



## Nelnet Reports Net Student Loan Assets Up 28 Percent Year-Over-Year

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

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

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

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

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

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

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

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

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

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

### Margin analysis

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

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

Nelnet's student loan portfolio.

#### Other revenue

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

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

#### Operating expenses

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

#### Reconciliation of GAAP Net Income to Base Net Income

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

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

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

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

(a) Tax effect computed at 38%.

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

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

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

Condensed Consolidated Statements of Income

	Three months ended September 30, 2005		Nine months ended September 30, 2005	
	2004	(unaudited)	2004	
	(dollars in thousands, except share data)			
Interest income:				
Loan interest, excluding variable- rate floor income	\$247,791	\$171,427	\$671,589	\$519,059
Variable-rate floor income	--	--	--	348
Amortization of loan premiums and deferred origination costs	(20,041)	(18,395)	(52,370)	(53,249)
Investment interest	11,491	4,918	26,643	11,750
Total interest income	239,241	157,950	645,862	477,908
Interest expense:				
Interest on bonds and notes payable	160,243	68,545	398,045	169,940
Net interest income	78,998	89,405	247,817	307,968
Less provision (recovery) for loan losses	1,402	2,300	5,557	(1,006)
Net interest income after provision (recovery) for loan losses	77,596	87,105	242,260	308,974
Other income (loss):				
Loan and guarantee servicing income	37,459	24,513	109,313	73,422
Other fee-based income	10,503	1,840	22,886	5,359
Software services income	1,951	1,849	6,759	5,521
Other income	2,458	4,356	5,382	7,084
Derivative market value adjustments	65,382	(39,757)	74,300	(39,209)
Derivative settlements, net	(2,962)	(16,457)	(19,049)	(19,389)
Total other income (loss)	114,791	(23,656)	199,591	32,788
Operating expenses:				
Salaries and benefits	44,311	25,060	123,615	101,865

Other expenses	32,705	24,167	95,936	72,613
Amortization of intangible assets	1,919	2,275	4,651	6,432
Total operating expenses	78,935	51,502	224,202	180,910
Income before income taxes	113,452	11,947	217,649	160,852
Income tax expense	41,091	4,310	78,974	58,841
Net income before minority interest	72,361	7,637	138,675	102,011
Minority interest in net earnings of subsidiaries	(229)	--	(229)	--
Net income	\$72,132	\$7,637	\$138,446	\$102,011
Earnings per share, basic and diluted	\$1.34	\$0.14	\$2.58	\$1.90
Weighted average shares outstanding	53,734,218	53,648,788	53,709,801	53,644,056

#### Condensed Consolidated Balance Sheets and Financial Data

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

Nelnet is one of the leading education finance companies in the United States and is focused on providing quality products and services to students and schools nationwide. Nelnet ranks among the nation's leaders in terms of total

net student loan assets with \$16.4 billion as of September 30, 2005. Headquartered in Lincoln, Nebraska, Nelnet originates, consolidates, securitizes, holds, and services student loans, principally loans originated under the Federal Family Education Loan Program of the U.S. Department of Education.

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

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

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**SOURCE** Nelnet, Inc.

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