NELNET INC
Form 10-K
February 27, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

or

o **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, SUITE 100 LINCOLN, NEBRASKA (Address of principal executive offices)	**68508** (Zip Code)

Registrant’s telephone number, including area code: (402) 458-2370

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS: Class A Common Stock, Par Value $0.01 per Share
NAME OF EACH EXCHANGE ON WHICH REGISTERED: New York Stock Exchange
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
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 [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes [X] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [ ]
Emerging growth company [ ]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]
The aggregate market value of the registrant’s voting common stock held by non-affiliates of the registrant on June 29, 2018 (the last business day of the registrant’s most recently completed second fiscal quarter), based upon the closing sale price of the registrant’s Class A Common Stock on that date of $58.41 per share, was $1,224,618,686. For purposes of this calculation, the registrant’s directors, executive officers, and greater than 10 percent shareholders are deemed to be affiliates.
As of January 31, 2019, there were 28,732,998 and 11,459,641 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,305,731 shares of Class A Common Stock held by wholly owned subsidiaries).
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant’s definitive Proxy Statement to be filed for its 2019 Annual Meeting of Shareholders, scheduled to be held May 23, 2019, are incorporated by reference into Part III of this Form 10-K.

NELNET, INC.
FORM 10-K
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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This report contains forward-looking statements and information that are based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company's plans and expectations for future financial condition, results of operations or economic performance, or that address management's plans and objectives for future operations, and statements that assume or are dependent upon future events, are forward-looking statements. The words “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,
“forecast,” “future,” “intend,” “may,” “plan,” “potential,” “predict,” “scheduled,” “should,” “will,” “would,” and similar expres
as statements in future tense, are intended to identify forward-looking statements.

The forward-looking statements are based on assumptions and analyses made by management in light of management's experience and its perception of historical trends, current conditions, expected future developments, and other factors that management believes are appropriate under the circumstances. These statements are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause the actual results and performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in “Risk Factors” and elsewhere in this report, and include such risks and uncertainties as:

•loan portfolio risks such as interest rate basis and repricing risk resulting from the fact that the interest rate characteristics of the student loan assets do not match the interest rate characteristics of the funding for those assets, the risk of loss of floor income on certain student loans originated under the Federal Family Education Loan Program (the "FFEL Program" or "FFELP"), risks related to the use of derivatives to manage exposure to interest rate fluctuations, uncertainties regarding the expected benefits from purchased securitized and unsecuritized FFELP, private education, and consumer loans and initiatives to purchase additional FFELP, private education, and consumer loans, and risks from changes in levels of loan prepayment or default rates;

•financing and liquidity risks, including risks of changes in the general interest rate environment, including the availability of any relevant money market index rate such as LIBOR or the relationship between the relevant money market index rate and the rate at which the Company's assets and liabilities are priced, and in the securitization and other financing markets for loans, including adverse changes resulting from unanticipated repayment trends on student loans in FFELP securitization trusts that could accelerate or delay repayment of the associated bonds, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to hold student loans;

•risks from changes in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFELP loan interest income and fee-based revenues due to the discontinuation of new FFELP loan originations in 2010 and potential government initiatives or legislative proposals to consolidate existing FFELP loans to the Federal Direct Loan Program or otherwise allow FFELP loans to be refinanced with Federal Direct Loan Program loans;

•the uncertain nature of the expected benefits from the acquisition of Great Lakes Educational Loan Services, Inc. ("Great Lakes") on February 7, 2018 and the ability to successfully integrate technology and other activities and successfully maintain and increase allocated volumes of student loans serviced under existing and any future servicing contracts with the U.S. Department of Education (the "Department"), which current contracts accounted for 30 percent of the Company's revenue in 2018, risks to the Company related to the Department's initiatives to procure new contracts for federal student loan servicing, including the risk that Company teams may not be successful in obtaining contracts, risks related to the development by the Company and Great Lakes of a new student loan servicing platform, including risks as to whether the expected benefits from the new platform will be realized, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of Federal Direct Loan Program, FFELP, and private education and consumer loans;

•risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors, including cybersecurity risks related to the potential disclosure of confidential student loan borrower and other customer information, the potential disruption of the Company's systems or those of third-party vendors or customers, and/or the potential damage to the Company's reputation resulting from cyber-breaches;

•uncertainties inherent in forecasting future cash flows from student loan assets and related asset-backed securitizations;

•risks and uncertainties related to the ability of ALLO Communications LLC to successfully expand its fiber network and market share in existing service areas and additional communities and manage related construction risks;
•risks and uncertainties related to initiatives to pursue additional strategic investments and acquisitions, including investments and acquisitions that are intended to diversify the Company both within and outside of its historical core education-related businesses; and
•risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, reputational and other risks, including the risk of increased regulatory costs, resulting from the politicization of student loan servicing, and uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws. In this report, unless the context indicates otherwise, references to "Nelnet," "the Company," "we," "our," and "us" refer to Nelnet, Inc. and its subsidiaries.

PART I.
ITEM 1. BUSINESS
Overview
Nelnet is a diverse company with a focus on delivering education-related products and services and loan asset management. The largest operating businesses engage in student loan servicing; education technology, services, and payment processing; and communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate and early-stage and emerging growth companies. Substantially all revenue from external customers is earned, and all long-lived assets are located, in the United States.

The Company was formed as a Nebraska corporation in 1978 to service federal student loans for two local banks. The Company built on this initial foundation as a servicer to become a leading originator, holder, and servicer of federal student loans, principally consisting of loans originated under the Federal Family Education Loan Program. A detailed description of the FFEL Program is included in Appendix A to this report.

The Health Care and Education Reconciliation Act of 2010 (the “Reconciliation Act of 2010”) discontinued new loan originations under the FFEL Program, effective July 1, 2010, and requires that all new federal student loan originations be made directly by the Department through the Federal Direct Loan Program. This law does not alter or affect the terms and conditions of existing FFELP loans.

As a result of the Reconciliation Act of 2010, the Company no longer originates new FFELP loans. However, a significant portion of the Company's income continues to be derived from its existing FFELP student loan portfolio. As of December 31, 2018, the Company had a $22.4 billion loan portfolio, consisting primarily of FFELP loans, that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.7 years. Interest income on the Company's existing FFELP loan portfolio will decline over time as the portfolio is paid down. However, since July 1, 2010, which is the effective date on and after which no new loans can be originated under the FFEL Program, the Company has purchased $25.1 billion of FFELP loans from other FFELP loan holders looking to exit or adjust their FFELP businesses. The Company believes there may be additional opportunities to purchase FFELP portfolios to generate incremental earnings and cash flow. However, since all FFELP loans will eventually run off, a key objective of the Company is to reposition itself for the post-FFELP environment.

To reduce its reliance on interest income on student loans, the Company has expanded its services and products. This expansion has been accomplished through internal growth and innovation as well as business acquisitions. In addition, in 2009, the Company began servicing federally owned student loans for the Department.

Operating Segments
The Company has four reportable operating segments summarized below. Business activities and operating segments that are not reportable are combined and included in "Corporate and Other Activities."

Loan Servicing and Systems ("LSS")

•Referred to as Nelnet Diversified Solutions (“NDS”)

•Focuses on student loan servicing, consumer loan origination and servicing, student loan servicing-related technology solutions, and outsourcing services for lenders and other entities

•Includes the brands Nelnet Loan Servicing, Great Lakes, Firstmark Services, GreatNet Solutions, and Proxi

Education Technology, Services, and Payment Processing ("ETS&PP")

•Referred to as Nelnet Business Solutions (“NBS”)

•Focuses on tuition payment plans and billings, financial needs assessment services, online payment and refund processing, school information system software, payment technologies, and professional development and educational instruction services

•Includes the brands FACTS Management, FACTS SIS, Nelnet Campus Commerce, PaymentSpring, FACTS Education Solutions, Aware3, Unilink, and PCSchools

Communications
•Includes the operations of ALLO Communications LLC ("ALLO")
•Focuses on providing fiber optic service directly to homes and businesses for internet, telephone, and television services

Asset Generation and Management ("AGM")
•Includes the acquisition and management of the Company's student and other loan assets
A more detailed description of each of the Company's reportable operating segments and Corporate and Other Activities is provided below.
Loan Servicing and Systems
The primary service offerings of this operating segment include:
•Servicing federally-owned student loans for the Department
•Servicing FFELP loans
•Originating and servicing private education and consumer loans
•Providing student loan servicing software and other information technology products and services
•Providing outsourced services including call center, processing, and marketing services
On February 7, 2018, the Company acquired Great Lakes. The operating results of Great Lakes are included in the Loan Servicing and Systems operating segment from the date of acquisition. Nelnet Servicing, LLC ("Nelnet Servicing"), a subsidiary of the Company, and Great Lakes are two of the four large private sector companies (referred to as Title IV Additional Servicers, or "TIVAS") that have student loan servicing contracts awarded by the Department in June 2009 to provide servicing for loans owned by the Department. As of the acquisition date, Great Lakes was servicing approximately $242 billion in government-owned student loans, approximately $11 billion in FFELP loans, and approximately $2 billion in private education loans.
From the date of acquisition and going forward, Great Lakes and Nelnet Servicing have continued, and will continue, to service their respective government-owned portfolios on behalf of the Department, while maintaining their distinct brands, independent servicing operations, and teams. Likewise, each entity will continue to compete for new student loan volume under its respective existing contract with the Department. The Company has integrated, and will continue to integrate, technology as well as shared services and other activities to become more efficient and effective in meeting borrower needs. During the second quarter of 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet Servicing's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.
As of December 31, 2018, the Company serviced $464.6 billion of loans for 15.6 million borrowers. See Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") - "Loan Servicing and Systems Operating Segment - Results of Operations - Student Loan Servicing Volumes" for additional information related to the Company's servicing volume.
<u>*Servicing federally-owned student loans for the Department*</u>
As discussed above, Nelnet Servicing and Great Lakes are two of four large private sector companies, or TIVAS, awarded student loan servicing contracts by the Department to provide additional servicing capacity for loans owned by the Department. These loans include Federal Direct Loan Program loans originated directly by the Department and FFEL Program loans purchased by the Department. Under the servicing contracts, Nelnet Servicing and Great Lakes earn a monthly fee from the Department for each unique borrower who has loans owned by the Department and serviced by Nelnet Servicing or Great Lakes, respectively. The amount paid per each unique borrower is dependent on the status of the borrower (e.g., in school or in repayment). As of December 31, 2018, Nelnet Servicing was servicing $179.5 billion of student loans for 5.8 million borrowers under its contract, and Great Lakes was servicing $232.7 billion of student loans for 7.5 million borrowers under its contract. The Department is the Company's largest customer, representing 30 percent of the Company's revenue in 2018.
The servicing contracts with the Department are currently scheduled to expire on June 16, 2019. On February 20, 2018, the Department’s Office of Federal Student Aid ("FSA") released information regarding a contract procurement process entitled Next Generation Financial Services Environment (“NextGen”) for the servicing of all student loans owned by the Department. On August 24, August 27, and September 24, 2018, FSA made announcements that

included canceling certain components of the NextGen process and issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled.

On January 15, 2019, FSA released an amendment canceling all components of NextGen except the Enterprise-Wide Digital and Customer Care Platforms and Services component and issued new solicitations for three new NextGen components:
•NextGen Enhanced Processing Solution
•NextGen Business Process Operations
•NextGen Optimal Processing Solution

On February 20, 2019, FSA awarded the Enterprise-Wide Digital and Customer Care Platforms and Services component to Accenture Federal Services. The Company is part of teams that currently intend to respond to the solicitations for each of the three ongoing NextGen components. The Company cannot predict the timing, nature, or outcome of these solicitations.
The Department also has contracts with 31 not-for-profit ("NFP") entities to service student loans, although five NFP servicers currently service the volume allocated to these 31 entities. The Company licenses its remote-hosted servicing software to three of the five NFP servicers.
The Department currently allocates new loan volume among the TIVAS and NFP servicers based on the following performance metrics:
•Two metrics measure the satisfaction among separate customer groups, including borrowers (35 percent) and FSA personnel who work with the servicers (5 percent).

•Three metrics measure the success of keeping borrowers in an on-time repayment status and helping borrowers avoid default as reflected by the percentage of borrowers in current repayment status (30 percent), percentage of borrowers more than 90 days but fewer than 271 days delinquent (15 percent), and percentage of borrowers over 270 days and fewer than 361 days delinquent (15 percent). The loans are evaluated in 15 different loan portfolio stratifications to account for differences in portfolios.

The allocation of ongoing volume is determined twice each year based on the performance of each servicer in relation to the other servicers. Quarterly results are compiled for each servicer. The average of the September and December quarter-end results are used to allocate volume for the period from March 1 to August 31, and the average of the March and June quarter-end results are used to allocate volume for the period from September 1 to February month end, of each year.
Under the most recent publicly announced performance metrics measurements used by the Department for the quarterly periods January 1, 2018 through June 30, 2018, Great Lakes' and Nelnet Servicing's overall rankings among the nine current servicers for the Department were second and fourth, respectively. Based on these results, Great Lakes' and Nelnet Servicing's allocation of new student loan servicing volumes for the period September 1, 2018 through February 28, 2019 are 17 percent and 11 percent, respectively.
Incremental revenue components earned by Nelnet Servicing or Great Lakes from the Department (in addition to loan servicing revenues) include:
•*Administration of the Total and Permanent Disability (TPD) Discharge program.* Nelnet Servicing processes applications for the TPD discharge program and is responsible for discharge, monitoring, and servicing TPD loans. Individuals who are totally and permanently disabled may qualify for a discharge of their federal student loans, and the Company processes applications under the program and receives a fee from the Department on a per application basis, as well as a monthly servicing fee during the monitoring period. Nelnet Servicing is the exclusive provider of this service to the Department.
•*Origination of consolidation loans.* Beginning in 2014, the Department implemented a process to outsource the origination of consolidation loans whereby each of the four TIVAS, and beginning in December 2017, each of the NFP servicers, receives Federal Direct Loan consolidation origination volume based on borrower choice. The Department pays the Company a fee for each completed consolidation loan application it processes. Nelnet Servicing and Great Lakes each service the consolidation volume it originates.
Servicing FFELP loans

LSS, referred to as NDS, services the Company's student loan portfolio and the portfolios of third parties. The loan servicing activities include loan conversion activities, application processing, borrower updates, customer service, payment processing, due diligence procedures, funds management reconciliations, and claim processing. These activities are performed internally for the Company's portfolio, in addition to generating external fee revenue when performed for third-party clients.

