

NELNET INC  
Form 10-Q  
May 08, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

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

(State or other jurisdiction of incorporation or organization)

84-0748903

(I.R.S. Employer Identification No.)

121 SOUTH 13TH STREET

LINCOLN, NEBRASKA

(Address of principal executive offices)

(402) 458-2370

(Registrant's telephone number, including area code)

68508

(Zip Code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 30, 2014, there were 35,018,015 and 11,491,932 shares of Class A Common Stock and Class B Common Stock, par value \$0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by wholly owned subsidiaries).

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share data)  
(unaudited)

	As of March 31, 2014	As of December 31, 2013
Assets:		
Student loans receivable (net of allowance for loan losses of \$54,628 and \$55,122, respectively)	\$25,607,143	25,907,589
Cash and cash equivalents:		
Cash and cash equivalents - not held at a related party	18,374	8,537
Cash and cash equivalents - held at a related party	88,728	54,730
Total cash and cash equivalents	107,102	63,267
Investments	166,201	192,040
Restricted cash and investments	705,889	735,123
Restricted cash - due to customers	180,469	167,576
Accrued interest receivable	305,672	314,553
Accounts receivable (net of allowance for doubtful accounts of \$2,556 and \$3,845, respectively)	62,423	56,072
Goodwill	117,118	117,118
Intangible assets, net	9,089	6,132
Property and equipment, net	33,302	33,829
Other assets	128,597	115,043
Fair value of derivative instruments	64,002	62,507
Total assets	\$27,487,007	27,770,849
Liabilities:		
Bonds and notes payable	\$25,589,287	25,955,289
Accrued interest payable	22,338	21,725
Other liabilities	164,692	164,300
Due to customers	180,469	167,576
Fair value of derivative instruments	16,547	17,969
Total liabilities	25,973,333	26,326,859
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 35,019,924 shares and 34,881,338 shares, respectively	350	349
Class B, convertible, \$0.01 par value. Authorized 60,000,000 shares; issued and outstanding 11,491,932 shares and 11,495,377 shares, respectively	115	115
Additional paid-in capital	27,138	24,887

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Retained earnings	1,482,637	1,413,492
Accumulated other comprehensive earnings	2,679	4,819
Total Nelnet, Inc. shareholders' equity	1,512,919	1,443,662
Noncontrolling interest	755	328
Total equity	1,513,674	1,443,990
Total liabilities and equity	\$27,487,007	27,770,849

Supplemental information - assets and liabilities of consolidated variable interest entities:

Student loans receivable	\$25,716,871	26,020,629
Restricted cash and investments	704,370	732,771
Fair value of derivative instruments	36,795	36,834
Other assets	303,511	313,748
Bonds and notes payable	(25,909,892)	) (26,244,222 )
Other liabilities	(287,703)	) (303,142 )
Net assets of consolidated variable interest entities	\$563,952	556,618

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share data)  
(unaudited)

	Three months ended March 31,	
	2014	2013
Interest income:		
Loan interest	\$156,896	155,539
Investment interest	1,979	1,617
Total interest income	158,875	157,156
Interest expense:		
Interest on bonds and notes payable	60,004	58,358
Net interest income	98,871	98,798
Less provision for loan losses	2,500	5,000
Net interest income after provision for loan losses	96,371	93,798
Other income (expense):		
Loan and guaranty servicing revenue	64,757	55,601
Tuition payment processing and campus commerce revenue	25,235	23,411
Enrollment services revenue	22,011	28,957
Other income	18,131	9,416
Gain on sale of loans and debt repurchases	39	1,407
Derivative market value and foreign currency adjustments and derivative settlements, net	(4,265	) 1,072
Total other income	125,908	119,864
Operating expenses:		
Salaries and benefits	52,484	47,905
Cost to provide enrollment services	14,475	19,642
Depreciation and amortization	4,783	4,377
Other	35,627	34,941
Total operating expenses	107,369	106,865
Income before income taxes	114,910	106,797
Income tax expense	40,611	38,447
Net income	74,299	68,350
Net income attributable to noncontrolling interest	513	271
Net income attributable to Nelnet, Inc.	\$73,786	68,079
Earnings per common share:		
Net income attributable to Nelnet, Inc. shareholders - basic and diluted	\$1.59	1.46
Weighted average common shares outstanding - basic and diluted	46,527,917	46,658,031

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Dollars in thousands)  
(unaudited)

