Nelnet, Inc. supplemental financial information for the second quarter 2005

The following supplemental information should be read in connection with the second-quarter 2005 earnings press release of Nelnet, Inc. (the "Company"), dated July 28, 2005.

Statements in this supplemental financial information release, which refer to expectations as to future developments, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements contemplate risks, uncertainties, and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include among others, changes in, or arising from, the implementation of applicable laws and regulations or changes in laws and regulations affecting the education finance marketplace. Changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations, changes in the demand for educational financing, or in financing preferences of educational institutions, students and their families, and changes in the general interest rate environments, could also have a substantial impact on future results. Certain prior year amounts have been reclassified to conform to the current period presentation.

For more information see our filings with the Securities and Exchange Commission.

Non-GAAP Base Net Income

We prepare 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 income adjustments. While base net income is not a substitute for reported results under GAAP, we provide base net income as additional information regarding our financial results.

The following table provides a reconciliation of GAAP net income (loss) to base net income.

Base and GAAP net income (loss) includes approximately $25.9 million and $124.3 million of special allowance yield adjustments earned by the Company on its 9.5% floor loan portfolio for the three months ended June 30, 2005 and June 30, 2004, respectively, and $55.7 million and $124.3 million for the six months ended June 30, 2005 and June 30, 2004, respectively. This amount is offset by net settlements of approximately $5.5 million and $14.3 million on derivative products used to hedge the loan portfolio earning the excess yield for the three and six months ended June 30, 2005. There were no derivative instruments used to hedge the loan portfolio earning the excess yield for the three and six months ended June 30, 2004. The earnings per share effect of the excess yield, net of derivative settlements and taxes, is $0.24 and $1.44 for the three months ended June 30, 2005 and June 30, 2004, respectively, and $0.48 and $1.44 for the six months ended June 30, 2005 and June 30, 2004, respectively.

Our base net income is a non-GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The Company's base net income presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and base net income follows.

Derivative market value adjustments: Base net income excludes the periodic unrealized gains and losses caused by the change in market value on those derivatives in which the Company does not qualify for hedge accounting. The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative instruments that are primarily used as part of the Company's interest rate risk management strategy include interest rate swaps and basis swaps. Management has structured all of the Company's derivative transactions with the intent that each is economically effective. However, the majority of the Company's derivative instruments do not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and thus may adversely impact earnings.

Amortization of intangible assets: We exclude amortization of acquired intangibles in our base net income.

Variable-rate floor income: Loans that reset annually on July 1 can generate excess spread income as compared to the rate based on the special allowance payment formula in declining interest rate environments. We refer to this additional income as variable-rate floor income. Base net income excludes variable-rate floor income.

Student Loans Receivable

Student loans receivable includes all student loans owned by or on behalf of the Company and includes the unamortized cost of acquisition or origination less an allowance for loan losses. The following table describes the components of our loan portfolio:

The following table sets forth the loans originated or acquired through each of our channels:

Interest Rate Sensitivity

As a portion of the Company's student loan assets earn a fixed rate, management uses fixed-rate debt and interest rate swaps to reduce the economic effect of interest rate volatility. As of June 30, 2005, the Company had fixed-rate debt of $610 million (excluding the Company's unsecured debt of $275 million) and interest rate swaps with a net notional amount of $3.8 billion (excluding those interest rate swaps that expired on June 30, 2005 and July 1, 2005) which mature in varying amounts through 2013. The following table shows the Company's student loan assets currently earning at a fixed rate as of June 30, 2005:

Student Loan Servicing

The Company performs servicing activities for itself and third parties. The following table summarizes the Company's loan servicing volumes:

Student Loan Spread

The following table analyzes the student loan spread on our portfolio of student loans. This table represents the spread on assets earned in conjunction with the liabilities used to fund the assets, including the effects of net derivative settlements.