The Company uses proprietary systems to manage the servicing process. These systems provide for automated compliance with most of the federal student loan regulations adopted under Title IV of the Higher Education Act of 1965, as amended (the “Higher Education Act”).

The Company serviced FFELP loans on behalf of 151 third-party servicing customers as of December 31, 2018. The Company's FFELP servicing customers include national and regional banks, credit unions, and various state and nonprofit secondary markets. The majority of the Company's external FFELP loan servicing activities are performed under “life of loan” contracts, which essentially provide that as long as the applicable loan exists, the Company shall be the sole servicer of that loan; however, the agreement may contain “deconversion” provisions where, for a fee, the lender may move the loan to another servicer.

The discontinuation of new FFELP loan originations in July 2010 has caused and will continue to cause FFELP servicing revenue to decline as these loan portfolios are paid down. However, the Company believes there may be opportunities to service additional FFELP loan portfolios from current FFELP participants as the program winds down.

Originating and servicing private education and consumer loans

NDS conducts origination and servicing activities for private education and consumer loans. Private education loans are non-federal loans made to students or their families; as such, the loans are not issued or guaranteed by the federal government. These loans are used primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans, or the borrowers' personal resources. Although similar in terms of activities and functions as FFELP loan servicing (i.e., application processing, disbursement processing, payment processing, customer service, statement distribution, and reporting), private education loan servicing activities are not required to comply with provisions of the Higher Education Act and may be more customized to individual client requirements.

The Company has invested and currently plans to continue to invest in modernizing key technologies and services to position its consumer loan servicing business for the long-term, expanding services to include personal loan products and other consumer installment assets. The Company is in the process of a complete re-architecting of its private education and consumer loan origination and repayment servicing systems. Improvements in systems will allow for diversified products to be both originated and serviced with state-of-the-art application and servicing platforms to drive growth for the Company's client partners. Presenting a very wide market opportunity of new entrants and existing players, consumer lending is a key growth area. In both back-up servicing and full servicing partnerships, the Company is a valuable resource for consumer lenders and asset holders as it allows for leveraged economies of scale, high compliance, and secure service to client partners.

The Company serviced private education and consumer loans on behalf of 59 third-party servicing customers as of December 31, 2018. In addition, the Company provides back-up servicing arrangements to assist 9 entities for more than 1.4 million borrowers. For a monthly fee, these arrangements require a 30 to 90 day notice from a triggering event to transfer the customer's servicing volume to the Company's platform and becoming a full servicing customer.

Providing student loan servicing software and other information technology products and services

NDS provides data center services, student loan servicing software for servicing private education and federal loans, guaranty servicing software, and consulting and professional services to support the technology platforms. These proprietary software systems are used internally by the Company and/or licensed to third-party student loan holders and servicers. These software systems have been adapted so they can be offered as hosted servicing software solutions that can be used by third parties for guaranty servicing and to service various types of student loans, including Federal Direct Loan Program and FFEL Program loans. The Company earns a monthly fee from its remote hosting customers for each loan or unique borrower on the Company's platform, with a minimum monthly charge for most contracts. As of December 31, 2018, 6.4 million borrowers were hosted on the Company's hosted servicing software solution platforms.

Providing outsourced services including call center, processing, and marketing services

The Company provides business process outsourcing specializing in contact center management. The contact center solutions and services include taking inbound calls, helping with outreach campaigns and sales, and interacting with customers through multi-channels.

Competition

The Company's scalable servicing platform allows it to provide compliant, efficient, and reliable service at a low cost, giving the Company a competitive advantage over others in the industry. The principal competitor for existing and prospective FFELP and private education loan servicing business is Navient Corporation ("Navient"). Navient is the largest for-profit provider of servicing functions. In contrast to its competitors, the Company has segmented its private education loan servicing on a distinct platform, created specifically to meet the needs of private education student loan borrowers, their families, the schools they attend, and the lenders who serve them. This ensures access to specialized teams with a dedicated focus on servicing these borrowers.

With the elimination of new loan originations under the FFEL Program, four servicers, including Nelnet Servicing and Great Lakes, were named by the Department in 2009 as servicers of federally-owned loans. The two other servicers are FedLoan Servicing (Pennsylvania Higher Education Assistance Agency ("PHEAA")) and Navient. In addition, the Department has contracts with 31 NFP entities to service student loans that are serviced by 5 prime NFP servicers. The Company currently licenses its hosted servicing software to three prime NFP servicers that represent 13 NFP organizations. PHEAA is the only other TIVAS servicer offering a hosted Federal Direct Loan Program servicing solution to the NFP servicers.

The Company is one of the leaders in the development of servicing software for guaranty agencies, consumer and private education loan programs, the Federal Direct Loan Program, and FFELP student loans. Many student loan lenders and servicers utilize the Company's software either directly or indirectly. The Company believes the investments it has made to scale its systems and to create a secure infrastructure to support the Department's servicing volume and requirements increase its competitive advantage as a long-term partner in the loan servicing market.

Education Technology, Services, and Payment Processing

ETS&PP, referred to as NBS, provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools automate administrative processes and collect and process commerce data. The Company also provides to K-12 schools professional development and educational instruction services and provides payment technology and services for software platforms, businesses, and nonprofits beyond the K-12 and higher education space.

The majority of this segment's customers are located in the United States; however, the Company has begun providing its products and services in Australia, New Zealand, and Southeast Asia, and currently believes there are opportunities to increase its customer base and revenues internationally.

See the MD&A - "Education Technology, Services, and Payment Processing Operating Segment - Results of Operations" for a discussion of the seasonality of the business in this operating segment.

<u>K-12</u>

In the K-12 market, the Company (known as FACTS Management) offers (i) actively managed tuition payment plans and billing services; (ii) assistance with financial needs assessment and donor management; (iii) school information system software that helps schools automate administrative processes such as admissions, enrollment, scheduling, student billing, attendance, and grade book management; (iv) professional development and educational instruction services; and (v) innovative technology products that aid in teacher and student evaluations. The Company provides services for over 11,500 K-12 schools and serves nearly 4.0 million students and families.

The Company is the market leader in actively managed tuition payment plans and financial needs assessment services. Tuition management services include payment plan administration, incidental billing, accounts receivable management, and record keeping. K-12 educational institutions contract with the Company to administer deferred payment plans that allow families to make recurring payments generally over six to 12 months. The Company collects a fee from either the institution or the payer as an administration fee.

The Company's financial needs assessment service helps K-12 schools evaluate and determine the amount of financial aid to disburse to the families it serves. The Company's donor services allow schools to assess and deliver strategic fundraising solutions using the latest technology.

In 2018, the Company completed a significant rebranding effort bringing the RenWeb School Management Solutions brand under the FACTS Management brand, now referring to RenWeb as FACTS SIS. FACTS SIS provides school information systems to help schools automate administrative processes such as admissions, enrollment, scheduling, student billing, attendance, and grade book management. The Company’s information systems software is sold as a subscription service to schools. The Company also offers a streamlined, social, and fully integrated learning management system to enhance classroom instruction for both teachers and students. The combination of the Company’s school administration software and tuition management and financial needs assessment services has significantly increased the value of the Company’s offerings in this area, allowing the Company to deliver a comprehensive suite of solutions to schools. Under the PCSchools brand, the Company offers school information systems to schools in Australia and New Zealand as well.

Under the brand FACTS Education Solutions, the Company provides customized professional development services for teachers and school leaders as well as instructional services for students experiencing academic challenges. These services provide continuous advance learning and professional development while helping private schools identify and attain equitable participation in federal education programs. FACTS Education Solutions also offers innovative technology advancing products that aid in both teacher and student evaluation.

Higher Education

In the higher education market, the Company (known as Nelnet Campus Commerce) offers two principal products: actively managed tuition payment plans, and education technologies and payment processing. The Company provides service for 1,400 colleges and universities worldwide and serves 7.7 million students and families.

Higher education institutions contract with the Company to administer actively managed payment plans that allow the student and family to make recurring payments on either a semester or annual basis. The Company collects a fee from the student or family as an administration fee.

The Company's suite of education technology solutions provides services that allow for families' electronic billing and payment of campus charges. Education technologies includes cashiering for face-to-face transactions, campus-wide commerce management, and refunds management, among other activities. The Company earns revenue for e-billing, hosting and maintenance, credit card processing fees, and e-payment transaction fees, which are powered by the Company's secure payment processing systems.

The Company's education technology products are sold as a subscription service to colleges and universities. The systems process payments through the appropriate channels in the banking or credit card networks to make deposits into the client's bank account. The systems can be further deployed to other departments around campus as requested (e.g., application fees, alumni giving, parking, events, etc.).

Through the brand Unilink, the Company offers education technology and payment processing to higher education institutions in Australia, New Zealand, and Southeast Asia.

Non-education services

Under the brands PaymentSpring and Aware3, the Company has expanded its customer base to include both education and non-education customers. PaymentSpring offers technology and payments services including electronic transfer and credit card processing, reporting, billing and invoicing, mobile and virtual terminal solutions, and specialized integrations to business software. Aware3 is a mobile first technology focused on increasing engagement, online giving, and communication for church and not-for-profit customers.

Competition

The Company is the largest provider of tuition management and financial needs assessment services to the private and faith-based K-12 market in the United States. Competitors include financial institutions, tuition management providers, financial needs assessment providers, accounting firms, and a myriad of software companies.

In the higher education market, the Company targets business offices at colleges and universities. In this market, the primary competition is limited to only a few campus commerce and tuition payment providers, as well as solutions developed in-house by colleges and universities.

The Company's principal competitive advantages are (i) the customer service it provides to institutions and consumers, (ii) the technology provided with the Company's service, and (iii) the Company's ability to integrate its technology with the institution clients and their third party service providers. The Company believes its clients select products primarily based on technology features, functionality, and the ability to integrate with other systems, but price and service also impact the selection process.

Acquisition of Tuition Management Systems

In November 2018, the Company acquired Tuition Management Systems ("TMS"), a services company that offers tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the Company's customer base, further enhancing NBS' market share leading position with private faith-based K-12 schools and advancing to a market leading position in higher education.

Communications

The Company provides communication services through ALLO, a majority owned subsidiary. ALLO derives its revenue primarily from the sale of telecommunication services, including internet, telephone, and television services, to business and residential customers in Nebraska and Colorado, and specializes in high-speed internet and broadband services available through its all-fiber network. ALLO currently serves the Scottsbluff, Gering, Bridgeport, North Platte, Ogallala, Alliance, Lincoln, and Hastings communities in Nebraska, and Fort Morgan, Colorado. Total households in these communities is approximately 153,000. As of December 31, 2018, the Company provided services to approximately 37,000 households, an increase of almost 17,000, or 83 percent, from the prior year. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities.

Internet and television services

Internet and television services include data and video products and services to residential and business subscribers. ALLO data services provide high-speed internet access over ALLO's all-fiber network at various symmetrical speeds up to 1 gigabit per second for residential customers, depending on the nature of the network facilities that are available, the level of service selected, and the geographic market availability. ALLO also offers a variety of data connectivity services for businesses, including Ethernet services capable of multiple connections over ALLO's fiber-based networks. ALLO's Internet Protocol Television Video ("IPTV") services range from limited basic service to advanced television, which includes several plans, each with hundreds of local, national, and music channels, including premium and pay-per-view channels, as well as video on demand service. Subscribers may also subscribe to ALLO's advanced video services, which consist of high definition television, digital video recorders (“DVR”), and/or a whole home DVR. ALLO's whole home DVR gives customers the ability to watch recorded shows on any television in the house, record multiple shows at one time, and utilize an intuitive on-screen guide and user interface.

ALLO expects that internet services will continue to increase as a more significant component of its overall services, and offset the anticipated decline in traditional residential telephone and television services.

Telephone services

Local calling services include a full suite of telephone services, including basic services, primary rate interface ("PRI"), and session initiation protocol ("SIP"). ALLO's service plans include options for voicemail and other enhanced custom calling features including hunting, caller ID, call forwarding, and call waiting, among others. Services are charged at a fixed monthly rate or can be bundled with selected services at a discounted rate. ALLO provides a hosted private branch exchange ("PBX") package, which utilizes a soft switch and allows the customer the flexibility of utilizing new telephone technology and features without investing in a new telephone system. The package bundles local service, calling features, and internet protocol (“IP”) business telephones.

Long-distance services include traditional domestic and international long distance, which enables customers to make calls that terminate outside their local calling area. These services also include toll-free calls and conference calling. ALLO offers a variety of long distance plans, including unlimited flat-rate calling plans, and offers a combination of subscription and usage fees.

