



Nelnet Reports \$3.5 Billion, or 28%, Student Loan Asset Growth; Record Consolidation Loan Activity

- Student loan assets up \$3.5 billion, or 28%, year over year - Consolidation loan applications received in June greater than the combined applications received for the first five months of the year - Base net income for the second quarter was \$0.58 per share

LINCOLN, Neb., July 28, 2005 /PRNewswire-FirstCall via COMTEX/ -- Nelnet, Inc. (NYSE: NNI) today reported base net income for the first six months of 2005 of \$62.5 million, or \$1.16 per share, compared with \$96.4 million, or \$1.80 per share, in the first six months of 2004. For the first six months of 2005, GAAP net income was \$66.3 million, or \$1.23 per share, compared to \$94.4 million, or \$1.76 per share, for the same period a year ago.

Base net income for the second quarter of 2005 was \$31.0 million, or \$0.58 per share, compared with \$84.6 million, or \$1.58 per share, in the second quarter of 2004. The company reported a second-quarter GAAP net loss of \$1.8 million, or \$0.03 per share, compared with GAAP net income of \$85.3 million, or \$1.59 per share, the year before.

The GAAP net loss for the quarter ended June 30, 2005, includes an unrealized loss in the fair-market value of derivative instruments of \$51.4 million. The majority of derivatives held by Nelnet 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.

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.

Net student loan assets at June 30, 2005 were \$15.7 billion, up more than 28 percent, or \$3.5 billion, from \$12.2 billion at June 30, 2004. Since December 31, 2004, student loan assets have increased more than 16 percent, or \$2.2 billion, from \$13.5 billion.

Nelnet's direct-to-consumer channel experienced a record level of activity in the second quarter of 2005 as borrowers completed student loan consolidation applications before the interest rate increase on July 1. The company reported net new consolidation loan originations, meaning those acquired from other holders, of \$404.3 million for the second quarter of 2005 and received a record number of consolidation loan applications in June, the majority of which will fund in the third quarter. The number of applications received in the single month of June was greater than the total number of applications received in the first five months of the year.

"The results from the first half of 2005 reflect the momentum of our business," said Steve Butterfield, Nelnet Vice Chairman and Co-Chief Executive Officer. "Student loan asset growth is the primary driver of our earnings and continues to be robust, while the integration of acquisitions diversifies our revenue streams and enhances our product offerings to schools and students."

Margin Analysis

Net interest income for the first six months of 2005 was \$168.8 million compared to \$218.6 million for the first six months of 2004. For the second quarter of 2005, Nelnet reported net interest income of \$82.0 million compared to \$175.2 million for the second quarter of 2004. The second quarter 2005 net interest income includes a special allowance yield adjustment of \$25.9 million, down from \$124.3 million in the same period a year ago, of which a portion had been previously deferred.

The company reported core student loan spread of 1.58 percent for the first six months of 2005 compared with 1.72 percent in the same period in 2004 and 1.50 percent for the second quarter of 2005 compared with 1.79 percent in the same period of 2004. The margin compression was attributable to higher short-term variable interest rates and an increase in lower-yield consolidation loans in the company's student loan portfolio. The impact of the margin compression was partially offset by the use of derivative products to hedge the majority of Nelnet's student loan portfolio earning at fixed rates.

Other Revenue

Income from loan and guarantee servicing fees reached \$71.9 million for the first six months of 2005, up from \$48.9 million in the first six months of 2004. In the second quarter of 2005, loan and guarantee servicing income grew to

\$34.7 million from \$22.8 million in the second quarter of 2004. The increase is attributable to the acquisition of EDULINX.

Other fee-based income increased to \$12.4 million for the first six months of 2005 compared to \$3.5 million for the first six months of 2004. For the second quarter of 2005 other fee-based income increased to \$9.0 million, up from \$1.6 million in the same period a year ago. Recent acquisitions contributed to the increase.

Operating Expenses

For the first six months of 2005, the company reported operating expenses of \$145.3 million compared to \$129.4 million for the first six months of 2004. Operating expenses decreased to \$73.9 million in the second quarter of 2005 from \$76.2 million for the same period a year ago.

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 are referred to as base income adjustments. While base net income is not a substitute for reported results under GAAP, Nelnet provides base net income as additional information regarding the company's financial results.

