the Exhibits hereto, sets forth the entire understanding among the parties hereto as to the subject matter set forth herein.

(d) The provisions of this Private Student Loan Purchase Agreement cannot be waived or modified unless such waiver or modification is in writing and signed by parties hereto. Inaction or failure to demand strict performance shall not be deemed a waiver.

(e) The provisions of this Private Student Loan Purchase Agreement shall be governed by and construed without regard to conflicts of law principles of the State of Nebraska.

(f) All covenants and agreements herein contained shall extend to and be obligatory upon all successors of the respective parties hereto.

(g) This Private Student Loan Purchase Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

(h) If any provision of this Private Student Loan Purchase Agreement shall be held to be, deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular situation, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other situation or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses or paragraphs herein contained shall not affect the remaining portions of this Private Student Loan Purchase Agreement or any part hereof.

(i) All notices, requests, demands or other instruments which may or are required to be given by any party to another party shall be in writing, and each shall be deemed to have been properly given when served personally on an officer of the party to whom such notice is given or upon expiration of a period of 48 hours from and after the postmark thereof when mailed, postage prepaid, by registered or certified mail, requesting return receipt, or when delivered by overnight courier, or when transmitted by facsimile and confirmed, addressed as follows:

if to the Purchaser: National Education Loan Network, Inc.
121 South 13th Street, Suite 100
Lincoln, Nebraska 68508
Attention: James D. Kruger
Telephone: (402) 458-2304
Facsimile: (402) 458-2399

and a copy to the
Purchaser Lender
Trustee: Union Bank and Trust Company
6801 S. 27th Street
Lincoln, Nebraska 68512
Attention: Jon Gross
Telephone: (402) 323-1184
Email: jon.gross@ubt.com

if to the Seller: Union Bank and Trust Company
4243 Pioneer Woods Drive
Lincoln, Nebraska 68506
Attention: Brad Crain
Telephone: (402) 323-1783
Email: brad.crain@ubt.com

Any party may change the address and name of the addressee to which subsequent notices are to be sent to it by notice to the others given as aforesaid, but any such notice of change, if sent by mail, shall not be effective until the fifth day after it is mailed.

(j) This Private Student Loan Purchase Agreement may not be terminated by the parties hereto except in the manner and with the effect herein specifically provided for.

(k) This Private Student Loan Purchase Agreement shall not be assignable by the Seller, in whole or in part, without the prior written consent of the Purchaser and the Purchaser Lender Trustee (upon request of the Purchaser). The Seller acknowledge that the Purchaser and, upon request of the Purchaser, the Purchaser Lender Trustee may assign or otherwise transfer, in whole or in part, any or all of the Transferred Loans or their respective interests in this Private Student Loan Purchase Agreement at any time without the consent of the Seller.

(l) No remedy by the terms of this Private Student Loan Purchase Agreement conferred upon or reserved to the Purchaser or the Purchaser Lender Trustee is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and in addition to every other remedy given under this Private Student Loan Purchase Agreement or existing at law or in equity, including, without limitation, the right to such equitable relief by way of injunction, or by statute on or after the date of this Private Student Loan Purchase Agreement.

(m) Acts to be taken by the Purchaser with respect to acquiring and holding title to Transferred Loans hereunder shall be taken by the Purchaser Lender Trustee as directed in writing by the Purchaser, and all references herein to the Purchaser shall incorporate by this reference the fact that the Purchaser Lender Trustee will be acquiring and holding legal title to Transferred Loans on behalf of the Purchaser.

(n) The Purchaser hereby directs the Purchaser Lender Trustee to enter into this Private Student Loan Purchase Agreement and to consent to, and accept delivery of, each Seller's Closing Certificate, bill of sale and blanket endorsement, substantially in the forms set forth as exhibits hereto. The Purchaser and the Seller each acknowledges that the rights, protections and indemnification provisions set forth in the Purchaser Lender Trustee Agreement apply to this Private Student Loan Purchase Agreement and that all actions and responsibilities of or by the Purchaser Lender Trustee pursuant to or contemplated by this Private Student Loan Purchase Agreement shall be subject to such rights, protections and indemnification provisions. The Purchaser and the Seller each acknowledge and agree that Union Bank and Trust, in its capacity as the Purchaser Lender Trustee, has entered into this Private Student Loan Purchase Agreement solely in its capacity as Purchaser Lender Trustee, and not in its individual capacity, pursuant to the Purchaser Lender Trustee Agreement. Accordingly, all recourse and remedies the Purchaser or the Seller may have hereunder shall be available only against the Purchaser or the Seller, as applicable, and not against the Purchaser Lender Trustee in its individual capacity.