Sales and marketing

The key components of ALLO's overall marketing strategy include:

•Promoting the advantages of an all-fiber network connected directly to homes and businesses capable of delivering synchronous internet speeds of over one gigabit per second

•Building complete fiber communities by passing all homes and businesses within its network

•Organizing sales and marketing activities around consumer, enterprise, and carrier customers

•Positioning ALLO as a single point of contact for customers’ communications needs

•Providing customers with a broad array of internet, television, and telephone services and bundling these services whenever possible

•Providing excellent local customer service, including 24/7/365 customer support to coordinate installation of new services, repair, and maintenance functions

•Developing and delivering new services to meet evolving customer needs and market demands

•Utilizing proven modern technology to deliver services

ALLO currently offers services through social media platforms, direct marketing, call centers, its website, communication centers, and commissioned sales representatives. ALLO markets its services both individually and as bundled services, including its triple-play offering of internet, television, and telephone services. By bundling service offerings, ALLO is able to offer and sell a more complete and competitive package of services, which simultaneously increases its margin per customer and adds value for the consumer or business. ALLO also believes that bundling leads to increased customer loyalty and retention.

Network architecture and technology

ALLO has made significant investments in its technologically advanced telecommunications networks. As a result, ALLO is able to deliver high-quality, reliable internet, telephone, and television services through fiber optics. ALLO's wide-ranging network and extensive use of fiber provide an easy reach into existing and new areas. By bringing the fiber network to the customer premises, ALLO can increase its service offerings, quality, and bandwidth services. ALLO's existing fiber network enables it to efficiently respond and adapt to changes in technology and is capable of supporting the rising customer demand for bandwidth in order to support the growing number of internet devices in the home. ALLO's all-fiber network enhances its operating efficiencies by facilitating new network and technology choices that provide for lower costs to operate. ALLO's networks are supported by an advanced digital telephone switch and IPTV service platform. The digital switch provides all local telephone customers with access to a full suite of telecommunication products, custom calling features, and value-added services. ALLO's fiber network utilizes fiber-to-the-premise (“FTTP”) networks to offer bundled residential and commercial services. ALLO leverages its high definition IPTV headend equipment to distribute content across its network, allowing it to provide a sharp video picture and to better manage costs of future channel additions and upgrades. ALLO's network provides substantially all of its marketable homes and businesses with bandwidth of 1 gigabit per second or more.

Growth strategy

As discussed above, ALLO plans to increase its customer base with its superior all-fiber network by increasing its share in existing markets and potentially entering additional markets currently served by carriers using traditional copper and coaxial cable in their telecommunications networks. In addition, ALLO is focused on increasing revenues per customer by capitalizing on increased demand for bandwidth by commercial and residential customers and introducing new value add products.

Competition

Telecommunications businesses are highly competitive and continue to face increased competition as a result of technology changes and industry legislative and regulatory developments. ALLO faces actual or potential competition from many existing and emerging companies, including incumbent and competitive local telephone companies, long distance carriers and resellers, wireless companies, internet service providers ("ISPs"), satellite companies, cable television companies, and in some cases by new forms of providers who are able to offer competitive services through software applications, requiring a comparatively small initial investment. Due to consolidation and strategic alliances within the industry, ALLO cannot predict the number of competitors it will face at any given time. The wireless business has expanded significantly, causing many residential subscribers of traditional telephone services to discontinue those services and rely exclusively on wireless service. Consumers are finding individual television shows of interest to them through the internet and are watching content that is downloaded to their computers. Some providers, including television and cable television content owners, have initiated what are referred to as “over-the-top” services that deliver video content to televisions and computers over the internet. The incumbent telephone carriers in the markets ALLO serves enjoy certain business advantages, including size, financial resources, favorable regulatory position, a more diverse product mix, brand recognition, and connection to virtually all of ALLO's customers and potential customers. The largest cable operators also enjoy certain business advantages, including size, financial resources, ownership of or superior access to desirable programming and other content, a more diverse product mix, brand recognition, and first-in-the-field advantages with a customer base that generates positive cash flow for its operations. ALLO's competitors continue to add features and adopt aggressive pricing and packaging for services comparable to the services ALLO offers. Their success in selling some services competitive with ALLO's can lead to revenue erosion in other related areas. ALLO faces intense competition in its markets for long distance, internet access, and other ancillary services that are important to ALLO's business and to its growth strategy.

Asset Generation and Management

AGM includes the acquisition, management, and ownership of the Company's loan assets. Loans consist of federally insured student loans (originated under the FFEL Program), private education loans, and consumer loans. Substantially all of the Company's loan portfolio (98.5 percent as of December 31, 2018) is federally insured. As of December 31, 2018, the Company's loan portfolio was $22.4 billion. The Company generates a substantial portion of its earnings from the spread, referred to as the Company's loan spread, between the yield it receives on its loan portfolio and the associated costs to finance such portfolio. See the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis," for further details related to the loan spread. The student loan assets are held in a series of education lending subsidiaries and associated securitization trusts designed specifically for this purpose. In addition to the loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance, are included in this segment.

The Company's portfolio of federally insured student loans is subject to minimal credit risk, as these loans are guaranteed by the Department at levels ranging from 97 percent to 100 percent. The Higher Education Act regulates every aspect of the federally insured student loan program, including certain communications with borrowers, loan originations, and default aversion. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. In the case of death, disability, or bankruptcy of the borrower, the guarantee covers 100 percent of the loan's principal and accrued interest. FFELP loans are guaranteed by state agencies or nonprofit companies designated as guarantors, with the Department providing reinsurance to the guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program's soundness and accountability. Generally, the guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the Higher Education Act. When a borrower defaults on a FFELP loan, the Company submits a claim to the guarantor, who provides reimbursements of principal and accrued interest, subject to the applicable risk share percentage.

The Company's portfolios of private education loans and consumer loans are subject to credit risk and defaults may increase above current levels based on numerous factors, including a worsening economy or an increase in unemployment or a decrease in the availability of credit. The Company began to purchase consumer loans in 2017.

Origination and acquisition

The Reconciliation Act of 2010 discontinued originations of new FFELP loans, effective July 1, 2010. However, the Company believes there will be ongoing opportunities to continue to purchase FFELP loan portfolios from current FFELP participants looking to exit or adjust their FFELP businesses. For example, from July 1, 2010 through December 31, 2018, the Company purchased a total of $25.1 billion of FFELP student loans from various third parties, including a total of $3.7 billion during 2018. However, since all FFELP loans will eventually run off, a key objective of the Company is to reposition itself for the post-FFELP environment. As such, the Company is actively expanding its private education and consumer loan portfolios. The Company's competition for the purchase of loan portfolios and residuals includes large banks, hedge funds, and other student loan finance companies.

Interest rate risk management

Since the Company generates a significant portion of its earnings from its loan spread, the interest rate sensitivity of the Company's balance sheet is very important to its operations. The current and future interest rate environment can and will affect the Company's interest income and net income. The effects on the Company's results of operations as a result of the changing interest rate environments are further outlined in the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis" and Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk."

Corporate and Other Activities

Whitetail Rock Capital Management, LLC ("WRCM")

As of December 31, 2018, WRCM, the Company's SEC-registered investment advisor subsidiary, had $1.25 billion in assets under management for third-party customers, consisting primarily of student loan asset-backed securities. WRCM earns annual management fees of 25 basis points for asset-backed securities under management and up to 50 percent of the gains from the sale of securities or securities being called prior to the full contractual maturity for which it provides advisory services. During 2018, WRCM traded $0.88 billion for its customers, which generated $3.3 million in performance fees and earned $2.8 million in management fees. Assuming assets under management remain at their current levels, management fees should be relatively stable in future years. However, the Company currently anticipates that opportunities for WRCM to earn performance fees could be more limited in future years.

Real estate and other investments

The Company makes investments to further diversify itself both within and outside of its historical core education-related businesses, including investments in real estate and early-stage and emerging growth companies. Recent real estate investments have been focused on the development of commercial properties in the Midwest, and particularly in Lincoln, Nebraska, where the Company is headquartered. These investments include projects for the development of properties in Lincoln's east downtown Telegraph District, where a new facility for the Company's student loan servicing operations is located, and a building in Lincoln's Haymarket District that is the new headquarters of Hudl, an online video analysis and coaching tools software company for athletes of all levels. The Company is also a tenant at Hudl's headquarters. David S. Graff, a member of the Company's board of directors, is a co-founder, the chief executive officer, and a director of Hudl. In addition, the Company has a total equity investment in Hudl of $51.8 million.

Regulation and Supervision

The Company's operating segments and industry partners are heavily regulated by federal and state government regulatory agencies. The following provides a summary of the more significant existing and proposed legislation and regulations affecting the Company. A failure to comply with these laws and regulations could subject the Company to substantial fines, penalties, and remedial and other costs, restrictions on business, and the loss of business. Regulations and supervision can change rapidly, and changes could alter the manner in which the Company operates and increase the Company's operating expenses as new or additional regulatory compliance requirements are addressed.

Loan Servicing and Systems

NDS, which services Federal Direct Loan Program, FFELP, and private education and consumer loans, is subject to federal and state consumer protection, privacy, and related laws and regulations. Some of the more significant federal laws and regulations include:

•The Higher Education Act, which establishes financial responsibility and administrative capability requirements that govern all third-party servicers of federally insured student loans

•The Telephone Consumer Protection Act ("TCPA"), which governs communication methods that may be used to contact customers

•The Truth-In-Lending Act ("TILA") and Regulation Z, which governs disclosures of credit terms to consumer borrowers

•The Fair Credit Reporting Act ("FCRA") and Regulation V, which governs the use and provision of information to consumer reporting agencies

•The Equal Credit Opportunity Act ("ECOA") and Regulation B, which prohibits discrimination on the basis of race, creed, or other prohibited factors in extending credit

•The Servicemembers Civil Relief Act ("SCRA"), which applies to all debts incurred prior to commencement of active military service and limits the amount of interest, including certain fees or charges that are related to the obligation or liability

•The Electronic Funds Transfer Act ("EFTA") and Regulation E, which protects individual consumers engaged in electronic fund transfers ("EFTs")

•The Gramm-Leach-Bliley Act ("GLBA") and Regulation P, which govern a financial institution's treatment of nonpublic personal information about consumers and requires that an institution, under certain circumstances, notify consumers about its privacy policies and practices

•Laws prohibiting unfair, deceptive, or abusive acts or practices ("UDAAP")

•Various laws, regulations, and standards that govern government contractors

As a student loan servicer for the federal government and for financial institutions, including the Company's FFELP student loan portfolio, the Company is subject to the Higher Education Act and related laws, rules, regulations, and policies. The Higher Education Act regulates every aspect of the federally insured student loan program. The Company has designed its servicing operations to comply with the Higher Education Act, and it regularly monitors the Company's operations to maintain compliance.

Under the TCPA, plaintiffs may seek actual monetary loss or damages of $500 per violation, and courts may treble the damage award for willful or knowing violations. In addition, TCPA lawsuits have asserted putative class action claims.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) established the Consumer Financial Protection Bureau (“CFPB”), which has broad authority to regulate a wide range of consumer financial products and services. The Company's student loan servicing business is subject to CFPB oversight authority.

In 2015, the CFPB conducted a public inquiry into student loan servicing practices throughout the industry and issued a report discussing public comments submitted in response to the inquiry, and suggesting a framework to improve borrower outcomes and reduce defaults, including the creation of consistent, industry-wide standards for the entire servicing market.

The CFPB has authority to draft new regulations implementing federal consumer financial protection laws, to enforce those laws and regulations, and to conduct examinations of the Company's operations to determine compliance. The CFPB’s authority includes the ability to assess financial penalties and fines and provide for restitution to consumers if it determines there have been violations of consumer financial protection laws. The CFPB also provides consumer financial education, tracks consumer complaints, requests data from industry participants, and promotes the availability of financial services to underserved consumers and communities. The CFPB has authority to prevent unfair, deceptive, or abusive acts or practices and to ensure that all consumers have access to fair, transparent, and competitive markets for consumer financial products and services. The CFPB’s scrutiny of financial services has impacted industry participants’ approach to their services, including how the Company interacts with consumers.

The Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions to remedy violations of state law. Most states also have statutes that prohibit unfair and deceptive practices. To the extent states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB under the Dodd-Frank Act, the Company's ability to offer the same products and services to consumers nationwide may be limited.

As a third-party service provider to financial institutions, the Company is subject to periodic examination by the Federal Financial Institutions Examination Council (“FFIEC”). FFIEC is a formal interagency body of the U.S. government empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Federal Reserve Banks, the Federal Deposit Insurance Corporation ("FDIC"), and the CFPB, and to make recommendations to promote uniformity in the supervision of financial institutions.

Education Technology, Services, and Payment Processing

NBS provides tuition management services and school information software for K-12 schools and tuition management services and payment processing solutions for higher education institutions. The Company also provides payment technologies and payment services for software platforms, businesses, and nonprofits beyond the K-12 and higher education space. As a service provider that takes payment instructions from institutions and their constituents and sends them to bank partners, the Company is directly or indirectly subject to a variety of federal and state laws and regulations. The Company's contracts with clients and bank partners require the Company to comply with these laws and regulations.

The Company's payment processing services are subject to the EFTA and Regulation E, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of debit cards and certain other electronic banking services. The Company assists bank partners with fulfilling their compliance obligations pursuant to these requirements.

The Company's payment processing services are also subject to the National Automated Clearing House Association (“NACHA”) requirements, which include operating rules and sound risk management procedures to govern the use of the Automated Clearing House ("ACH") Network. These rules are used to ensure that the ACH Network is efficient, reliable, and secure for its members. Because the ACH Network uses a batch process, the importance of proper submissions by NACHA members is magnified. The Company is also impacted by laws and regulations that affect the bankcard industry. The Company is registered with Visa, Mastercard, American Express, and the Discover Network as a service provider and is subject to their respective rules.