	Three months ended March 31,	
	2014	2013
Net income	\$74,299	68,350
Other comprehensive income:		
Available-for-sale securities:		
Unrealized holding gains arising during period, net of losses	3,675	4,520
Less reclassification adjustment for gains recognized in net income, net of losses	(7,073)	(957)
Income tax effect	1,258	(1,326)
Total other comprehensive (loss) income	(2,140)	2,237
Comprehensive income	72,159	70,587
Comprehensive income attributable to noncontrolling interest	513	271
Comprehensive income attributable to Nelnet, Inc.	\$71,646	70,316

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except share data)

(unaudited)

	Nelnet, Inc. Shareholders		Class A Preferred stock shares	Class B Common stock shares	Class A Common stock	Class B Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings	Noncontrolling interest	Total equity
	Common stock shares Class A	Common stock shares Class B									
Balance as of December 31, 2012	— 35,116,913	11,495,377	\$—	351	115	32,540	1,129,389	2,813	5	1,165,213	
Issuance of noncontrolling interest	—	—	—	—	—	—	—	—	5	5	
Net income	—	—	—	—	—	—	68,079	—	271	68,350	
Other comprehensive income	—	—	—	—	—	—	—	2,237	—	2,237	
Cash dividends on Class A and Class B common stock - \$0.10 per share	—	—	—	—	—	—	(4,646 )	—	—	(4,646 )	
Issuance of common stock, net of forfeitures	— 125,963	—	—	1	—	1,272	—	—	—	1,273	
Compensation expense for stock based awards	—	—	—	—	—	676	—	—	—	676	
Repurchase of common stock	— (213,535 )	—	—	(2 )	—	(6,702 )	—	—	—	(6,704 )	
Balance as of March 31, 2013	— 35,029,341	11,495,377	\$—	350	115	27,786	1,192,822	5,050	281	1,226,404	
Balance as of December 31, 2013	— 34,881,338	11,495,377	\$—	349	115	24,887	1,413,492	4,819	328	1,443,990	
Issuance of noncontrolling interest	—	—	—	—	—	—	—	—	201	201	
Net income	—	—	—	—	—	—	73,786	—	513	74,299	
Other comprehensive loss	—	—	—	—	—	—	—	(2,140 )	—	(2,140 )	
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(287 )	(287 )	

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Cash dividends on Class A and Class B common stock - \$0.10 per share	—	—	—	—	—	(4,641 )	—	—	(4,641 )		
Issuance of common stock, net of forfeitures	—	155,705	—	—	2	—	2,244	—	2,246		
Compensation expense for stock based awards	—	—	—	—	—	875	—	—	875		
Repurchase of common stock	—	(20,564 )	—	—	(1 )	—	(868 )	—	(869 )		
Conversion of common stock	—	3,445	(3,445 )	—	—	—	—	—	—		
Balance as of March 31, 2014	—	35,019,924	11,491,932	\$—	350	115	27,138	1,482,637	2,679	755	1,513,674

See accompanying notes to consolidated financial statements.

NELNET, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three months ended March 31,	
	2014	2013
Net income attributable to Nelnet, Inc.	\$73,786	68,079
Net income attributable to noncontrolling interest	513	271
Net income	74,299	68,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt discounts and student loan premiums and deferred origination costs	21,999	20,079
Student loan discount accretion	(10,023 )	(9,075 )
Provision for loan losses	2,500	5,000
Derivative market value adjustment	(2,916 )	19,507
Foreign currency transaction adjustment	952	(28,763 )
Gain on sale of loans	—	(33 )
Gain from debt repurchases	(39 )	(1,374 )
Gain from sales of available-for-sale securities, net	(7,073 )	(957 )
Deferred income tax expense	2,497	4,874
Purchases of trading investments, net	(731 )	—
Other	2,285	(355 )
Decrease in accrued interest receivable	8,881	2,341
Increase in accounts receivable	(5,758 )	(9,601 )
Decrease in other assets	1,303	293
Increase in accrued interest payable	613	1,091
(Decrease) increase in other liabilities	(185 )	13,614
Net cash provided by operating activities	88,604	84,991
Cash flows from investing activities:		
Purchases of student loans	(385,963 )	(758,508 )
Purchase of student loans from a related party	(137 )	—
Net proceeds from student loan repayments, claims, capitalized interest, participations, and other	686,908	688,387
Proceeds from sale of student loans	—	11,284
Purchases of available-for-sale securities	(69,930 )	(86,776 )
Proceeds from sales of available-for-sale securities	99,799	13,405
Purchases of other investments, net	(14,467 )	—
Purchases of property and equipment, net	(3,146 )	(2,778 )
Decrease in restricted cash and investments, net	29,356	695
Business acquisition, net of cash acquired	(1,909 )	—
Net cash provided by (used in) investing activities	340,511	(134,291 )
Cash flows from financing activities:		
Payments on bonds and notes payable	(1,347,517 )	(2,244,266 )
Proceeds from issuance of bonds and notes payable	972,384	2,295,865
Payments of debt issuance costs	(4,700 )	(7,093 )
Dividends paid	(4,641 )	(4,646 )
Repurchases of common stock	(869 )	(6,704 )
Proceeds from issuance of common stock	149	174