Section 12. Amendment. The Purchaser and Seller, from time to time, may amend this Private Student Loan Purchase Agreement with the prior written consent of the Purchaser Lender Trustee (acting at the direction of the Purchaser), which consent shall not be unreasonably withheld, delayed or conditioned.

Section 13. No Petition. The parties hereto will not at any time institute against the Purchaser any bankruptcy proceeding under any United States federal or State bankruptcy or similar law in connection with any obligations of the Purchaser hereunder. This Section shall survive the termination of this Private Student Loan Purchase Agreement.

Section 14. Limited Recourse to the Purchaser. Notwithstanding anything to the contrary contained herein, except with respect to the purchase price of the Transferred Loans being purchased hereunder, all obligations of the Purchaser shall be payable by the Purchaser only to the extent of funds available therefor and, to the extent such funds are not available or are insufficient for the payment thereof, shall not constitute a claim against the Purchaser to the extent of such unavailability or insufficiency until such time as the Purchaser has assets sufficient to pay such prior deficiency. This Section shall survive the termination of this Private Student Loan Purchase Agreement.

Section 15. Consent to Jurisdiction; Jury Trial. Each of the parties hereto hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding in equity relating to this Private Student Loan Purchase Agreement or any documents executed and delivered in connection herewith, or for recognition and enforcement of any judgment in respect thereof, to the nonexclusive general jurisdiction of the courts of the State of Nebraska, the courts of the United States of America for the District of Nebraska and appellate courts from any thereof; and

(b) to the extent permitted by applicable law, each party hereto irrevocably waives all right of trial by jury in any action, proceeding or counterclaim based on, or arising out of, under or in connection with this Private Student Loan Purchase Agreement, any other Basic Document, or any matter arising hereunder or thereunder.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the day and year first above written.

NATIONAL EDUCATION LOAN NETWORK, INC., as the Purchaser

By /s/ DANA SCOTT
Title: AVP

UNION BANK AND TRUST COMPANY, in its individual capacity, as the Seller

By /s/ BRAD CRAIN
Title: SVP & CFO

UNION BANK AND TRUST COMPANY, not in its individual capacity but solely as Purchaser Lender Trustee

By /s/ JON GROSS
Title: SVP

[Signature Page to Private Student Loan Purchase Agreement]

EXHIBIT A

LOAN TRANSFER ADDENDUM

THIS LOAN TRANSFER ADDENDUM (the "Addendum") is made and entered into as of the ____ day of ____________, _____, by and among NATIONAL EDUCATION LOAN NETWORK, INC. (the "Purchaser") and UNION BANK AND TRUST COMPANY (the "Purchaser Lender Trustee"), as purchasers, and UNION BANK AND TRUST COMPANY, in its individual capacity (the "Seller"), as seller.

W I T N E S S E T H :

WHEREAS, the parties hereto entered into a Private Student Loan Purchase Agreement, dated as of __________________, 2019 (the "Private Student Loan Purchase Agreement"), and the Purchaser desires to purchase from the Seller certain Student Loans, legal title to which will be transferred from the Seller to the Purchaser Lender Trustee, on behalf of the Purchaser, and held by the Purchaser Lender Trustee, on behalf of the Purchaser, pursuant to the Purchaser Lender Trustee Agreement, and the Seller desires to sell certain Student Loans to the Purchaser, legal title to which will be transferred from the Seller to the Purchaser Lender Trustee, on behalf of the Purchaser, such transfers of Student Loans sometimes referred to herein generally as a purchase by the Purchaser (legal title to which will be held by the Purchaser Lender Trustee, on behalf of the Purchaser) or a sale by the Seller to the Purchaser (legal title to which will be held by the Purchaser Lender Trustee, on behalf of the Purchaser) pursuant to and in accordance with the terms and conditions of the Private Student Loan Purchase Agreement;

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

Section 1. Definitions. All capitalized terms in this Addendum shall have the same meanings given to them in the Private Student Loan Purchase Agreement, unless otherwise specifically stated herein.