The Company's higher education institution clients are subject to the Family Educational Rights and Privacy Act (“FERPA”), which protects the privacy of student education records. These clients disclose certain non-directory information concerning their students to the Company, including contact information, student identification numbers, and the amount of students’ credit balances pursuant to one or more exceptions under FERPA. Additionally, as the Company is indirectly subject to FERPA, it may not permit the transfer of any personally identifiable information to another party other than in a manner in which an educational institution may properly disclose it. While the Company believes that it has adequate policies and procedures in place to safeguard the privacy of such information, a breach of this prohibition could result in a five-year suspension of the Company's access to the related client’s records. The

Company may also be subject to similar state laws and regulations that restrict higher education institutions from disclosing certain personally identifiable student information.

Some of the Company's K-12 and higher education institution clients choose to charge convenience fees to students, parents, or other payers who make online payments using a credit or debit card. Laws and regulations related to such fees vary from state to state and certain states have laws that to varying degrees prohibit the imposition of a surcharge on a cardholder who elects to use a credit or debit card in lieu of cash, check, or other means.

The Company's contracts with higher education institution clients also require the Company to comply with regulations promulgated by the Department regarding the handling of student financial aid funds received by institutions on behalf of their students under Title IV of the Higher Education Act. These regulations are designed to ensure students have convenient access to their Title IV funds, do not incur unreasonable fees, and are not led to believe they must open a financial account to receive such funds.

Communications

The telecommunications business is subject to extensive federal, state, and local regulation. Under the Telecommunications Act of 1996 (“Telecommunications Act”), federal and state regulators share responsibility for implementing and enforcing statutes and regulations designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the Federal Communications Commission ("FCC") generally exercises jurisdiction over facilities and services of local exchange carriers to the extent they are used to provide, originate, or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate, or revoke operating authority for failure to comply with applicable federal laws or FCC rules, regulations, and policies.

State regulatory commissions generally exercise jurisdiction over carriers’ facilities and services to the extent they are used to provide, originate, or terminate intrastate communications. These regulatory commissions may dictate service standards and may require the payment of fees to remain in good standing with the applicable regulatory commission. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks.

The Communications Act of 1934 ("Communications Act") requires, among other things, that telecommunications carriers offer services at just and reasonable rates and on non-discriminatory terms and conditions. The 1996 amendments to the Communications Act, contained in the Telecommunications Act, dramatically changed, and likely will continue to change, the landscape of the telecommunications industry. The central aim of the Telecommunications Act is to open local telecommunications markets to competition while enhancing universal service. The Telecommunications Act imposes a number of interconnection and other requirements on all local communications providers. All telecommunications carriers have a duty to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers.

Municipalities where ALLO operates may require ALLO to obtain permits for street opening and construction. These permits or other licenses or agreements typically require the payment of fees. In addition, ALLO's aerial and underground construction operations are subject to extensive laws and regulations relating to the maintenance of safe conditions in the workplace.

<u>Internet services</u>

The provision of internet access services is not significantly regulated by either the FCC or the state commissions. However, the FCC has in recent years taken some steps toward the imposition of some controls on the provision of internet access, and has asserted that it has jurisdictional authority in some areas related to the promotion of an open internet. The extent of the FCC’s jurisdiction with respect to the internet has not been resolved, and this lack of resolution could lead to increased costs for ALLO in connection with its provision of internet services and affect ALLO's ability to effectively compete.

As the internet has matured, it has become the subject of increasing regulatory interest. Congress and federal regulators have adopted a wide range of measures directly or potentially affecting internet use, including, for example, consumer privacy, copyright protections, defamation liability, taxation, obscenity, and unsolicited commercial email. ALLO's internet services are subject to the Communications Assistance for Law Enforcement Act ("CALEA") requirements regarding law enforcement surveillance. Content owners are now seeking additional legal mechanisms to combat copyright infringement over the internet. Pending and future legislation in this area could adversely affect ALLO's operations as an ISP and relationship with internet customers. Additionally, the FCC and Congress are considering subjecting internet access services to the Universal Service funding requirements. These funding requirements could impose significant new costs on ALLO's high-speed internet service. State and local governmental organizations have also adopted internet-related regulations. These various governmental jurisdictions are also considering additional regulations in these and other areas, such as privacy, pricing, service and product quality, and taxation. The adoption of new internet regulations or the adaptation of existing laws to the internet could adversely affect ALLO's business.

In 2015, an FCC Net Neutrality Order went into effect. On December 14, 2017, the FCC voted to repeal the Open Internet Order and effectively the net neutrality rules. The previous rules prohibited ISPs from engaging in blocking, throttling, and paid prioritization, and transparency rules compelling the disclosure of network management policies were enhanced. The FCC was also granted the authority under the rules to hear complaints and take enforcement action if it determined that the interconnection activities of ISPs were not just and reasonable, or if ISPs failed to meet general obligations not to harm consumers or what are referred to as edge providers. The final version of the net neutrality repeal order restores the Federal Trade Commission's jurisdiction over broadband internet access services. The uncertainty around how the Federal Trade Commission will respond and challenges to the FCC repeal could limit ALLO’s ability to efficiently manage internet service and respond to operational and competitive challenges. Although the FCC approved the repeal of Net Neutrality regulations, ALLO’s views on the consumer protection aspect of Net Neutrality remain intact. ALLO will continue to treat internet speeds and access as they were under Net Neutrality regulations.

Television services

Federal regulations currently restrict the prices that cable systems charge for the minimum level of television programming service, referred to as “basic service,” and associated equipment. All other television service offerings are now universally exempt from rate regulation. Although basic service rate regulation operates pursuant to a federal formula, local governments, commonly referred to as local franchising authorities, are primarily responsible for administering this regulation. The majority of ALLO's local franchising authorities have never been certified to regulate basic service cable rates (and order rate reductions and refunds), but they generally retain the right to do so (subject to potential regulatory limitations under state franchising laws), except in those specific communities facing “effective competition,” as defined under federal law. There have been frequent calls to impose expanded rate regulation on the cable industry. As a result of rapidly increasing cable programming costs, it is possible that Congress may adopt new constraints on the retail pricing or packaging of cable programming. Federal rate regulations currently include certain marketing restrictions that could affect ALLO's pricing and packaging of service tiers and equipment. As ALLO attempts to respond to a changing marketplace with competitive pricing practices, it may face regulations that impede its ability to compete.

IPTV operations require state or local franchise or other authorization in order to provide cable service to customers. ALLO is subject to regulation under a Communications Act framework that addresses such issues as the use of local streets and rights of way; the carriage of public, educational, and governmental channels; the provision of channel space for leased commercial access; the amount and payment of franchise fees; consumer protection; and similar issues. In addition, federal laws and FCC regulations place limits on the common ownership of cable systems and competing multichannel television distribution systems, and on the common ownership of cable systems and local telephone systems in the same geographic area. The FCC has recently expanded its oversight and regulation of cable television-related matters. Federal law and regulations also affect numerous issues related to television programming and other content. Under federal law, certain local television broadcast stations (both commercial and non-commercial) can elect, every three years, to take advantage of rules that require a cable operator to distribute the station’s content to the cable system’s customers without charge, or to forego this “must-carry” obligation and to negotiate for carriage on an arm’s length contractual basis, which typically involves the payment of a fee by the cable operator, and sometimes involves other consideration as well. The current three-year cycle began on January 1, 2018. ALLO has negotiated agreements with the local television broadcast stations that would have been eligible for “must carry” treatment in each of its current markets. The contractual relationships between cable operators and most providers of content who are not television broadcast stations generally are not subject to FCC oversight or other regulation.

The Communications Act requires most utilities owning utility poles to provide access to poles and conduits, and subjects the rates charged for this access to either federal or state regulation. The FCC's pole attachment rules promote broadband deployment through the ability to access investor-owned utility poles on reasonable rates, terms, and conditions, subject to penalties in certain cases involving unauthorized attachments.

ALLO's IPTV systems are subject to a federal copyright compulsory license covering carriage of television and radio broadcast signals. The possible modification or elimination of this copyright compulsory license is the subject of continuing legislative proposals and administrative review and could adversely affect ALLO's ability to obtain desired broadcast programming. Copyright clearances for non-broadcast programming services are arranged through private negotiations. IPTV operators also must obtain music rights for locally originated programming and advertising from the major music performing rights organizations. These licensing fees have been the source of litigation in the past, and license fee disputes may arise in the future.

Telephone services

ALLO offers voice communications services over a broadband network. The FCC has ruled that competitive telephone companies are entitled to interconnect with incumbent providers of traditional telecommunications services, which ensures that services can compete in the market. The FCC has also declared that certain services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of state and local regulation of services is not yet clear.

Corporate

Governmental bodies in the United States and abroad have adopted, or are considering the adoption of, laws and regulations restricting the transfer and requiring the safeguarding of nonpublic personal information. For example, in the United States, the Company and its financial institution clients are, respectively, subject to the Federal Trade Commission’s and the federal banking regulators’ privacy and information safeguarding requirements under the GLBA. With certain exceptions, the GLBA prohibits a financial institution from disclosing a consumer’s nonpublic personal information to a nonaffiliated third party unless the institution satisfies various notice requirements and the consumer does not elect to prevent, or “opt out of,” the disclosure. The GLBA also imposes specific requirements regarding the disclosure of customer account numbers and the reuse and redisclosure of information a financial institution provides to a third party. Additionally, the European Union ("EU") has adopted a General Data Protection Regulation ("GDPR"), which went into effect in May 2018. The GDPR imposes significant new requirements on businesses that collect and process personal data of individuals residing in the EU, and provides for significant fines and other penalties for non-compliance. While the Company's operations are subject to certain provisions of these privacy laws, the Company has limited use of consumer information solely to providing services to other businesses and financial institutions. The Company limits sharing of nonpublic personal information to that necessary to complete transactions on behalf of the consumer and to that permitted by federal and state laws.

Intellectual Property

The Company owns numerous trademarks and service marks (“Marks”) to identify its various products and services. As of December 31, 2018, the Company had 57 registered Marks. The Company actively asserts its rights to these Marks when it believes infringement may exist. The Company believes its Marks have developed and continue to develop strong brand-name recognition in the industry and the consumer marketplace. Each of the Marks has, upon registration, an indefinite duration so long as the Company continues to use the Mark on or in connection with such goods or services as the Mark identifies. In order to protect the indefinite duration, the Company makes filings to continue registration of the Marks. The Company owns one patent application that has been published, but has not yet been issued, and has also actively asserted its rights thereunder in situations where the Company believes its claims may be infringed upon. The Company owns many copyright protected works, including its various computer system codes and displays, websites, and marketing materials. The Company also has trade secret rights to many of its processes and strategies and its software product designs. The Company's software products are protected by both registered and common law copyrights, as well as strict confidentiality and ownership provisions placed in license agreements, which restrict the ability to copy, distribute, or improperly disclose the software products. The Company also has adopted internal procedures designed to protect the Company's intellectual property.

The Company seeks federal and/or state protection of intellectual property when deemed appropriate, including patent, trademark/service mark, and copyright. The decision whether to seek such protection may depend on the perceived value of the intellectual property, the likelihood of securing protection, the cost of securing and maintaining that protection, and the potential for infringement. The Company's employees are trained in the fundamentals of intellectual property, intellectual property protection, and infringement issues. The Company's employees are also required to sign agreements requiring, among other things, confidentiality of trade secrets, assignment of inventions, and non-solicitation of other employees post-termination. Consultants, suppliers, and other business partners are also required to sign nondisclosure agreements to protect the Company's proprietary rights.

Employees

As of December 31, 2018, the Company had approximately 6,200 employees. None of the Company's employees are covered by collective bargaining agreements. The Company is not involved in any material disputes with any of its employees, and the Company believes that relations with its employees are good.

Available Information

The Company's internet website address is www.nelnet.com, and the Company's investor relations website address is www.nelnetinvestors.com. Copies of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available on the Company's investor relations website free of charge as soon as reasonably practicable after such reports are filed with or furnished to the SEC. The Company routinely posts important information for investors on its investor relations website.

The Company has adopted a Code of Ethics and Conduct that applies to directors, officers, and employees, including the Company's principal executive officer and its principal financial and accounting officer, and has posted such Code of Ethics and Conduct on its investor relations website. Amendments to and waivers granted with respect to the Company's Code of Ethics and Conduct relating to its executive officers and directors, which are required to be disclosed pursuant to applicable securities laws and stock exchange rules and regulations, will also be posted on its investor relations website. The Company's Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Risk and Finance Committee Charter, and Compliance Committee Charter are also posted on its investor relations website.

Information on the Company's websites is not incorporated by reference into this report and should not be considered part of this report.

ITEM 1A. RISK FACTORS

We operate our businesses in a highly competitive and regulated environment. We are subject to risks including, but not limited to, strategic, market, liquidity, credit, regulatory, technology, operational, security, and other business risks such as reputation damage related to negative publicity and dependencies on key personnel, customers, vendors, and systems. This section highlights specific risks that could affect us. Although this section attempts to highlight key risk factors, other risks may emerge at any time and we cannot predict all risks or estimate the extent to which they may affect our financial performance. These risk factors should be read in conjunction with the other information included in this report.

Loan Portfolio

Our loan portfolio is subject to certain risks related to interest rates, our ability to manage the risks related to interest rates, prepayment, and credit risk, each of which could reduce the expected cash flows and earnings on our portfolio.