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Issuance of noncontrolling interest	201	5
Distribution to noncontrolling interest	(287	) —
Net cash (used in) provided by financing activities	(385,280	) 33,335
Net increase (decrease) in cash and cash equivalents	43,835	(15,965 )
Cash and cash equivalents, beginning of period	63,267	66,031
Cash and cash equivalents, end of period	\$107,102	50,066
Cash disbursements made for:		
Interest	\$48,750	48,696
Income taxes, net of refunds	\$13,378	5,489

See accompanying notes to consolidated financial statements.

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## NELNET, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of March 31, 2014 and for the three months ended

March 31, 2014 and 2013 is unaudited)

(Dollars in thousands, except per share amounts, unless otherwise noted)

## 1. Basis of Financial Reporting

The accompanying unaudited consolidated financial statements of Nelnet, Inc. and subsidiaries (the "Company") as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2013 and, in the opinion of the Company's management, the unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results for the year ending December 31, 2014. The unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Annual Report").

## 2. Student Loans Receivable and Allowance for Loan Losses

Student loans receivable consisted of the following:

	As of March 31, 2014	As of December 31, 2013
Federally insured loans		
Stafford and other	\$6,606,814	6,686,626
Consolidation	19,138,841	19,363,577
Total	25,745,655	26,050,203
Non-federally insured loans	68,540	71,103
	25,814,195	26,121,306
Loan discount, net of unamortized loan premiums and deferred origination costs (a)	(152,424	) (158,595
Allowance for loan losses – federally insured loans	(42,909	) (43,440
Allowance for loan losses – non-federally insured loans	(11,719	) (11,682
	\$25,607,143	25,907,589

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 (a) based on current information and changes in expectations to determine the need for any additional allowance for loan losses. At March 31, 2014 and December 31, 2013, "loan discount, net of unamortized loan premiums and deferred origination costs" included \$20.0 million and \$20.2 million, respectively, of non-accretable discount associated with purchased loans.

## Activity in the Allowance for Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance appropriate to absorb losses, net of recoveries, inherent in the portfolio of student loans. Activity in the allowance for loan losses is shown below.

	Three months ended March 31,	
	2014	2013
Balance at beginning of period	\$55,122	51,902
Provision for loan losses:		
Federally insured loans	3,000	6,000
Non-federally insured loans	(500)	(1,000)
Total provision for loan losses	2,500	5,000
Charge-offs:		
Federally insured loans	(3,631)	(5,990)
Non-federally insured loans	(421)	(772)
Total charge-offs	(4,052)	(6,762)
Recoveries - non-federally insured loans	371	368
Purchase (sale) of federally insured loans, net	100	(2,218)
Transfer from repurchase obligation related to non-federally insured loans repurchased, net	587	1,119
Balance at end of period	\$54,628	49,409
Allocation of the allowance for loan losses:		
Federally insured loans	\$42,909	37,913
Non-federally insured loans	11,719	11,496
Total allowance for loan losses	\$54,628	49,409

## Repurchase Obligations

As of March 31, 2014, the Company had participated a cumulative amount of \$119.6 million (par value) of non-federally insured loans to third parties. Loans participated under these agreements have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included in the Company's consolidated balance sheets. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests in the event such loans become 60 or 90 days delinquent.

In addition, in 2011, the Company sold a portfolio of non-federally insured loans for proceeds of \$91.3 million (100% of par value). The Company retained credit risk related to this portfolio and will pay cash to purchase back any loans which become 60 days delinquent. As of March 31, 2014, the balance of this portfolio was \$61.1 million (par value).

The Company's estimate related to its obligation to repurchase these loans is included in "other liabilities" in the Company's consolidated balance sheets. The activity related to this accrual is detailed below.