Section 2. Purchase of Student Loans. Subject to the terms and conditions of the Private Student Loan Purchase Agreement and in reliance upon the representations, warranties and covenants as set forth in the Private Student Loan Purchase Agreement, on the Loan Transfer Date, the Seller hereby sells to the Purchaser (legal title to which will be held by the Purchaser Lender Trustee, on behalf of the Purchaser and as lender trustee under the Purchaser Lender Trustee Agreement), the Student Loans identified in the Loan Transfer Schedule attached hereto as purchased, having an aggregate outstanding Principal Balance of approximately $__________ (the "Current Purchased Portfolio"), each together with all promissory notes and related documentation evidencing the indebtedness represented by such Student Loans and all proceeds of the foregoing including, without limitation, all payments made after the Cut-Off Date by the Obligor thereunder or with respect thereto, and all rights to receive such payments, but excluding any proceeds of the sale made hereby (collectively, the "Transferred Loans").

Section 3. Payment of Purchase Price. Subject to the terms and conditions of the Private Student Loan Purchase Agreement, the Purchaser and the Purchaser Lender Trustee,

acting on behalf of the Purchaser, hereby purchase the Transferred Loans within the Current Portfolio (legal title to which will be held by the Purchaser Lender Trustee, on behalf of the Purchaser), at a purchase price equal to $__________, as of the Loan Transfer Date set forth in Section 4 hereof; the purchase price for the Current Portfolio is equal to the factor of [***]% multiplied by the outstanding Principal Balance of the Current Portfolio, plus [***]% of the accrued and unpaid interest thereon as of the Cut-Off Date.

Section 4. Loan Transfer Date; Cut-Off Date. The Loan Transfer Date shall be ____________ ____, _____. The Cut-Off Date shall be ____________ ____, _____.

Section 5. Representations and Warranties. With respect to the Current Portfolio and as of the Loan Transfer Date set forth in Section 4 hereof, each of the Seller and the Purchaser hereby reconfirms each of its representations and warranties set forth in the Private Student Loan Purchase Agreement and any exhibits attached thereto.

Section 6. Effect on Student Loan Purchase Agreement. This Addendum sets forth the terms of purchase and sale solely with respect to the Transferred Loans. This Addendum shall have no effect upon any other sale, purchase of any Student Loans or related property consummated or contemplated prior to or after the Loan Transfer Date, and all other terms, conditions and agreements contained in the Private Student Loan Purchase Agreement shall remain in full force and effect. Prior or subsequent purchases and sales of Student Loans shall each be governed by a separate Loan Transfer Addendum.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the day and year first above written.

NATIONAL EDUCATION LOAN NETWORK, INC., as the Purchaser

By _
Title: ________________________________

UNION BANK AND TRUST COMPANY, in its individual capacity, as the Seller

By _
Title: ________________________________

UNION BANK AND TRUST COMPANY, not in its individual capacity but solely as Purchaser Lender Trustee

By _
Title: _

LOAN TRANSFER SCHEDULE
TO LOAN TRANSFER ADDENDUM

[SET FORTH LIST OF LOANS PURCHASED, INCLUDING THE PRINCIPAL AMOUNTS THEREOF AND ACCRUED INTEREST THEREON]

EXHIBIT B

SELLER'S CLOSING CERTIFICATE

UNION BANK AND TRUST COMPANY, in its individual capacity (the "Seller") does hereby certify as of ___________ __, ____ that all representations, warranties and statements by or on behalf of the Seller contained in the Private Student Loan Purchase Agreement, dated as of ___________________, 2019 (the "Private Student Loan Purchase Agreement"), by and among the Seller and NATIONAL EDUCATION LOAN NETWORK, INC. (the "Purchaser") and its lender trustee, are true and correct on and as of the Loan Transfer Date, without exception or qualification whatsoever;

FURTHERMORE, the Seller does hereby certify that the following documents, where applicable to each Transferred Loan (as defined in the Private Student Loan Purchase Agreement, and all other capitalized terms used herein and not defined herein shall have the meaning assigned to such terms in the Private Student Loan Purchase Agreement) acquired under the Private Student Loan Purchase Agreement, have heretofore been furnished to the Purchaser or are simultaneously herewith delivered in accordance with the instructions of the Purchaser, pursuant to Section 4(d) of the Private Student Loan Purchase Agreement:

1. physical promissory note(s) for each originally executed Transferred Loan, and copies of the notes for electronically signed promissory notes;

2. disclosure and loan information statement;

3. any other documentation held by the Seller relating to the history of such Transferred Loan;

4. Uniform Commercial Code financing statement, if any, securing any interest in each Transferred Loan, and an executed termination statement related thereto; and

5. evidence of loan disbursement.