Interest rate risk - basis and repricing risk

We are exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of our loan assets do not always match the interest rate characteristics of the funding for those assets.

We fund the majority of our FFELP student loan assets with one-month or three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on our FFELP student loan assets is indexed to one-month LIBOR, three-month commercial paper, and Treasury bill rates. The differing interest rate characteristics of our loan assets versus the liabilities funding these assets result in basis risk, which impacts the excess spread earned on our loans. We also face repricing risk due to the timing of the interest rate resets on our liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on our assets, which generally occur daily. In a declining interest rate environment, this may cause our student loan spread to compress, while in a rising interest rate environment, it may cause the spread to increase.

As of December 31, 2018, we had $20.6 billion, $1.0 billion, and $0.6 billion of FFELP loans indexed to the one-month LIBOR, three-month commercial paper, and three-month Treasury bill rate, respectively, all of which reset daily, and $9.9 billion of debt indexed to three-month LIBOR, which resets quarterly, and $10.3 billion of debt indexed to one-month LIBOR, which resets monthly. While these indices are all short term in nature with rate movements that are highly correlated over a longer period of time, there can be no assurance that the indices' historically high level of correlation will not be disrupted in the future due to capital market dislocations or other factors not within our control. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

We have entered into basis swaps to hedge our basis and repricing risk. For these derivatives, we receive three-month LIBOR set discretely in advance and pay one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps").

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Interest rate risk - loss of floor income

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the Special Allowance Payments ("SAP") formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. We generally finance our student loan portfolio with variable rate debt. In low and/or certain declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, these student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, we may earn additional spread income that we refer to as floor income.

Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn floor income for an extended period of time, which we refer to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, we may earn floor income to the next reset date, which we refer to as variable rate floor income.

For the year ended December 31, 2018, we earned $121.7 million of fixed rate floor income, which includes $64.9 million of net settlement proceeds received related to derivatives used to hedge loans earning fixed rate floor income. Absent the use of derivative instruments, a rise in interest rates will reduce the amount of floor income received and this will have an impact on earnings due to interest margin compression caused by increased financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with their SAP formulas. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed rate loans effectively convert to variable rate loans, the impact of the rate fluctuations is reduced.

Interest rate risk - use of derivatives

We utilize derivative instruments to manage interest rate sensitivity. Our derivative instruments are intended as economic hedges but do not qualify for hedge accounting; consequently, the change in fair value, called the “mark-to-market,” of these derivative instruments is included in our operating results. Changes or shifts in the forward yield curve can and have significantly impacted the valuation of our derivatives. Accordingly, changes or shifts in the forward yield curve will impact our results of operations.

Although we believe our derivative instruments are highly effective, developing an effective strategy for dealing with movements in interest rates is complex, and no strategy can completely insulate us from risks associated with such fluctuations. Because many of our derivatives are not balance guaranteed to a particular pool of student loans and we may not elect to fully hedge our risk on a notional and/or duration basis, we are subject to the risk of being under or over hedged, which could result in material losses. In addition, our interest rate risk management activities could expose us to substantial mark-to-market losses if interest rates move in a materially different way than was expected based on the environment when the derivatives were entered into. As a result, we cannot offer any assurance that our economic hedging activities will effectively manage our interest rate sensitivity or have the desired beneficial impact on our results of operations or financial condition.

The Dodd-Frank Act provides the CFTC with substantial authority to regulate over-the-counter derivative transactions. Since June 10, 2013, the CFTC has required over-the-counter derivative transactions to be executed through an exchange or central clearinghouse. Accordingly, all over-the-counter derivative contracts executed by us since that date are cleared post-execution at a regulated clearinghouse. Clearing is a process by which a third-party, the clearinghouse, steps in between the original counterparties and guarantees the performance of both, by requiring that each post substantial amounts of liquid collateral on an initial (initial margin) and mark-to-market (variation margin) basis to cover the clearinghouse's potential future exposure in the event of default. The clearing requirements require us to post substantial amounts of liquid collateral when executing new derivative instruments, which could negatively impact our liquidity and capital resources and may prevent or limit us from utilizing derivative instruments to manage interest rate sensitivity and risks. However, the clearing requirements reduce counterparty risk associated with over-the-counter derivative instruments executed by us after June 10, 2013.

For derivatives executed on and prior to June 10, 2013 or not required to be executed through an exchange or central clearinghouse ("non-centrally cleared derivatives"), we are exposed to credit risk. We attempt to manage credit risk by entering into transactions with high-quality counterparties that are reviewed periodically by our internal risk committee and our board of directors' Risk and Finance Committee. As of December 31, 2018, all of our derivative counterparties had investment grade credit ratings. We also have a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement. When the fair value of a non-centrally cleared derivative is positive (an asset on our balance sheet), this generally indicates that the counterparty owes us if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by us. If we were unable to collect from a counterparty, we would have a loss equal to the amount at which the derivative is recorded on the consolidated balance sheet.

When the fair value of a non-centrally cleared derivative is negative (a liability on our balance sheet), we would owe the counterparty if the derivative was settled and, therefore, have no immediate credit risk. If the negative fair value of derivatives with a counterparty exceeds a specified threshold, we may have to make a collateral deposit with the counterparty. The threshold at which we may be required to post collateral is dependent upon our unsecured credit rating. We believe any downgrades from our current unsecured credit ratings (Standard & Poor's: BBB- (stable outlook), Moody's: Ba1 (stable outlook), and DBRS: BBB (low) (stable outlook)), would not result in additional collateral requirements of a material nature. In addition, no counterparty has the right to terminate our contracts in the event of downgrades from the current ratings.

Interest rate movements have an impact on the amount of collateral we are required to deposit with our derivative instrument counterparties and variation margin payments with our clearinghouse. We attempt to manage market risk associated with interest rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Our derivative portfolio and hedging strategy is reviewed periodically by our internal risk committee and our board of directors' Risk and Finance Committee.

With our current derivative portfolio, we do not currently anticipate a near term movement in interest rates having a material impact on our liquidity or capital resources, nor expect future movements in interest rates to have a material impact on our ability to meet potential collateral deposit requirements with our counterparties or variation margin payments to our clearinghouse. Based on the interest rate swaps outstanding as of December 31, 2018, if the forward interest rate curve was 50 basis points lower for the remaining duration of these derivatives, we would have been required to pay approximately $32 million in additional collateral and/or variation margin. In addition, if the forward basis curve between one-month and three-month LIBOR experienced a ten basis point reduction in spread for the remaining duration of our 1:3 Basis Swaps (in which we pay one-month LIBOR and receive three-month LIBOR), we would have been required to post approximately $31 million in additional collateral and/or variation margin. Due to the existing low interest rate environment, our exposure to downward movements in interest rates on our interest rate swaps is limited. In addition, we believe the historical high correlation between one-month and three-month LIBOR limits our exposure to interest rate movements on the 1:3 Basis Swaps.

However, if interest rates move materially and negatively impact the fair value of our derivative portfolio or if we enter into additional derivatives in which the fair value of such derivatives becomes negative, we could be required to pay a significant amount of collateral to our derivative instrument counterparties and/or variation margin to our clearinghouse. These payments, if significant, could negatively impact our liquidity and capital resources.

Interest rate risk - replacement of LIBOR as a benchmark rate

As of December 31, 2018, the interest earned on a principal amount of $20.6 billion in our FFELP student loan asset portfolio was indexed to one-month LIBOR, and the interest paid on a principal amount of $20.2 billion of our FFELP student loan asset-backed debt securities was indexed to one-month or three-month LIBOR. In addition, the majority of our derivative financial instrument transactions used to manage LIBOR interest rate risks are indexed to LIBOR.

The United Kingdom’s Financial Conduct Authority, which regulates LIBOR, has publicly announced that it intends to stop persuading or compelling banks to submit information to the administrator of LIBOR after 2021. This indicates that the continuation of LIBOR on the current basis cannot be assured after 2021. There is no consensus on, and at this time it is impossible to predict, what rate or rates may become accepted alternatives to LIBOR.

If LIBOR in its current form does not survive, a market transition away from the current LIBOR framework to an alternative benchmark rate or rates is expected to involve significant complexity and uncertainty as to, among other things, when and in what manner such transition would be implemented, and could have a range of potential adverse effects on our business, financial condition, results of operations, and cash flows. In particular, any such transition could:

•adversely affect the interest rates paid or received on, the income and expenses associated with, and the pricing and value of our LIBOR-based assets and liabilities, which include the majority of our FFELP student loan assets and FFELP student loan asset-backed debt securities issued to fund those assets, as well as certain derivative financial instruments we use to manage LIBOR-based interest rate risks associated with such FFELP student loan-related assets and liabilities;

•result in uncertainty or differences in the calculation of the applicable interest rate or payment amounts on our LIBOR-based assets and liabilities depending on the terms of the governing instruments, which in turn could result in disputes, litigation, or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based securities and contracts, and the potential renegotiation of previous contracts; and

•make future asset-backed securitizations more difficult to complete or more expensive until LIBOR or alternative benchmark rate uncertainties are resolved.

In addition, a transition away from LIBOR to an alternative benchmark rate or rates may impact our existing transaction data, systems, operations, pricing and risk management processes, and require significant efforts to transition to or develop appropriate systems and analytics to reflect a new benchmark rate environment. There can be no assurance that such efforts will successfully mitigate the financial and operational risks associated with a transition away from LIBOR.

Prepayment risk

Higher rates of prepayments of student loans, including consolidations by the Department through the Federal Direct Loan Program or private refinancing programs, would reduce our interest income.

Pursuant to the Higher Education Act, borrowers may prepay loans made under the FFEL Program at any time without penalty. Prepayments may result from consolidations of student loans by the Department through the Federal Direct Loan Program or by a lending institution through a private education or unsecured consumer loan, which historically tend to occur more frequently in low interest rate environments; from borrower defaults, which will result in the receipt of a guaranty payment; and from voluntary full or partial prepayments; among other things.

Legislative risk exists as Congress evaluates proposals to reauthorize the Higher Education Act. If the federal government and the Department initiate additional loan forgiveness, other repayment options or plans, or consolidation loan programs, such initiatives could further increase prepayments and reduce interest income, and could also reduce servicing fees.

The rate of prepayments of student loans may be influenced by a variety of economic, social, political, and other factors affecting borrowers, including interest rates, federal budgetary pressures, and the availability of alternative financing. Our profits could be adversely affected by higher prepayments, which reduce the balance of loans outstanding and, therefore, the amount of interest income we receive.

Credit risk

Future losses due to defaults on loans held by us present credit risk which could adversely affect our earnings.

The vast majority (98.5 percent) of our student loan portfolio is federally guaranteed. The allowance for loan losses from the federally insured loan portfolio is based on periodic evaluations of our loan portfolios, considering loans in repayment versus those in nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government currently guarantees 97 percent of the principal and interest on federally insured student loans disbursed on and after July 1, 2006 (and 98 percent for those loans disbursed on and after October 1, 1993 and prior to July 1, 2006), which limits our loss exposure on the outstanding balance of our federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured for both principal and interest.

Our private education and consumer loans are unsecured, with neither a government nor a private insurance guarantee. Accordingly, we bear the full risk of loss on these loans if the borrower and co-borrower, if applicable, default. In determining the adequacy of the allowance for loan losses on the private education and consumer loans, we consider several factors, including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. We place our private education and consumer loans on nonaccrual status when the collection of principal and interest is 90 days past due, and charge off the loan when the collection of principal and interest is 120 days or 180 days past due, depending on the type of loan program.

The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. As of December 31, 2018, our allowance for loan losses was $60.4 million. During the year ended December 31, 2018, we recognized a provision for loan losses of $23.0 million. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that management believes is appropriate to cover probable losses inherent in the loan portfolio. However, future defaults can be higher than anticipated due to a variety of factors, such as downturns in the economy, regulatory or operational changes, and other unforeseen future trends. If actual performance is significantly worse than currently estimated, it would materially affect our estimate of the allowance for loan losses and the related provision for loan losses in our statements of income.

In June 2016, the Financial Accounting Standards Board issued accounting guidance regarding the measurement of credit losses on financial instruments, which will change the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. We currently use an incurred loss model when calculating our allowance for loan losses. As a result, we expect the new guidance will increase our allowance for loan losses. This guidance will be effective for us beginning January 1, 2020. This standard represents a significant departure from existing accounting standards, and may result in significant changes to our accounting for the allowance for loan losses and could negatively impact our financial position and results of operations.

Liquidity and Funding

The current maturities of our student loan warehouse financing facilities do not match the maturities of the related funded student loans, and we may not be able to modify and/or find alternative funding related to the student loan collateral in these facilities prior to their expiration.

The majority of our portfolio of student loans is funded through asset-backed securitizations that are structured to substantially match the maturities of the funded assets, and there are minimal liquidity issues related to these facilities. We also have student loans funded in shorter term warehouse facilities. The current maturities of these facilities do not match the maturity of the related funded assets. Therefore, we will need to modify and/or find alternative funding related to the student loan collateral in these facilities prior to their expiration.

As of December 31, 2018, we maintained two FFELP warehouse facilities as described in note 4 of the notes to consolidated financial statements included in this report. The FFELP warehouse facilities have revolving financing structures supported by liquidity provisions, which expire in May 2019. In the event we are unable to renew the liquidity provisions for a facility, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and we would be required to refinance the existing loans in the facility by the final maturity dates in May 2020 and May 2021, respectively. The FFELP warehouse facilities also contain financial covenants relating to levels of our consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any noncompliance with these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facilities. As of December 31, 2018, $986.9 million was outstanding under the FFELP warehouse facilities and $57.0 million was advanced as equity support.