	Three months ended March 31,	
	2014	2013
Beginning balance	\$16,143	16,130
Loans repurchased	(730)	(1,119)
Ending balance	\$15,413	15,011



## 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 percent of non-federally insured loans that were delinquent 31 days or greater as of March 31, 2014, December 31, 2013, and March 31, 2013 was 12.8 percent, 12.7 percent, and 20.5 percent, respectively. The table below shows the Company's federally insured student loan delinquency amounts.

## Rehabilitation Loans and Delinquent Loans Funded in FFELP Warehouse Facilities

Rehabilitation loans are student loans that have previously defaulted, but for which the borrower has made a specified number of on-time payments. Although rehabilitation loans benefit from the same guarantees as other federally insured student loans, rehabilitation loans have generally experienced re-default rates that are higher than default rates for federally insured student loans that have not previously defaulted. The Company has purchased a significant amount of rehabilitation loans. Upon purchase, these loans are recorded at fair value, which generally approximates the federal guarantee rate under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP"). As such, there is minimal credit risk related to rehabilitation loans purchased; therefore, these loans are presented separately in the following delinquency tables.

In addition, the Company has purchased delinquent federally insured loans that are funded in the Company's FFELP warehouse facilities. Upon purchase, these loans are recorded at fair value, which generally approximates the federal guarantee rate. As such, there is minimal credit risk related to these loans. Loans delinquent 121 days or greater and funded in the Company's FFELP warehouse facilities are included with rehabilitation loans purchased in the following delinquency tables.

	As of March 31, 2014		As of December 31, 2013		As of March 31, 2013			
Federally insured loans, excluding rehabilitation loans:								
Loans in-school/grace/deferment	\$2,617,628		\$2,618,390		\$2,933,416			
Loans in forbearance	2,797,432		2,954,495		2,890,574			
Loans in repayment status:								
Loans current	15,293,299	87.2	% 15,251,869	86.1	% 14,501,802	87.8	%	
Loans delinquent 31-60 days	669,238	3.8	768,600	4.3	621,296	3.8		
Loans delinquent 61-90 days	407,779	2.3	426,089	2.5	409,209	2.5		
Loans delinquent 91-120 days	252,413	1.4	281,991	1.6	241,113	1.5		
Loans delinquent 121-270 days	640,214	3.7	712,204	4.0	512,875	3.1		
Loans delinquent 271 days or greater	272,159	1.6	269,066	1.5	211,461	1.3		
Total loans in repayment	17,535,102	100.0	% 17,709,819	100.0	% 16,497,756	100.0	%	
Total federally insured loans, excluding rehabilitation loans	\$22,950,162		\$23,282,704		\$22,321,746			
Rehabilitation loans:								
Loans in-school/grace/deferment	\$261,754		\$254,115		\$213,101			
Loans in forbearance	416,206		415,530		394,733			
Loans in repayment status:								
Loans current	1,205,261	56.9	% 1,086,053	51.8	% 877,800	42.4	%	
Loans delinquent 31-60 days	163,143	7.7	198,718	9.5	138,249	6.7		
Loans delinquent 61-90 days	114,920	5.4	124,244	5.9	109,129	5.3		
Loans delinquent 91-120 days	91,730	4.3	108,800	5.2	121,468	5.9		

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Loans delinquent 121-270 days	344,434	16.3	405,732	19.3	573,054	27.7
Loans delinquent 271 days or greater	198,045	9.4	174,307	8.3	249,011	12.0
Total loans in repayment	2,117,533	100.0 %	2,097,854	100.0 %	2,068,711	100.0 %
Total rehabilitation loans	2,795,493		2,767,499		2,676,545	
Total federally insured loans	\$25,745,655		\$26,050,203		\$24,998,291	

## 3. Bonds and Notes Payable

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

	As of March 31, 2014		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	\$23,780,072	0.24% - 6.90%	5/25/18 - 8/26/52
Bonds and notes based on auction or remarketing	1,132,900	0.07% - 2.18%	5/1/28 - 11/26/46
Total variable-rate bonds and notes	24,912,972		
FFELP warehouse facilities	772,435	0.16% - 0.24%	1/17/16 - 9/30/16
Unsecured line of credit	—	—	3/28/18
Unsecured debt - Junior Subordinated Hybrid Securities	96,457	3.61%	9/15/61
Other borrowings	61,374	1.65% - 5.10%	8/11/14 - 11/11/15
	25,843,238		
Discount on bonds and notes payable	(253,951 )		
Total	\$25,589,287		
	As of December 31, 2013		
	Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes issued in asset-backed securitizations:			
Bonds and notes based on indices	\$23,479,893	0.25% - 6.90%	5/25/18 - 8/26/52
Bonds and notes based on auction or remarketing	1,134,250	0.07% - 2.17%	5/1/28 - 11/26/46
Total variable-rate bonds and notes	24,614,143		
FFELP warehouse facilities	1,396,344	0.17% - 0.25%	1/17/16 - 6/12/16
Unsecured line of credit	45,000	1.67%	3/28/18
Unsecured debt - Junior Subordinated Hybrid Securities	96,457	3.62%	9/15/61
Other borrowings	61,401	1.67% - 5.10%	4/11/14 - 11/11/15
	26,213,345		
Discount on bonds and notes payable	(258,056 )		
Total	\$25,955,289		