IN WITNESS WHEREOF, the undersigned has caused this Certificate to be executed and delivered by an officer hereunto duly authorized as of the Loan Transfer Date, the date first above written.

UNION BANK AND TRUST COMPANY, in its individual capacity, as the Seller

By _
Title: _

EXHIBIT C

BLANKET ENDORSEMENT OF STUDENT LOAN PROMISSORY NOTES

This Blanket Endorsement of Student Loan Promissory Notes is dated _________ __, ____. Pursuant to the Private Student Loan Purchase Agreement, dated as of ____________, 2019 (the "Private Student Loan Purchase Agreement"), among the parties referred to herein, the undersigned UNION BANK AND TRUST COMPANY, in its individual capacity (the "Seller"), by execution of this instrument, hereby endorse all promissory notes purchased by NATIONAL EDUCATION LOAN NETWORK, INC. (the "Purchaser") and UNION BANK AND TRUST COMPANY, as lender trustee for the Purchaser (the "Purchaser Lender Trustee"). This endorsement is in blank, unrestricted form. This endorsement is without recourse, except as provided under the terms of the Private Student Loan Purchase Agreement. All right, title and interest of the Seller in and to the promissory notes and related documentation identified in the attached loan ledger are transferred and assigned to the Purchaser and the Purchaser Lender Trustee, acting on behalf of the Purchaser, as described in the Private Student Loan Purchase Agreement.

This endorsement may be further manifested by attaching this instrument or a facsimile hereof to each or any of the promissory notes and related documentation acquired by the Purchaser (legal title to which will be held by the Purchaser Lender Trustee, on behalf of the Purchaser), from the Seller, or by attaching this instrument to the loan ledger schedule, as the Purchaser may require or deem necessary.

DATED AS OF ____________________, 20__

UNION BANK AND TRUST COMPANY, in its individual capacity, Seller

By: ________________________________

Title: ______________________________

Dated as of the date first above written.

UNION BANK AND TRUST COMPANY, in its individual capacity, as the Seller

By _
Title: _

EXHIBIT D

BILL OF SALE

EFFECTIVE AS OF __________ __, ____, FOR VALUE RECEIVED, UNION BANK AND TRUST COMPANY, in its individual capacity (the "Seller"), pursuant to the terms and conditions of a Private Student Loan Purchase Agreement, dated as of ______________________, 2019 (the "Private Student Loan Purchase Agreement"), by and among the Seller, NATIONAL EDUCATION LOAN NETWORK, INC. (the "Purchaser"), and UNION BANK AND TRUST COMPANY, solely in its capacity as lender trustee for the Purchaser (the "Purchaser Lender Trustee"), do hereby grant, sell, assign, transfer and convey to the Purchaser (legal title to which will be held by the Purchaser Lender Trustee, on behalf of the Purchaser), and their successors and assigns, all right, title and interest of the Seller, in and to the following:

1. The loans described in the Loan Transfer Schedule, attached hereto (the "Transferred Loans");

2. All promissory notes and related documentation evidencing the indebtedness represented by such Transferred Loans; and

3. All proceeds of the foregoing including, without limitation, all payments made after the applicable Cut-Off Date by the Obligor thereunder or with respect thereto, and all rights to receive such payments, but excluding any proceeds of the sale made hereby.

TO HAVE AND TO HOLD the same unto the Purchaser and the Purchaser Lender Trustee, acting on behalf of the Purchaser as described in the Private Student Loan Purchase Agreement, their successors and assigns, forever. This Bill of Sale is made pursuant to and is subject to the terms and provisions of the Private Student Loan Purchase Agreement, and is without recourse, except as provided in the Private Student Loan Purchase Agreement.

IN WITNESS WHEREOF, the Seller has caused this instrument to be executed by one of its officers duly authorized to be effective as of the date first above written.

UNION BANK AND TRUST COMPANY, in its individual capacity, as the Seller

By _

Title: _

EXHIBIT E

REPRESENTATIONS AND WARRANTIES OF SELLER

A. All information furnished by the Seller to the Purchaser, or the Purchaser's agents, with respect to a Transferred Loan, including the Loan Transfer Schedule attached to the Loan Transfer Addendum, is true, complete and correct in all material respects as of the Loan Transfer Date.