If we are unable to obtain cost-effective funding alternatives for the loans in the warehouse facilities prior to the facilities' maturities, our cost of funds could increase, adversely affecting our results of operations. If we cannot find any funding alternatives, we would lose our collateral, including the student loan assets and cash advances, related to these facilities.

We are exposed to mark-to-formula collateral support risk on one of our FFELP warehouse facilities.

One of our FFELP warehouse facilities has a static advance rate until the expiration date of the liquidity provisions (May 2019). In the event the liquidity provisions are not extended, the valuation agent has the right to perform a one-time mark to market on the underlying loans funded in this facility, subject to a floor. The loans would then be funded at this new advance rate until the final maturity date of the facility.

As of December 31, 2018, $620.7 million was outstanding under this warehouse facility and $30.6 million was advanced as equity support. In the event that the liquidity provisions are not renewed, a significant change in the valuation of loans could result in additional required equity funding support for this warehouse facility greater than what we can provide, which could result in an event of default resulting in termination of the facility and an acceleration of the repayment provisions. If we cannot find any funding alternatives, we would lose our collateral, including the student loan assets and cash advances, related to this facility. A default on the FFELP warehouse facility would result in an event of default on our $382.5 million unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Changes in ratings on asset-backed securitization transactions, including those we sponsor, can have a material adverse impact on our ability to access the asset-backed securities market.

After securitizations are initially issued, if their performance does not align with rating agencies' expectations at the time of issuance, or if the rating agencies modify their assumptions and methodologies used for rating student loan securitizations, it is possible that initial high quality ratings on our subsidiaries’ securitizations, or those of other asset-backed securities issuers, could be materially lowered. Such actions could adversely affect our ability to access the asset-backed securities market, or make new securitization transactions more expensive by requiring us to pay a higher spread over LIBOR when pricing new bonds.

Operations

Risks associated with our operations, as further discussed below, include those related to our information technology systems and potential security and privacy breaches, our ability to manage performance related to regulatory requirements, and the importance of maintaining scale by retaining existing customers and attracting new business opportunities.

Our largest fee-based customer, the Department of Education, represented 30 percent of our revenue in 2018. Failure to extend the Department contracts or obtain new Department contracts for different components, unfavorable contract modifications or interpretations, or our inability to consistently surpass competitor performance metrics, could significantly lower loan servicing revenue and hinder future servicing opportunities.

With the acquisition of Great Lakes, we are two of four TIVAS awarded a student loan servicing contract by the Department to provide additional servicing capacity for loans owned by the Department. The Department also has contracts with 31 NFP entities to service student loans, although currently five NFP servicers service the volume allocated to these 31 entities. New loan volume is allocated among the four TIVAS and five NFP servicers based on certain performance metrics established by the Department and compared among all loan servicers in this group. As of December 31, 2018, Nelnet Servicing was servicing $179.5 billion of student loans for 5.8 million borrowers under its contract, and Great Lakes was servicing $232.7 billion of student loans for 7.5 million borrowers under its contract. For the year ended December 31, 2018, we recognized $325.4 million in revenue from the Department under these contracts, which represented 30 percent of our revenue.

Nelnet Servicing's and Great Lakes' contracts with the Department are currently scheduled to expire on June 16, 2019. Currently, FSA has ongoing solicitations for three new servicing components for the Department to replace the existing contracts. We are part of teams that currently intend to respond to the solicitations for each of the three components.

In the event that our servicing contracts are not extended beyond the current expiration date or we are not chosen as a subsequent servicer, loan servicing revenue would decrease significantly. There are significant risks and uncertainties regarding the current Department contracts and potential future Department contracts, including potential delays, cancellations, or material changes to the structure of the contract procurement process, and we cannot predict the timing or outcome of the Department's contract procurement solicitations.

Even if the current contracts are extended or we are successful in obtaining new contracts, the amount of future allocations of new loan volume could be negatively impacted if we are unable to consistently surpass comparable competitor and/or other performance metrics. In addition, in the event the Department servicing contracts become subject to unfavorable modifications or interpretations by the Department, loan servicing revenue could decrease significantly.

Additionally, we are partially dependent on the existing Department contracts to broaden servicing operations with the Department, other federal and state agencies, and commercial clients. The size and importance of these contracts provide us the scale and infrastructure needed to profitably expand into new business opportunities. Failure to extend the Department contracts beyond the current expiration date, or obtain new Department contracts, could significantly hinder future opportunities.

Various events could disrupt our networks, information systems, or properties which could impair our operating activities and negatively impact our reputation.

As a loan servicer, software provider, payment provider, and telecommunications company for the federal government, financial institutions, education industry, and local communities that serve millions of customers through the internet and other distribution channels across the U.S., we depend on our ability to process, secure, record, and monitor a large number of customer transactions and confidential information on a continuous basis. Additionally, we depend on the efficient and uninterrupted operation of our computer network systems, software, datacenters, and telecommunications systems, as well as the systems of third parties.

Information security risks continue to increase in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to support and process customer transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our business segments rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems.

Although we believe we have robust information security procedures, controls, and business continuity plans, we may be subject to information technology system failures and network disruptions. Malicious and abusive activities, such as the dissemination of computer viruses, worms, and other destructive or disruptive software, computer hackings, social engineering, process breakdowns, denial of service attacks, and other malicious activities have become more common. If directed at us or technologies upon which we depend, these activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers, and damage to our or our customers' equipment and data. Further, these activities could result in security breaches, such as misappropriation, misuse, leakage, falsification or accidental release or loss of information maintained in our information technology systems and networks, and in our vendors’ systems and networks, including customer, personnel, and vendor data. System failures and network disruptions may also be caused by natural disasters, accidents, power disruptions, or telecommunications failures. If a significant incident were to occur, it could damage our reputation and credibility, lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to service our customers and protect our network. These events also could result in large expenditures to repair or replace the damaged properties, networks, or information systems or to protect them from similar events in the future. System redundancy may be ineffective or inadequate, and our business continuity plans may not be sufficient for all eventualities. Any significant loss of customers or revenue, or significant increase in costs of serving those customers, could adversely affect our growth, financial condition, and results of operations.

Although to date we have not experienced a material loss relating to cyber-attacks, information security breaches, or system outage, there can be no assurance that we will not suffer such losses in the future or that there is not a current threat that remains undetected at this time. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, and the size and scale of our services.

In addition, the personal consumer data that we receive and maintain in our operations is subject to privacy laws and regulations, and we expect regulatory oversight will continue to increase and consumer privacy protection regulations, standards, supervision, examinations, and enforcement practices will continue to evolve in both detail and scope. This evolution may significantly add to our privacy compliance and operating costs.

As a result of these matters, the continued development and enhancement of our training, controls, processes, and practices designed to protect, monitor, and restore our systems, computers, software, data, and networks from attack, damage, or unauthorized access remain a priority for the Company and each of our business segments. Even though we maintain technology and telecommunication, professional services, media, network security, privacy, injury, and liability insurance coverage to offset costs that may be incurred as a result of a cyber-attack, information security breach, or extended system outage, this insurance coverage may not cover all costs of such incidents.

We must adapt to rapid technological change. If we are unable to take advantage of technological developments, or if we adopt and implement them more slowly than our competitors, we may experience a decline in the demand for our products and services.

Our long-term operating results depend substantially upon our ability to continually enhance, develop, introduce, and market new products and services. We must continually and cost-effectively maintain and improve our information technology systems and infrastructure in order to successfully deliver competitive and cost effective products and services to our customers. The widespread adoption of new technologies and market demands could require substantial expenditures to enhance system infrastructure and existing products and services. If we fail to enhance and scale our systems and operational infrastructure or products and services, our operating segments may lose their competitive advantage and this could adversely affect financial and operating results.

Our software products may experience quality problems and development delays, which could damage client relations, our potential profitability, and expose us to liability.

Our NDS and NBS products are based on sophisticated software and computing systems that often encounter development delays, and the underlying software may contain undetected bugs or other defects that interfere with its intended operation. Quality problems with our software products and errors or delays in our processing of electronic transactions could result in additional development costs, diversion of technical and other resources from our other development efforts, loss of credibility with current or potential clients, harm to our reputation, or exposure to liability claims. In addition, we rely on technologies supplied to us by third parties that may also contain undetected errors or defects that could have a material adverse effect on our business, financial condition, and results of operations.

We outsource critical operations, which exposes us to risks related to our third-party vendors.
We have entered into contracts with third-party service providers that provide critical services, technology, and software to our business segments. Some of our third-party vendors are primary service providers for which there are few substitutes. If any of these vendors should experience financial difficulties, system interruptions, regulatory violations, security threats, or they cannot otherwise meet our specifications, our ability to provide some services may be materially adversely affected, in which case our business, results of operations, and financial condition may be adversely affected.

We must satisfy certain requirements necessary to maintain the federal guarantees of our federally insured loans and the federally insured loans that we service for third parties, and we may incur penalties or lose our guarantees if we fail to meet these requirements.
As of December 31, 2018, we serviced $36.7 billion of FFELP loans that maintained a federal guarantee, of which $18.9 billion and $17.8 billion were owned by the Company and third-party entities, respectively. We must meet various requirements in order to maintain the federal guarantee on federally insured loans. The federal guarantee on federally insured loans is conditional based on compliance with origination, servicing, and collection policies set by the Department and guaranty agencies. If the Company misinterprets Department guidance, or incorrectly applies the Higher Education Act, the Department could determine that the Company is not in compliance. Federally insured loans that are not originated, disbursed, or serviced in accordance with the Department's and guaranty agency regulations may risk partial or complete loss of the guarantee. If we experience a high rate of servicing deficiencies (including any deficiencies resulting from the conversion of loans from one servicing platform to another, errors in the loan origination process, establishment of the borrower's repayment status, and due diligence or claim filing processes), it could result in the loan guarantee being revoked or denied. In most cases we have the opportunity to cure these deficiencies by following a prescribed cure process which usually involves obtaining the borrower's reaffirmation of the debt. However, not all deficiencies can be cured.

A guaranty agency may also assess an interest penalty upon claim payment if the deficiency does not result in a loan rejection. These interest penalties are not subject to cure provisions and are typically related to isolated instances of due diligence deficiencies. Additionally, we may become ineligible for special allowance payment benefits from the time of the first deficiency leading to the loan rejection through the date that the loan is cured.

Failure to comply with federal and guarantor regulations may result in fines, penalties, the loss of the insurance and related federal guarantees on affected FFELP loans, the loss of special allowance payment benefits, expenses required to cure servicing deficiencies, suspension or termination of the right to participate as a FFELP servicer, negative publicity, and potential legal claims, including potential claims by our servicing customers if they lose the federal guarantee on loans that we service for them. If the Company is subjected to significant fines, or loss of insurance or guarantees on a material number of FFELP loans, or if the Company loses its ability to service FFELP loans, it could have a material, negative impact on the Company's business, financial condition, or results of operations.

Our contracts with the Department of Education expose us to additional risks inherent in government contracts.
The Federal government could engage in a prolonged debate linking the federal deficit, debt ceiling, government shutdown and other budget issues. If U.S. lawmakers in the future fail to reach agreement on these issues, the federal government could stop or delay payment on its obligations. Further, legislation to address the federal deficit and spending could impose proposals that would adversely affect the FFEL and Federal Direct Loan Programs' servicing businesses.

We contract with FSA to administer loans held by FSA in both the FFEL and Federal Direct Loan Programs, we own a portfolio of FFELP loans, and we service our FFELP loans and loans for third parties. These loan programs are authorized by the Higher Education Act and subject to periodic reauthorization and changes to the programs by the Administration and U.S. Congress. The latest round of reauthorization is taking place currently. We cannot predict what will or will not be in the final law. However, any changes, including the potential for borrowers to refinance loans via Direct Consolidation Loans, could have a material impact to our cash flows from servicing, interest income, and operating margins.

Government entities in the United States often reserve the right to audit contract costs and conduct inquiries and investigations of business practices. These entities also conduct reviews and investigations and make inquiries regarding systems, including systems of third parties, used in connection with the performance of the contracts.

Negative findings from audits, investigations, or inquiries could affect the contractor’s future revenues and profitability. If improper or illegal activities are found in the course of government audits or investigations, we could become subject to various civil and criminal penalties, including those under the civil U.S. False Claims Act. Additionally, we may be subject to administrative sanctions, which may include termination or non-renewal of contracts, forfeiture of profits, suspension of payments, fines and suspensions, or debarment from doing business with other agencies of that government. Due to the inherent limitations of internal controls, it may not be possible to detect or prevent all improper or illegal activities.

The Government could change governmental policies, regulatory environments, spending sentiment, and many other factors and conditions, some of which could adversely impact our business, financial condition, and results of operations. We cannot predict how or what programs or policies will be impacted by the federal government. The conditions described above could impact not only our contracts with the Department, but also other existing or future contracts with government or commercial entities.

Our ability to continue to grow and maintain our contracts with commercial businesses and government agencies is partly dependent on our ability to maintain compliance with various laws, regulations, and industry standards applicable to those contracts.

We are subject to various laws, regulations, and industry standards related to our commercial and government contracts. In most cases, these contracts are subject to termination rights, audits, and investigations. The laws and regulations that impact our operating segments are outlined in Part I, Item 1, "Regulation and Supervision." Additionally, our contracts with the federal government require that we maintain internal controls in accordance with the National Institute of Standards and Technologies (“NIST”) and our operating segments that utilize payment cards are subject to the Payment Card Industry Data Security Standards (“PCI-DSS”). If we are found to be in noncompliance with the contract provisions or applicable laws, regulations, or standards, or the contracted party exercises its termination or other rights for that or other reasons, our reputation could be negatively affected, and our ability to compete for new contracts or maintain existing contracts could diminish. If this were to occur, our results of operations from existing contracts and future opportunities for new contracts could be negatively affected.