## FFELP 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 March 31, 2014, the Company had three FFELP warehouse facilities as summarized below.

	NHELP-III	NFSLW-I (a)	NHELP-II	Total
Maximum financing amount	\$750,000	500,000	500,000	1,750,000
Amount outstanding	377,995	276,915	117,525	772,435
Amount available	\$372,005	223,085	382,475	977,565
Expiration of liquidity provisions	February 5, 2015	June 12, 2014	September 30, 2014	
Final maturity date	January 17, 2016	June 12, 2016	September 30, 2016	
Maximum advance rates	92.2 - 95.0%	92.0 - 98.0%	84.5 - 94.5%	
Minimum advance rates	92.2 - 95.0%	84.0 - 90.0%	84.5 - 94.5%	
Advanced as equity support	\$22,912	16,847	11,745	51,504

(a) On April 15, 2014, the Company amended the agreement for this warehouse facility to temporarily increase the maximum financing amount to \$1.0 billion, change the expiration date for the liquidity provisions to June 11, 2015, and change the maturity date to June 11, 2017. The maximum financing amount is scheduled to decrease \$100.0 million a month beginning in June 2014 until it returns to \$500.0 million in size.

## Asset-backed Securitizations

The following table summarizes the asset-backed securitization transactions completed during the three months ended March 31, 2014.

	2014-1	2014-2			Total	
		Class A-1 notes	Class A-2 notes	Class A-3 notes	2014-2 total	
Date securities issued	2/6/14	3/12/14	3/12/14	3/12/14	3/12/14	
Total original principal amount	\$458,500				509,000	\$967,500
Class A senior notes:						
Total original principal amount	\$445,000	191,000	222,000	84,000	497,000	942,000
Bond discount	—	—	—	(535)	(535)	(535)
Issue price	\$445,000	191,000	222,000	83,465	496,465	941,465
Cost of funds (1-month LIBOR plus:)	0.57	% 0.28	% 0.60	% 0.85	%	
Final maturity date	9/25/41	6/25/21	3/25/30	7/27/37		
Class B subordinated notes:						
Total original principal amount	\$13,500				12,000	25,500
Bond discount	(1,132)				(1,046)	(2,178)
Issue price	\$12,368				10,954	23,322
Cost of funds (1-month LIBOR plus:)	1.50	%			1.50	%
Final maturity date	10/25/47				6/25/41	

## Unsecured Line of Credit

The Company has a \$275.0 million unsecured line of credit that matures on March 28, 2018. As of March 31, 2014, no amounts were outstanding on the unsecured line of credit and \$275.0 million was available for future use.

## Debt Repurchases

The Company repurchased \$1.4 million (face amount) and \$13.0 million (face amount) of its own asset-backed debt securities during the three months ended March 31, 2014 and 2013, respectively, and recognized gains on such purchases of approximately \$39,000 and \$1.4 million, respectively.

## 4. Derivative Financial Instruments

The Company uses derivative financial instruments primarily to manage interest rate risk and foreign currency exchange risk. Derivative instruments used as part of the Company's risk management strategy are further described in note 6 of the notes to consolidated financial statements included in the 2013 Annual Report. A tabular presentation of such derivatives outstanding as of March 31, 2014 and December 31, 2013 is presented below.

## Basis Swaps

The following table summarizes the Company's basis swaps outstanding as of March 31, 2014 and December 31, 2013 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").

Maturity		Notional amount	
2021		\$250,000	
2022		1,900,000	
2023		3,650,000	
2024		250,000	
2026		800,000	
2028		100,000	
2036		700,000	
2039	(a)	150,000	
2040	(b)	200,000	
		\$8,000,000	(c)

(a) This derivative has a forward effective start date in 2015.

(b) This derivative has a forward effective start date in 2020.