B. The amount of the unpaid Principal Balance of each Transferred Loan is due and owing, and no counterclaim, offset, defense or right to rescission exists with respect to any Transferred Loan which can be asserted and maintained or which, with notice or lapse of time could be asserted and maintained, by the Obligor against the Seller or the Purchaser or the Purchaser Lender Trustee, as assignees thereof. No Transferred Loan carries a rate of interest in excess of the applicable legal rate of interest in the jurisdiction governing the Transferred Loan.

C. Each Transferred Loan has been duly executed and delivered and constitutes the legal, valid and binding obligation of the maker (and the cosigner, if any) thereof, enforceable in accordance with its terms, subject to bankruptcy, insolvency and other laws relating to or affecting creditors' rights.

D. Each Transferred Loan complies in all material respects with the requirements of the Program Manual and is an Eligible Loan.

E. The Seller is the sole owner and holder of each Transferred Loan and has full right and authority to sell and assign the same free and clear of all liens, pledges or encumbrances other than the lien to be released on the Loan Transfer Date; no Transferred Loan has been pledged or assigned for any purpose (which has not been released); and each Transferred Loan is free of any and all liens, claims, encumbrances and security interests of any description. Upon the sale of each Transferred Loan under the Private Student Loan Purchase Agreement, the Purchaser and the Purchaser Lender Trustee, acting on behalf of the Purchaser as described in the Private Student Loan Purchase Agreement, acquire full right and interest in the Transferred Loans free and clear of all liens, claims or encumbrances.

F. Each Transferred Loan was made in compliance with all applicable local, state and federal laws, rules and regulations, including, without limitation, all applicable nondiscrimination, truth-in-lending, consumer credit and usury laws.

G. The Seller has, and its officers acting on its behalf have, full legal authority to engage in the transactions contemplated by the Private Student Loan Purchase Agreement; the execution and delivery of the Private Student Loan Purchase Agreement, the consummation of the transactions therein contemplated and compliance with the terms, conditions and provisions of the Private Student Loan Purchase Agreement do not conflict with or result in a breach of any of the terms, conditions or provisions of the organizational documents of the Seller, or any agreement or instrument to which the Seller is a party or by which it is bound or constitute a default thereunder; the Seller is not a party to or bound by any agreement or instrument or subject to any charter or other corporate restriction or judgment, order, writ, injunction, decree, law, rule or regulation which materially and adversely affects the ability of the Seller to perform

its obligations under the Private Student Loan Purchase Agreement and the Private Student Loan Purchase Agreement constitutes a valid and binding obligation of the Seller enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws relating to or affecting creditors' rights generally and court decisions with respect thereto, and no consent, approval or authorization is required in connection with the consummation of the transactions therein contemplated, except for those that have been obtained.

H. The Seller is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has the power and authority to own its assets and carry on its business as now being conducted.

I. Each Financed Eligible Loan is evidenced by an executed promissory note (which may be in electronic form), which note is a valid and binding obligation of the obligor, enforceable by or on behalf of the holder thereof in accordance with its terms, subject to bankruptcy, insolvency and other laws relating to or affecting creditors' rights.

J. The Seller does not (i) discriminate by pattern or practice against any particular class or category of students by requiring, as a condition to the receipt of a student loan, that a student or his family maintain a business relationship with the Seller, except as may be permitted under applicable laws or (ii) discriminate on the basis of race, sex, color, creed or national origin.

K. No promissory note evidencing a Transferred Loan bears any apparent evidence of forgery or alteration or is otherwise so irregular or incomplete as to call into question its authenticity.

L. Except as may have been disclosed by the UCC lien search, no other financing statements or assignment filings naming the Seller as debtor or assignor under its legal name or trade names has been filed.

M. The Seller is not transferring the Transferred Loans with an actual intent to hinder, delay or defraud any of its creditors.

N. The Transferred Loans sold by the Seller were not selected from Eligible Loans owned by the Seller in a manner so as to materially adversely affect the interests of the Purchaser.