Nelnet's 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(dollars in thousands, except share data)			
GAAP net income (loss)	\$(1,773)	\$85,253	\$66,314	\$94,374
Base adjustments:				
Derivative market value adjustments	51,372	(3,075)	(8,918)	(548)
Amortization of intangible assets	1,559	2,079	2,732	4,157
Variable-rate floor income	--	--	--	(348)
Total base adjustments before income taxes	52,931	(996)	(6,186)	3,261
Net tax effect (a)	(20,114)	379	2,351	(1,239)
Total base adjustments	32,817	(617)	(3,835)	2,022
Base net income	\$31,044	\$84,636	\$62,479	\$96,396
Base earnings per share, basic and diluted	\$0.58	\$1.58	\$1.16	\$1.80

(a) Tax effect computed at 38%.

Nelnet will host a conference call to discuss this earnings release at 1:00 p.m. (Eastern) today. To access the call live, participants in the United States and Canada should dial 800.310.7032 and international callers should dial 719.457.2694 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 4:00 p.m. (Eastern) today and 11:59 p.m. (Eastern) August 5. 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 4818791. 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>.

Condensed Consolidated Statements of Operations

Three months ended June 30,	Six months ended June 30,
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	2005	2004	2005	2004
		(unaudited)		
	(dollars in thousands, except share data)			
Interest income:				
Loan interest, excluding variable- rate floor income	\$223,691	\$239,436	\$423,798	\$347,632
Variable-rate floor income	--	--	--	348
Amortization of loan premiums and deferred origination costs	(16,547)	(15,037)	(32,329)	(34,854)
Investment interest	8,150	3,181	15,152	6,832
Total interest income	215,294	227,580	406,621	319,958
Interest expense:				
Interest on bonds and notes payable	133,277	52,352	237,802	101,395
Net interest income	82,017	175,228	168,819	218,563
Less provision (recovery) for loan losses	2,124	(6,421)	4,155	(3,306)
Net interest income after provision (recovery) for loan losses	79,893	181,649	164,664	221,869
Other income:				
Loan and guarantee servicing income	34,678	22,846	71,854	48,909
Other fee-based income	9,027	1,630	12,383	3,519
Software services income	2,602	1,780	4,808	3,672
Other income	1,524	1,285	2,924	2,728
Derivative market value adjustments	(51,372)	3,075	8,918	548
Derivative settlements, net	(6,001)	(1,718)	(16,087)	(2,932)
Total other income (loss)	(9,542)	28,898	84,800	56,444
Operating expenses:				
Salaries and benefits	39,977	49,036	79,304	76,805
Other expenses	32,343	25,081	63,231	48,446
Amortization of intangible assets	1,559	2,079	2,732	4,157
Total operating expenses	73,879	76,196	145,267	129,408
Income (loss) before income taxes	(3,528)	134,351	104,197	148,905
Income tax expense (benefit)	(1,755)	49,098	37,883	54,531
Net income (loss)	\$ (1,773)	\$85,253	\$66,314	\$94,374
Earnings (loss) per share, basic and diluted	\$ (0.03)	\$1.59	\$1.23	\$1.76

Weighted average
 shares outstanding 53,712,048 53,647,697 53,697,390 53,641,664

Condensed Consolidated Balance Sheets and Financial Data

	As of June 30, 2005 (unaudited) (dollars in thousands)	As of December 31, 2004	As of June 30, 2004 (unaudited)
Assets:			
Student loans receivable, net	\$15,661,315	\$13,461,814	\$12,194,097
Cash, cash equivalents, and investments	1,110,109	1,302,954	899,987
Other assets	537,479	395,237	365,495
Total assets	\$17,308,903	\$15,160,005	\$13,459,579
Liabilities:			
Bonds and notes payable	\$16,580,078	\$14,300,606	\$12,844,539
Other liabilities	205,155	403,224	214,058
Total liabilities	16,785,233	14,703,830	13,058,597
Shareholders' equity	523,670	456,175	400,982
Total liabilities and shareholders' equity	\$17,308,903	\$15,160,005	\$13,459,579
Return on average total assets	0.82%	1.11%	1.50%
Return on average equity	26.0%	39.7%	57.1%

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 \$15.7 billion as of June 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.

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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