(c) The weighted average rate paid by the Company on the 1:3 Basis Swaps as of March 31, 2014 and December 31, 2013 was one-month LIBOR plus 3.5 basis points.

## Interest Rate Swaps – Floor Income Hedges

The following table summarizes the outstanding derivative instruments used by the Company to economically hedge loans earning fixed rate floor income as of March 31, 2014 and December 31, 2013.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)	
2014	\$1,750,000	0.71	%
2015	1,100,000	0.89	
2016	750,000	0.85	
2017	1,250,000	0.86	
	\$4,850,000	0.81	%

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



Interest Rate Swaps – Unsecured Debt Hedges

The Company had the following derivatives outstanding as of March 31, 2014 and December 31, 2013 that are used to effectively convert the variable interest rate on a portion of the Junior Subordinated Hybrid Securities ("Hybrid Securities") to a fixed rate.

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)	
2036	\$25,000	4.28	%

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

Foreign Currency Exchange Risk

In 2006, the Company issued €352.7 million of student loan asset-backed Euro Notes (the "Euro Notes") with an interest rate based on a spread to the EURIBOR index. As a result of the Euro Notes, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes are re-measured at each reporting period and recorded in the Company's consolidated balance sheet in U.S. dollars based on the foreign currency exchange rate on that date.

The Company entered into a cross-currency interest rate swap in connection with the issuance of the Euro Notes. Under the terms of the cross-currency interest rate swap, the Company receives from the counterparty a spread to the EURIBOR index based on a notional amount of €352.7 million and pays a spread to the LIBOR index based on a notional amount of \$450.0 million. In addition, under the terms of this agreement, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect between the U.S. dollar and Euro as of the issuance of the notes.

The following table shows the income statement impact as a result of the re-measurement of the Euro Notes and the change in the fair value of the related derivative instrument.

	Three months ended March 31,	
	2014	2013 (b)
Re-measurement of Euro Notes	\$(952	) 28,763
Change in fair value of cross-currency interest rate swaps	(39	) (34,844
Total impact to consolidated statements of income - income (expense) (a)	\$(991	) (6,081

(a) The financial statement impact of the above items is included in "Derivative market value and foreign currency adjustments and derivative settlements, net" in the Company's consolidated statements of income.

(b) The 2013 operating results includes the re-measurement of €420.5 million of student loan asset-backed Euro notes and the change in fair value of a related cross-currency interest rate swap entered into in connection with the issuance of such notes. In November 2013, the notional amount outstanding on the notes was changed to U.S. dollars and the cross-currency interest swap was terminated.

The re-measurement of the Euro-denominated bonds generally correlates with the change in fair value of the cross-currency interest rate swaps. However, the Company will experience unrealized gains or losses related to the cross-currency interest rate swaps if the two underlying indices (and related forward curve) do not move in parallel.

## Consolidated Financial Statement Impact Related to Derivatives

The following table summarizes the fair value of the Company's derivatives as reflected in the consolidated balance sheets:

	Fair value of asset derivatives		Fair value of liability derivatives	
	As of March 31, 2014	As of December 31, 2013	As of March 31, 2014	As of December 31, 2013
1:3 basis swaps	\$ 19,600	18,490	—	—
Interest rate swaps - floor income hedges	7,607	7,183	12,915	15,849
Interest rate swaps - hybrid debt hedges	—	—	3,632	2,120
Cross-currency interest rate swaps	36,795	36,834	—	—
Total	\$ 64,002	62,507	16,547	17,969

During the three months ended March 31, 2013, the Company terminated certain derivatives for gross proceeds and payments of \$2.7 million and \$2.9 million, respectively. There were no derivative terminations during the first quarter of 2014.

## Offsetting of Derivative Assets/Liabilities

The Company records derivative instruments in the consolidated balance sheets on a gross basis as either an asset or liability measured at its fair value. Certain of the Company's derivative instruments are subject to right of offset provisions with counterparties. The following tables include the gross amounts related to the Company's derivative portfolio recognized in the consolidated balance sheets, reconciled to the net amount when excluding derivatives subject to enforceable master netting arrangements and cash collateral received/pledged:

Derivative assets	Gross amounts of recognized assets presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		Net asset (liability)
		Derivatives subject to enforceable master netting arrangement	Cash collateral received	
Balance as of March 31, 2014	\$ 64,002	(15,313	) (323	) 48,366
Balance as of December 31, 2013	62,507	(15,437	) (15,959	) 31,111