Exhibit 21.1

List of Direct and Indirect Subsidiaries of Nelnet, Inc. as of December 31, 2019

	Name	Organized in	Relationship to Nelnet Inc.	Percentage Ownership
1	1867 Capital-1, LLC	Nebraska	Direct Subsidiary	100.0 %
2	1867-C2, LLC	Nebraska	Indirect Subsidiary	100.0 %
3	1867-Excelsior, LLC	Nebraska	Indirect Subsidiary	100.0 %
4	1867-NY1, LLC	Nebraska	Indirect Subsidiary	100.0 %
5	1867-RP, LLC	Nebraska	Indirect Subsidiary	100.0 %
6	5280 Solutions LLC (f/k/a Nelnet Technology Services LLC) (d/b/a Idaho Financial Associates, Charter Account Systems and 5280 Solutions)	Colorado	Indirect Subsidiary	100.0 %
7	ACM F Acquisition, LLC	Nebraska	Indirect Subsidiary	100.0 %
8	Community Development Opportunity Fund III, LLC	Nebraska	Indirect Subsidiary	100.0 %
9	Community Development Opportunity Fund IV, LLC	Nebraska	Indirect Subsidiary	100.0 %
10	Education Funding Capital I, LLC	Delaware	Indirect Subsidiary	100.0 %
11	EFS Finance Co., LLC	Nebraska	Indirect Subsidiary	100.0 %
12	FACTS Education Corporation	Nebraska	Indirect Subsidiary	100.0 %
13	FACTS Education Solutions, LLC (Previously known as Mind Streams Education, LLC)	Arizona	Indirect Subsidiary	100.0 %
14	FACTS Management AUS Pty Ltd.	Australia	Indirect Subsidiary	100.0 %
15	First National Life Insurance Company of the USA	Nebraska	Indirect Subsidiary	100.0 %
16	FM Systems, LLC d/b/a Tuition Management Systems, LLC	Delaware	Indirect Subsidiary	100.0 %
17	FP Sacramento, LLC	Nebraska	Indirect Subsidiary	100.0 %
18	Great Lakes Educational Loan Services, Inc.	Wisconsin	Indirect Subsidiary	100.0 %
19	GreatNet Solutions, LLC	Nebraska	Indirect Subsidiary	100.0 %
20	Merchant Preservation Services, LLC	Nebraska	Indirect Subsidiary	100.0 %
21	Municipal Tax Investment, LLC	Nebraska	Direct Subsidiary	100.0 %
22	Municipal Tax Property, LLC	Nebraska	Indirect Subsidiary	100.0 %
23	National Education Loan Network, Inc.	Nebraska	Direct Subsidiary	100.0 %
24	Nelnet Academic Services, LLC (f/k/a Nelnet Mentor, LLC)	Nebraska	Direct Subsidiary	100.0 %
25	Nelnet Bank, Inc.	Utah	Direct Subsidiary	100.0 %
26	Nelnet Business Solutions - Canada, Inc. (f/k/a Nelnet Canada, Inc.)	Canada	Indirect Subsidiary	100.0 %
27	Nelnet Business Solutions, Inc. (f/k/a FACTS Management Co.) (dba FACTS Management and infiNET Integrated Solutions)	Nebraska	Indirect Subsidiary	100.0 %
28	Nelnet Captive Insurance Company, Inc.	Delaware	Direct Subsidiary	100.0 %
29	Nelnet Consumer Finance, Inc.	Nebraska	Indirect Subsidiary	100.0 %
30	Nelnet Diversified Solutions, LLC (formerly NLS Holding Company, LLC)	Nebraska	Direct Subsidiary	100.0 %
31	Nelnet Education Loan Funding, Inc. (f/k/a NEBHELP, INC.)	Nebraska	Indirect Subsidiary	100.0 %
32	Nelnet FFELP Student Loan Warehouse-I, LLC	Delaware	Indirect Subsidiary	100.0 %
33	Nelnet Finance Corp.	Nebraska	Indirect Subsidiary	100.0 %