Our failure to successfully manage business and certain asset acquisitions and other investments could have a material adverse effect on our business, financial condition, and/or results of operations.

The success of our acquisition of ALLO in December 2015 and continued investment in the communications business depends in large part on the ability of ALLO to successfully develop and expand fiber networks in existing service areas and additional communities within acceptable cost parameters, gain market share in communities in existing service areas, and obtain acceptable market share levels in additional communities that we do not yet serve. ALLO may not be able to achieve those objectives and we may not realize the expected benefits from ALLO. In addition, the expected benefits are subject to risks related to the uncertain nature of our ability to successfully integrate operations; the ability to successfully maintain technological competitive advantages with respect to the offered telecommunications, internet, television, telephone, and other related services and minimize potential system disruptions to the availability, speed, and quality of such services; potential changes in the marketplace, including potential decreases in market pricing for telecommunications and related services; potential changes in the demand for fiber optic internet, television, and telephone services; and increases in transport and content costs as discussed below.

We acquired Great Lakes on February 7, 2018. The success of our acquisition of Great Lakes depends on our ability to successfully integrate technology, shared services, and other operating activities and successfully maintain and increase allocated volumes of student loans serviced by Great Lakes and Nelnet Servicing under existing and any future servicing contracts with the Department. Great Lakes and Nelnet Servicing have also been working for over two years to develop a new, state-of-the-art servicing system for government-owned student loans. The servicing platform under development will utilize modern technology to effectively scale for additional volume, protect customer information, and support enhanced borrower experience initiatives. The expected benefits from the servicing platform under development may not be realized.

We may acquire other new businesses, products, and services, or enhance existing businesses, products, and services, or make other investments to further diversify our businesses both within and outside of our historical education-related businesses, through acquisitions of other companies, product lines, technologies, and personnel, or through investments in new asset classes, real estate, or other companies. Any acquisition or investment is subject to a number of risks. Such risks may include diversion of management time and resources, disruption of our ongoing businesses, difficulties in integrating acquisitions, loss of key employees, degradation of services, difficulty expanding information technology systems and other business processes to incorporate the acquired businesses, extensive regulatory requirements, dilution to existing shareholders if our common stock is issued in consideration for an acquisition or investment, incurring or assuming indebtedness or other liabilities in connection with an acquisition, unexpected declines in real estate values or the failure to realize expected benefits from real estate development projects, lack of familiarity with new markets, and difficulties in supporting new product lines. Our failure to successfully manage acquisitions or investments, or successfully integrate acquisitions, could have a material adverse effect on our business, financial condition, and/or results of operations. Correspondingly, our expectations as to the accretive nature of the acquisitions or investments could be inaccurate.

Transport and content costs related to ALLO's video products and services are substantial and continue to increase.

The cost of video transport and content costs is expected to continue to be one of ALLO's largest operating costs associated with providing television service. Television programming content includes cable-oriented programming, as well as the programming of local over-the-air television stations that ALLO retransmits. In addition, on-demand programming is being made available in response to customer demand. In recent years, the cable industry has experienced rapid increases in the cost of programming, especially the costs for sports programming and for local broadcast station retransmission consent. Programming costs are generally assessed on a per-subscriber basis, and therefore are related directly to the number of subscribers to which the programming is provided. ALLO's relatively small base of subscribers limits our ability to negotiate lower per-subscriber programming costs, whereas larger providers can often obtain discounts based on the number of their subscribers. This cost difference can cause ALLO to experience reduced operating margins relative to our competitors with a larger subscriber base. In addition, escalators in existing content agreements cause cost increases that are greater than general inflation. While ALLO expects these increases to continue, it may not be able to pass programming cost increases on to customers, particularly as an increasing amount of programming content becomes available via the internet at little or no cost. Also, some competitors (or their affiliates) own programming in their own right and ALLO may be unable to secure license rights to that programming. As ALLO's programming contracts with content providers expire, there can be no assurance that they will be renewed on acceptable terms or at all, in which case ALLO may be unable to provide such television programming, causing business results to be adversely affected.

If ALLO cannot obtain and maintain necessary rights-of-way for its communications network, ALLO's operations may be interrupted and it would likely face increased costs.

ALLO is dependent on easements, franchises, and licenses from various private parties such as established telephone companies and other utilities, railroads, long-distance companies and from state highway authorities, local governments and transit authorities for access to aerial pole space, underground conduits, and other rights-of-way in order to construct and operate its networks. Some agreements relating to rights-of-way may be short-term or revocable at will, and ALLO cannot be certain that it will continue to have access to existing rights-of-way after the governing agreements are terminated or expire. If any of ALLO's right-of-way agreements were terminated or could not be renewed, it may be forced to remove network facilities from the affected areas, relocate, or abandon networks, which would interrupt operations and force ALLO to find alternative rights-of-way, and make unexpected capital expenditures.

If ALLO cannot successfully manage construction risks and uncertainties, the expansion of its communications networks may not be achieved within acceptable cost parameters or result in desired levels of market share.

The success of our investment in ALLO depends on the ability of ALLO to successfully execute its current efforts and plans to construct expanded fiber communications networks to make its services available to additional homes and businesses. The construction of communications networks is subject to various risks and uncertainties, including risks and uncertainties related to the determination of the precise locations of easements and other rights-of-way necessary to construct and operate the networks, and the management of such construction in a manner that reasonably minimizes the disruption to other private property owners, including minimizing any unintended damage to property or equipment owned or utilized by private parties. If ALLO is not successful in managing these and similar construction risks, it could experience higher than expected costs and reputational damage that adversely impacts market share and future revenues, and the currently expected benefits from its expansion efforts and plans may not be realized.

ALLO may incur liabilities or suffer negative financial impact relating to occupational, health, and safety matters or failure to comply with safety or environmental laws.

Aerial and underground construction of new networks and service requires employees and contractors to work in the proximity of gas, electric, water, sewer, and other competitors' utility services, and ALLO's operations are subject to extensive laws and regulations relating to the maintenance of safe conditions in the workplace. While ALLO has invested, and will continue to invest, substantial resources in its robust occupational, health, and safety programs, ALLO's business involves a high degree of operational risk, and there can be no assurance that it will avoid significant exposure. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment, and other consequential damages and could lead to suspension of operations, large damage claims and, in extreme cases, criminal liability. ALLO could also be subject to potential liabilities in the event it causes a release of hazardous substances or other environmental damage resulting from underground objects it encounters. Environmental laws and regulations can impose significant fines and criminal sanctions for violations. Costs associated with the discharge of hazardous substances may include clean-up costs and related damages or liabilities. These costs could be significant and could adversely affect ALLO's results of operations and cash flows.

Industry changes and competitive pressures may harm revenues and profit margins, including future revenues and profit margins of our communications business through ALLO.
We face aggressive price competition for our products and services and, as a result, we may have to lower our product and service prices to stay competitive, while at the same time, expand market share and maintain profit margins. Even if we are able to maintain or increase market share for a product or service, revenue or profit margins could decline because the product or service is in a maturing market or market conditions have changed due to economic, political, or regulatory pressures.
The internet, television, and telecommunications businesses are highly competitive. For a discussion of the competitive factors faced by ALLO, see Part I, Item I, "Communications - Competition." ALLO may not be able to successfully anticipate and respond to many of these various competitive factors affecting the industry, including regulatory changes that may affect competitors and ALLO differently, new technologies, services and applications that may be introduced, and changes in consumer preferences, demographic trends, and discount or bundled pricing strategies by competitors which are larger and have more resources than ALLO. If ALLO does not compete effectively, it could lose customers, revenue, and market share; customers may reduce their usage of ALLO's services or switch to a less profitable service; and ALLO may need to lower prices or increase marketing efforts to remain competitive.
Our enterprise risk management framework may not be effective in mitigating all risks.
Our enterprise risk management framework includes policies, processes, personnel, and control systems to identify, measure, monitor, control, and report risks. This framework is designed to mitigate and appropriately balance risk exposure with the company’s strategic objectives and desired returns. However, there may be risks that exist, or that develop in the future, that we have not anticipated, identified, or mitigated. If our enterprise risk management framework does not effectively identify and manage these risks, we could suffer unexpected losses, and our results of operations, cash flow, or financial condition could be materially adversely affected.
Regulatory and Legal
Federal and state laws and regulations can restrict our businesses and result in increased compliance expenses, and noncompliance with these laws and regulations could result in penalties, litigation, reputation damage, and a loss of customers.
Our operating segments and customers are heavily regulated by federal and state government regulatory agencies. See Part I, Item 1, "Regulation and Supervision." The laws and regulations enforced by these agencies are proposed or enacted to protect consumers and the financial industry as a whole, not necessarily the Company, our operating segments, or our shareholders. We have procedures and controls in place to monitor compliance with numerous federal and state laws and regulations. However, because these laws and regulations are complex, differ between jurisdictions, and are often subject to interpretation, or as a result of unintended errors, we may, from time to time, inadvertently violate these laws and regulations. Compliance with these laws and regulations is expensive and requires the time and attention of management. These costs divert capital and focus away from efforts intended to grow our business. If we do not successfully comply with laws, regulations, or policies, we could incur fines or penalties, lose existing or new customer contracts or other business, and suffer damage to our reputation. Changes in these laws and regulations can significantly alter our business environment, limit business operations, and increase costs of doing business, and we cannot predict the impact such changes would have on our profitability.
The CFPB has the authority to supervise and examine large nonbank student loan servicers, including us. If in the course of such an examination the CFPB were to determine that we were not in compliance with applicable laws, regulations, and CFPB guidance, it is possible that this could result in material adverse consequences, including, without limitation, settlements, fines, penalties, public enforcement action, adverse regulatory actions, changes in our business practices, or other actions. In 2015, the CFPB conducted a public inquiry into student loan servicing practices and issued a report recommending the creation of consistent, industry-wide standards for the entire servicing market. The CFPB has also announced that it may issue student loan servicing rules in the future.
There is significant uncertainty regarding how the CFPB's recommendations, strategies, and priorities will impact our businesses and our results of operations going forward. Actions by the CFPB could result in requirements to alter our services, causing them to be less attractive or effective and impair our ability to offer them profitably. In the event that the CFPB changes regulations adopted in the past by other regulators, or modifies past regulatory guidance, our

compliance costs and litigation exposure could increase.

As a result of the Reconciliation Act of 2010, interest income on our existing FFELP loan portfolio, as well as revenue from FFELP servicing and FFELP loan servicing software licensing and consulting fees, will continue to decline over time as our and our third-party lender clients' FFELP loan portfolios are paid down and FFELP clients exit the market.

The Reconciliation Act of 2010 discontinued new loan originations under the FFEL Program effective July 1, 2010, and requires that all new federal loan originations be made through the Federal Direct Loan Program. Although the law did not alter or affect the terms and conditions of existing FFELP loans, interest income and revenue streams related to existing FFELP loans will continue to decline over time as existing FFELP loans are paid down, refinanced, or repaid by guaranty agencies after default.

During the years ended December 31, 2018, 2017, and 2016, we recognized approximately $230 million, $290 million, and $360 million, respectively, of net interest income on our FFELP loan portfolio, approximately $32 million, $16 million, and $26 million, respectively, in guaranty and third-party FFELP servicing revenue, and approximately $5 million, $5 million, and $6 million, respectively, in FFELP loan servicing software licensing and consulting fees related to the FFEL Program. The 2018 increase in FFELP servicing revenue was due to the acquisition of Great Lakes, and these amounts will otherwise continue to decline over time as our and our third-party lender clients' FFELP loan portfolios are paid down and FFELP clients exit the market.

If we are unable to grow or develop new revenue streams, our consolidated revenue and operating margin will decrease as a result of the decline in FFELP loan volume outstanding.

Exposure related to certain tax issues could decrease our net income.

Federal and state income tax laws and regulations are often complex and require interpretation. From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. We prepare and file tax returns based on the interpretation of tax laws and regulations. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In accordance with authoritative accounting guidance, we establish reserves for tax contingencies related to deductions and credits that we may be unable to sustain. Differences between the reserves for tax contingencies and the amounts ultimately owed are recorded in the period they become known. Adjustments to our reserves could have a material effect on our financial statements.

We may also be impacted by changes in tax laws, including tax rate changes, new tax laws, and subsequent interpretations of tax laws by federal and state tax authorities.

In addition to corporate tax matters, as both a lender and servicer of student loans, we are required to report student loan interest received and cancellation of indebtedness to individuals and the Internal Revenue Service on an annual basis. These informational forms assist individuals in complying with their federal and state income tax obligations. The statutory and regulatory guidance regarding the calculations, recipients, and timing are complex and we know that interpretations of these rules vary across the industry. The complexity and volume associated with these informational forms creates a risk of error which could result in penalties or damage to our reputation.

Principal Shareholder and Related Party Transactions

Our Executive Chairman beneficially owns 77.1 percent of the voting rights of our shareholders and effectively has control over all matters at our Company.

Michael S. Dunlap, our Executive Chairman and a principal shareholder, beneficially owns 77.1 percent of the voting rights of our shareholders. Accordingly, each member of the Board of Directors and each member of management has been elected or effectively appointed by Mr. Dunlap and can be removed by Mr. Dunlap. As a result, Mr. Dunlap, as Executive Chairman and controlling shareholder, has control over all matters at our Company and has the ability to take actions that benefit him, but may not benefit other minority shareholders, and may otherwise exercise his control in a manner with which other minority shareholders may not agree or which they may not consider to be in their best interests.

