Nelnet Reports Record Net Income Net Student Loan Assets Increase 29%

LINCOLN, Neb., Jul 29, 2004 /PRNewswire-FirstCall via COMTEX/ -- Nelnet, Inc. (NYSE: NNI) today reported year to date 2004 net income of $94.4 million or $1.76 per share compared to $17.9 million or $0.40 per share for the first six months of 2003. For the second quarter of 2004, net income of $85.3 million or $1.59 per share was recorded compared to $8.3 million or $0.19 per share a year ago. Nelnet's 2004 earnings per share increased more than 22% year to date and 68% for the second quarter as compared to 2003, exclusive of a special allowance yield adjustment and related expenses.

Net student loan assets have grown to $12.2 billion at June 30, 2004, an increase of $2.7 billion or 29% from a year ago. This represents a 17% increase from Nelnet's position at December 31, 2003.

"We had a great six months, and are particularly excited about our student loan growth," said Stephen Butterfield, Nelnet Vice Chairman and Co-CEO.

Two already announced items had a significant financial impact on Nelnet. Net interest income increased $130 million in the second quarter of 2004 as compared to last year. Included in net interest income for the second quarter of 2004 is $124 million related to an increase in yield of which $79 million was previously deferred at March 31, 2004.

Second, the U.S. Department of Education designated Nelnet with Exceptional Performance status. This designation eliminates the 2% risk share on student loans serviced by Nelnet and reduces required allowances for loan losses related to the company's federally insured loan portfolio.

"Our continued strong asset growth and operational excellence as highlighted by our Exceptional Performance designation are examples of our commitment to operate this business with focus on long term fundamental value," Butterfield continued.

Net interest income includes variable-rate floor income, or floor income generated by the annual reset of borrower rates on July 1, of $348,000 for the six months ended June 30, 2004. No variable-rate floor income was earned in the second quarter. For 2003, amounts include $12.7 million and $6.9 million of variable-rate floor income for the corresponding periods.

Amortization expense related to identifiable intangible assets amounted to $4.2 million and $2.1 million for the six months and quarter ended June 30, 2004, respectively. In 2003, amortization expense for the corresponding periods were $7.2 million and $3.5 million.

Included in the derivative market value adjustment and net settlements on the company's consolidated statement of income are gains in the fair value of derivative instruments of $548,000 year to date 2004 and $3.1 million for the second quarter 2004 and net settlement expense of $2.9 million year to date 2004 and $1.7 million for the second quarter 2004.

Nelnet will host a conference call to discuss this earnings release at 2:00 p.m. (Eastern) today. To access the call live, participants in the U.S. and Canada should dial 800.289.0544 and international callers should dial 913.981.5533 at least 15 minutes prior to the call. A live audio Web cast of the call will also be available at www.nelnetinvestors.net under the conference calls and Web casts menu. A replay of the conference call will be available between 5:00 p.m. (Eastern) today and 11:59 p.m. (Eastern) August 5. To access the replay via telephone within the U.S. and Canada, callers should dial 888.203.1112. International callers should dial 719.457.0820. All callers accessing the replay will need to use the confirmation code 656727. A replay of the audio Web cast will also be available at www.nelnetinvestors.net.

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

Nelnet is one of the leading education finance companies in the United States and is focused on providing quality student loan products and services to students and schools nationwide. With over $13 billion in total assets, Nelnet originates in excess of $3 billion for itself and its service partners annually, and its servicing software is used by approximately 35 clients, including Nelnet, to service nearly $50 billion in student loans. Nelnet ranks among the nation's leaders in terms of total student loan assets.

Nelnet offers a broad range of student loan and financial services and technology-based products, including student

loan origination and lending, guarantee servicing, and a suite of software solutions. Our products are designed to simplify the student loan process by automating financial aid delivery, loan processing, and funds disbursement. Our services help to facilitate and streamline education finance for all involved in the industry, including student and parent borrowers, lenders, financial aid officers, guaranty agencies, governmental agencies, servicers, and the capital markets.

Additional information is available at www.nelnet.net.

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

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Condensed Statements of Income and Financial Data

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(unaudited)			
	(dollars in thousands, except share data)			
Interest income:				
Loan interest, excluding variable rate floor income	$239,436	$99,982	$347,632	$199,991
Variable rate floor income	--	6,900	348	12,700
Amortization of loan premiums	(15,037)	(14,209)	(34,854)	(30,336)
Investment interest	3,181	5,343	6,832	9,268
Total interest income	227,580	98,016	319,958	191,623
Interest expense:				
Interest on bonds and notes payable	52,352	52,826	101,395	104,175
Net interest income	175,228	45,190	218,563	87,448
Less provision (recovery) for loan losses	(6,421)	2,450	(3,306)	4,860
Net interest income after provision (recovery) for loan losses	181,649	42,740	221,869	82,588
Other income:				
Loan servicing and other fee income	22,512	24,400	48,221	50,237
Software services and other income	5,029	4,471	10,607	9,111
Derivative market value adjustment and net settlements	1,357	--	(2,384)	--
Total other income	28,898	28,871	56,444	59,348
Operating expenses:				
Salaries and benefits	49,036	30,343	76,805	56,848
Other expenses	25,081	23,602	48,446	48,526

Amortization of intangible assets	2,079	3,500	4,157	7,196
Total operating expenses	76,196	57,445	129,408	112,570
Income before income taxes	134,351	14,166	148,905	29,366
Income tax expense	49,098	5,840	54,531	11,462
Net income	$85,253	$8,326	$94,374	$17,904
Earnings per share, basic and diluted	$1.59	$0.19	$1.76	$0.40
Weighted average shares outstanding	53,647,697	45,038,488	53,641,664	45,011,757

Condensed Balance Sheets and Financial Data

	As of June 30, 2004 (unaudited)	As of December 31, 2003	As of June 30, 2003 (unaudited)
	(dollars in thousands)		
Assets			
Student loans receivable, net	$12,194,097	$10,455,442	$9,466,523
Cash, cash equivalents and investments	908,087	1,155,215	659,874
Other assets	357,395	320,852	286,717
Total assets	$13,459,579	$11,931,509	$10,413,114
Liabilities and shareholders' equity			
Liabilities:			
Bonds and notes payable	$12,844,539	$11,366,458	$10,179,726
Other liabilities	214,058	259,562	106,199
Total liabilities	13,058,597	11,626,020	10,285,925
Shareholders' equity	400,982	305,489	127,189
Total liabilities and shareholders' equity	$13,459,579	$11,931,509	$10,413,114
Average student loans	$10,869,351	$9,451,035	$8,648,786
Return on average total assets	1.50%	0.25%	0.35%
Return on average equity	57.1%	19.4%	30.3%

SOURCE Nelnet, Inc.

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