34		Nelnet Fund Management, LLC	Nebraska	Direct Subsidiary	100.0 %
35		Nelnet Loan Acquisition Corporation	Nebraska	Indirect Subsidiary	100.0 %
36		Nelnet Management Corporation-1 (formerly Nelnet Student Loan Warehouse Corporation – 1)	Nevada	Indirect Subsidiary	100.0 %
37		Nelnet Private Education Loan Funding, LLC	Delaware	Indirect Subsidiary	100.0 %
38		Nelnet Private Student Loan Financing Corporation	Nebraska	Indirect Subsidiary	100.0 %
39	*	Nelnet Private Student Loan Warehouse-2, LLC	Delaware	Indirect Subsidiary	100.0 %
40		Nelnet Private Student Loan Warehouse-I LLC	Delaware	Indirect Subsidiary	100.0 %
41		Nelnet Real Estate Ventures, LLC	Nebraska	Indirect Subsidiary	100.0 %
42		Nelnet Sales Co., LLC	Nebraska	Indirect Subsidiary	100.0 %
43		Nelnet Servicing, LLC	Nebraska	Indirect Subsidiary	100.0 %
44		Nelnet Solar, LLC	Nebraska	Direct Subsidiary	100.0 %
45		Nelnet Store, LLC	Nebraska	Indirect Subsidiary	100.0 %
46		Nelnet Student Loan Funding II Management Corporation	Nebraska	Indirect Subsidiary	100.0 %
47		Nelnet Student Loan Funding II, LLC	Delaware	Indirect Subsidiary	100.0 %
48		Nelnet Student Loan Funding III, LLC	Delaware	Indirect Subsidiary	100.0 %
49		Nelnet Student Loan Funding Management Corporation	Nevada	Indirect Subsidiary	100.0 %
50		Nelnet Student Loan Funding, LLC	Delaware	Indirect Subsidiary	100.0 %
51		Nelnet UNL Alliance, LLC (dba Union Financial Services, Inc.)	Nebraska	Direct Subsidiary	100.0 %
52		NHELP-II, LLC	Delaware	Indirect Subsidiary	100.0 %
53		NHELP-III, LLC	Delaware	Indirect Subsidiary	100.0 %
54		NTS - Renweb Jamaica, Ltd	Jamaica	Indirect Subsidiary	100.0 %
55		PaymentSpring, LLC	Nebraska	Indirect Subsidiary	100.0 %
56		Rally Workspace, LLC	Nebraska	Indirect Subsidiary	100.0 %
57		Unilink Data Systems Pty Ltd	Australia	Indirect Subsidiary	100.0 %
58		Wachovia Education Loan Funding LLC	Delaware	Indirect Subsidiary	100.0 %
59		C2 CT Fund 1 Holdings, LLC	Delaware	Indirect Subsidiary	99.0 %
60		GSPP NN Fund II, LLC	New York	Indirect Subsidiary	99.0 %
61		Kearsarge NYMA MT	Massachusetts	Direct Subsidiary	99.0 %
62		Nelnet B2B Services, LLC	Nebraska	Direct Subsidiary	99.0 %
63		NY CSG 2 Holdings, LLC	Delaware	Indirect Subsidiary	99.0 %
64		RenewProp Lessee I, LLC	Delaware	Indirect Subsidiary	99.0 %
65		Virgo Charlestown NY Holdco, LLC	Delaware	Direct Subsidiary	99.0 %
66		Virgo Skipjack Holdco, LLC	Delaware	Direct Subsidiary	99.0 %
67		Allo Communications, LLC	Nebraska	Direct Subsidiary	98.9 %
68		Allo Norfolk, LLC	Nebraska	Indirect Subsidiary	98.9 %
69		Duluth Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
70		Norcross Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
71		WPC-NN Atlanta Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
72		WPC-NN AZSI Acquisition, LLC	Delaware	Indirect Subsidiary	95.0 %
73		WPC-NN Flowing Wells, LLC	Delaware	Indirect Subsidiary	95.0 %
74		WPC-NN Grand Avenue Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
75		WPC-NN Lake Mary Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
76		WPC-NN Loop 410 Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
77		WPC-NN Perrin Beitel Storage, LLC	Delaware	Indirect Subsidiary	95.0 %

78	WPC-NN Portland Schmeer Storage, LLC	Delaware	Indirect Subsidiary	95.0 %
79	1st Source Solar 2, LLC	Delaware	Direct Subsidiary	90.0 %
80	1st Source Solar 3, LLC	Delaware	Direct Subsidiary	90.0 %
81	1st Source Solar 5, LLC	Delaware	Direct Subsidiary	90.0 %
82	Whitetail Rock Capital Management, LLC	Nebraska	Indirect Subsidiary	90.0 %
83	Whitetail Rock Fund Management, LLC	Nebraska	Indirect Subsidiary	90.0 %
84	Community Development Opportunity Fund I, LLC	Nebraska	Direct Subsidiary	89.4 %
85	SSI MN Tranche 1, LLC	Delaware	Indirect Subsidiary	89.1 %
86	Virgo KAM Holdco, LLC	Delaware	Indirect Subsidiary	89.1 %
87	Wenonah Holdings, LLC	Delaware	Indirect Subsidiary	89.1 %
88	WPC-NN Carlsbad Caribou Court, LLC	Delaware	Indirect Subsidiary	86.1 %
89	3430 FP Drive, LP	Delaware	Indirect Subsidiary	81.7 %
90	Aware3, LLC	Missouri	Direct Subsidiary	80.0 %
91	Community Development Opportunity Fund II, LLC	Nebraska	Direct Subsidiary	68.9 %
92	WPC-NN Chula 1-5 JV, LLC	Delaware	Indirect Subsidiary	65.0 %
93	GR Partners Harvest 960, LP	Pennsylvania	Indirect Subsidiary	59.3 %
94	151 Building, LLC	Nebraska	Indirect Subsidiary	50.0 %
95	330-333 Building Acquisition Corporation	Nebraska	Indirect Subsidiary	50.0 %
96	330-333 Building, LLC	Nebraska	Indirect Subsidiary	50.0 %
97	401 Building Acquisition Corporation	Nebraska	Indirect Subsidiary	50.0 %
98	401 Building LLC	Nebraska	Indirect Subsidiary	50.0 %
99	4600 Innovation Drive, LLC	Nebraska	Indirect Subsidiary	50.0 %
100	7200 WorldCom, LLC	Nebraska	Indirect Subsidiary	50.0 %
101	Atrium Building, LLC	Nebraska	Indirect Subsidiary	50.0 %
102	BenefitEd, LLC	Nebraska	Indirect Subsidiary	50.0 %
103	Canopy Park, LLC	Nebraska	Indirect Subsidiary	50.0 %
104	EADO, LLC	Nebraska	Indirect Subsidiary	50.0 %
105	Invite Education, LLC	Delaware	Direct Subsidiary	50.0 %
106	Lincoln Lodging, LLC	Nebraska	Indirect Subsidiary	50.0 %
107	Lincoln Workspace, LLC	Nebraska	Indirect Subsidiary	50.0 %
108	LT&T Collection LLC	Nebraska	Indirect Subsidiary	50.0 %
109	Lumberworks Lofts Acquisition Corporation	Nebraska	Indirect Subsidiary	50.0 %
110	Lumberworks Lofts, LLC	Nebraska	Indirect Subsidiary	50.0 %
111	NGWeb Solutions, LLC	Nebraska	Indirect Subsidiary	50.0 %
112	Telegraph Flats, LLC	Nebraska	Indirect Subsidiary	50.0 %
113	Telegraph Lofts East, LLC	Nebraska	Indirect Subsidiary	50.0 %
114	Timberline Suntree Associates, LLC	Kansas	Direct Subsidiary	50.0 %
115	West Haymarket Holding Company, LLC (f/k/a 4800 NW 1st Street, LLC)	Nebraska	Indirect Subsidiary	50.0 %
116	TDP Phase Three - NMTC, LLC	Nebraska	Indirect Subsidiary	25.0 %
117	TDP Phase Three, LLC	Nebraska	Indirect Subsidiary	25.0 %

Note: This list does not include Nelnet Student Loan Trusts utilized in asset backed security financings.

* Entity formed on January 9, 2020.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Nelnet, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-112374, 333-144790, 333-151991, 333-161814 and 333-230130) and on Form S-3 (No. 333-144789) of Nelnet, Inc. of our reports dated February 27, 2020, with respect to the consolidated balance sheets of Nelnet, Inc. and subsidiaries as of December 31, 2019 and 2018, 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, 2019, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2019 which reports appear in the December 31, 2019 annual report on Form 10-K of Nelnet, Inc.

/s/ KPMG LLP

Lincoln, Nebraska
February 27, 2020

Exhibit 31.1

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

I, Jeffrey R. Noordhoek, certify that:

1. I have reviewed this annual report on Form 10-K of Nelnet, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ JEFFREY R. NOORDHOEK

Jeffrey R. Noordhoek Chief Executive Officer
Principal Executive Officer

Exhibit 31.2

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

I, James D. Kruger, certify that:

1. I have reviewed this annual report on Form 10-K of Nelnet, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ JAMES D. KRUGER

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

Exhibit 32

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

In connection with the Annual Report of Nelnet, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 27, 2020

By: /s/ JEFFREY R. NOORDHOEK
Name: Jeffrey R. Noordhoek
Title: Chief Executive Officer
Principal Executive Officer

By: /s/ JAMES D. KRUGER
Name: James D. Kruger
Title: Chief Financial Officer
Principal Financial Officer and Principal Accounting Officer