Our contractual arrangements and transactions with Union Bank and Trust Company ("Union Bank"), which is under common control with us, present conflicts of interest and pose risks to our shareholders that the terms may not be as favorable to us as we could receive from unrelated third parties.

Union Bank is controlled by Farmers & Merchants Investment Inc. ("F&M"), which owns 81.4 percent of Union Bank's common stock and 15.4 percent of Union Bank's non-voting non-convertible preferred stock. Mr. Dunlap, a significant shareholder, as well as Executive Chairman, and a member of our Board of Directors, along with his spouse and children, owns or controls a total of 33.0 percent of the stock of F&M, including a total of 48.6 percent of the outstanding voting common stock of F&M, and Mr. Dunlap's sister, Angela L. Muhleisen, along with her spouse and children, owns or controls a total of 31.7 percent of F&M stock, including a total of 47.5 percent of the outstanding voting common stock of F&M. Mr. Dunlap serves as a Director and Chairman of F&M. Ms. Muhleisen serves as a Director and Chief Executive Officer of F&M and as a

Director, Chairperson, President, and Chief Executive Officer of Union Bank. Union Bank is deemed to have beneficial ownership of a significant number of shares of Nelnet because it serves in a capacity of trustee or account manager for various trusts and accounts holding shares of Nelnet, and may share voting and/or investment power with respect to such shares. As of December 31, 2018, Union Bank was deemed to beneficially own 10.9 percent of the voting rights of our outstanding common stock. As of December 31, 2018, Mr. Dunlap and Ms. Muhleisen beneficially owned 77.1 percent and 12.0 percent, respectively, of the voting rights of our outstanding common stock (with certain shares deemed under applicable SEC rules to be beneficially owned by both Mr. Dunlap and Ms. Muhleisen).

We have entered into certain contractual arrangements with Union Bank, including loan purchases, loan servicing, loan participations, banking services, 529 Plan administration services, lease arrangements, trustee services, and various other investment and advisory services. The net aggregate impact on our consolidated statements of income for the years ended December 31, 2018, 2017, and 2016 related to the transactions with Union Bank was income (before income taxes) of $9.2 million, $12.5 million, and $7.0 million, respectively. See note 19 of the notes to consolidated financial statements included in this report for additional information related to the transactions between us and Union Bank.

Transactions between Union Bank and us are generally based on available market information for comparable assets, products, and services and are extensively negotiated. In addition, all related party transactions between Union Bank and us are approved by both the Union Bank Board of Directors and our Board of Directors. Furthermore, Union Bank is subject to regulatory oversight and review by the FDIC, the Federal Reserve, and the State of Nebraska Department of Banking and Finance. The FDIC and the State of Nebraska Department of Banking and Finance regularly review Union Bank's transactions with affiliates. The regulatory standard applied to the bank falls under Regulation W, which places restrictions on certain “covered” transactions with affiliates.

We intend to maintain our relationship with Union Bank, which our management believes provides certain benefits to us. Those benefits include Union Bank's knowledge of and experience in the FFELP industry, its willingness to provide services, and at times liquidity and capital resources, on an expedient basis, and the proximity of Union Bank to our corporate headquarters located in Lincoln, Nebraska.

The majority of the transactions and arrangements with Union Bank are not offered to unrelated third parties or subject to competitive bids. Accordingly, these transactions and arrangements not only present conflicts of interest, but also pose the risk to our shareholders that the terms of such transactions and arrangements may not be as favorable to us as we could receive from unrelated third parties. Moreover, we may have and/or may enter into contracts and business transactions with related parties that benefit Mr. Dunlap and his sister, as well as other related parties, that may not benefit us and/or our minority shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved comments from the staff of the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The following table lists the principal facilities for office space owned or leased by the Company as of December 31, 2018. The Company owns the building in Lincoln, Nebraska where its principal office is located.

Location	Primary function or segment	Approximate square feet	Lease expiration date
Lincoln, NE	Corporate Headquarters, Loan Servicing and Systems, Education Technology, Services, and Payment Processing, Communications	308,000 (a)	—
Madison, WI	Loan Servicing and Systems	182,000	—
Highlands Ranch and Aurora, CO	Loan Servicing and Systems	104,000	January 2020 and October 2020
Lincoln, NE	Loan Servicing and Systems, Asset Generation and Management, Education Technology, Services, and Payment Processing, Communications	78,000	Month-to-month, June 2023, November 2023, and April 2024
Omaha, NE	Loan Servicing and Systems, Education Technology, Services, and Payment Processing	58,000	December 2020 and December 2025
Aberdeen, SD	Loan Servicing and Systems	57,000	—
Eau Claire, WI	Loan Servicing and Systems	43,000	—
Eagan, MN	Loan Servicing and Systems	38,000	January 2024
Plano, TX	Loan Servicing and Systems	27,000	March 2025
Stevens Point, WI	Loan Servicing and Systems	24,000	November 2023
Burleson, TX	Education Technology, Services, and Payment Processing	17,000	October 2022

Boscobel, WI	Loan Servicing and Systems	16,000	December 2019
Scottsbluff, NE	Communications	15,000	April 2019
Rocky Hill, CT	Loan Servicing and Systems	13,000	July 2021
Hastings, NE	Communications	12,000	September 2020 and March 2025
North Platte, NE	Communications	11,000	August 2026
Boise, ID	Loan Servicing and Systems	7,000	July 2021
Alliance, NE	Communications	6,000	May 2022
Imperial, NE	Communications	6,000	—
Fort Morgan, CO	Communications	5,000	March 2023

(a) Excludes a total of approximately 22,000 square feet of owned office space that the Company leases to third parties.

ALLO's physical assets consist of network plant and fiber, including signal receiving, encoding and decoding devices, headend reception facilities, distribution systems, and customer-located property. The network plant and fiber assets are generally attached to utility poles under pole rental agreements with local public utilities and telephone companies, or are buried in underground ducts or trenches, generally in utility easements. ALLO owns or leases real property for signal reception sites, and owns its own vehicles. ALLO's headend reception facilities and most offices are located on leased property. Additionally, ALLO leases office and warehouse facilities in most communities where it operates.

The Company leases other office facilities located throughout the United States. These properties are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located.

The Company believes that its respective properties are generally suitable and adequate to meet its long term business goals. The Company's principal office is located at 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters frequently involve claims by student loan borrowers disputing the manner in which their student loans have been serviced or the accuracy of reports to credit bureaus, claims by student loan borrowers or other consumers alleging that state or Federal consumer protection laws have been violated in the process of collecting loans or conducting other business activities, and disputes with other business entities. In addition, from time to time the Company receives information and document requests from state or federal regulators concerning its business practices. The Company cooperates with these inquiries and responds to the requests. While the Company cannot predict the ultimate outcome of any regulatory examination, inquiry, or investigation, the Company believes its activities have materially complied with applicable law, including the Higher Education Act, the rules and regulations adopted by the Department thereunder, and the Department's guidance regarding those rules and regulations. On the basis of present information, anticipated insurance coverage, and advice received from counsel, it is the opinion of the Company's management that the disposition or ultimate determination of these claims, lawsuits, and proceedings will not have a material adverse effect on the Company's business, financial position, or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Class A common stock is listed and traded on the New York Stock Exchange under the symbol “NNI,” while its Class B common stock is not publicly traded. The number of holders of record of the Company's Class A common stock and Class B common stock as of January 31, 2019 was 1,031 and 54, respectively. The record holders of the Class B common stock are Michael S. Dunlap and the estate of Stephen F. Butterfield, an entity controlled by Mr. Dunlap and the estate of Mr. Butterfield, various members of their families, and various estate planning trusts established by them. Because many shares of the Company's Class A common stock are held by brokers and other institutions on behalf of shareholders, the Company is unable to estimate the total number of beneficial owners represented by these record holders.

The Company paid quarterly cash dividends on its Class A and Class B common stock during the years ended December 31, 2017 and 2018 in amounts totaling $0.58 per share and $0.66 per share, respectively. The Company currently plans to continue making comparable regular quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors.

Performance Graph

The following graph compares the change in the cumulative total shareholder return on the Company's Class A common stock to that of the cumulative return of the S&P 500 Index and the S&P 500 Financials Index. The graph assumes that the value of an investment in the Company's Class A common stock and each index was $100 on December 31, 2013 and that all dividends, if applicable, were reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Company/Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Nelnet, Inc.	$ 100.00	$ 111.01	$ 81.31	$ 124.49	$ 136.04	$ 131.48
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P 500 Financials	100.00	115.20	113.44	139.31	170.21	148.03

The preceding information under the caption “Performance Graph” shall be deemed to be “furnished” but not “filed” with the Securities and Exchange Commission.

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the fourth quarter of 2018 by the Company or any “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934. Certain share repurchases included in the table below were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (a)	Average price paid per share		Total number of shares purchased as part of publicly announced plans or programs (b)	Maximum number of shares that may yet be purchased under the plans or programs (b)
October 1 - October 31, 2018	78,464	$	55.27	78,290	2,774,065
November 1 - November 30, 2018	164,413	53.63		164,413	2,609,652
December 1 - December 31, 2018	306,179	51.14		304,400	2,305,252
Total	549,056	$	52.48	547,103	

(a) The total number of shares includes: (i) shares repurchased pursuant to the stock repurchase program discussed in footnote (b) below; and (ii) shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares. Shares of Class A common stock tendered by employees to satisfy tax withholding obligations included 174 shares, 0 shares, and 1,779 shares in October, November, and December, respectively. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations were purchased at the closing price of the Company’s shares on the date of vesting.

(b) On August 4, 2016, the Company announced that its Board of Directors authorized a new stock repurchase program in May 2016 to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 25, 2019.

Equity Compensation Plans

For information regarding the securities authorized for issuance under the Company's equity compensation plans, see Part III, Item 12 of this report.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The following selected financial data should be read in conjunction with the consolidated financial statements, the related notes, and the MD&A included in this report.

	Year ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
	(Dollars in thousands, except share data)				
Operating Data:					
Net interest income	$ 254,360	305,238	372,563	431,899	436,563
Loan servicing and systems revenue	440,027	223,000	214,846	239,858	240,414
Education technology, services, and payment processing revenue (a)	221,962	193,188	175,682	120,365	98,156
Communications revenue	44,653	25,700	17,659	—	—
Other income	54,446	52,826	58,255	98,335	136,885
Net income attributable to Nelnet, Inc.	227,913	173,166	256,751	267,979	307,610
Earnings per common share attributable to Nelnet, Inc. shareholders - basic and diluted:	5.57	4.14	6.02	5.89	6.62
Dividends per common share	0.66	0.58	0.50	0.42	0.40
Other Data:					
Fixed rate floor income, net of derivative settlements	$ 121,712	117,272	152,336	184,746	179,870
Core loan spread (b)	1.32%	1.23%	1.28%	1.43%	1.48%
Acquisition of loans (par value)	$ 3,897,007	330,251	356,110	4,036,333	6,099,249
Loans serviced (at end of period)	464,615,053	211,413,959	194,821,646	176,436,497	161,642,254

	As of December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
	(Dollars in thousands, except share data)				
Balance Sheet Data:					
Cash and cash equivalents	$ 121,347	66,752	69,654	63,529	130,481

Loans receivable, net	22,377,142	21,814,507	24,903,724	28,324,552	28,005,195
Goodwill and intangible assets, net	271,202	177,186	195,125	197,062	168,782
Total assets	25,220,968	23,964,435	27,193,095	30,419,144	30,027,739
Bonds and notes payable	22,218,740	21,356,573	24,668,490	28,105,921	27,956,946
Nelnet, Inc. shareholders' equity	2,304,464	2,149,529	2,061,655	1,884,432	1,725,448
Tangible Nelnet, Inc. shareholders' equity (c)	2,033,262	1,972,343	1,866,530	1,687,370	1,556,666
Outstanding common shares	40,258,105	40,810,104	42,105,044	43,953,460	46,243,316
Book value per common share	57.24	52.67	48.96	42.87	37.31
Tangible book value per common share (c)	50.51	48.33	44.33	38.39	33.66
Ratios:					
Shareholders' equity to total assets	9.14%	8.97%	7.58%	6.19%	5.75%

(a) Amounts for 2017 and 2016 have been recasted to reflect the Revenue from Contracts with Customers guidance adopted as of January 1, 2018. See note 2, Summary of Significant Accounting Policies and Practices, of the notes to consolidated financial statements included in this report for additional information. The 2015 and 2014 amounts are not recasted for this guidance and are not comparative.

(b) Core loan spread, a non-GAAP measure, is computed as set forth in the MD&A - "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis." Management believes core loan spread is a useful supplemental non-GAAP measure that reflects adjustments for derivative settlements related to net interest income (loan spread). However, there is no comprehensive authoritative guidance for the presentation of this measure, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

(c) Tangible Nelnet, Inc. shareholders' equity, a non-GAAP measure, equals "Nelnet, Inc. shareholders' equity" less "Goodwill and intangible assets, net." Management believes tangible shareholders' equity and the corresponding tangible book value per common share are useful supplemental non-GAAP measures to evaluate the strength of the Company's capital position and facilitate comparisons with other companies in the financial services industry. However, there is no comprehensive authoritative guidance for the presentation of these measures, and similarly titled measures may be calculated differently by other companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Management's Discussion and Analysis of Financial Condition and Results of Operations is for the years ended December 31, 2018, 2017, and 2016. All dollars are in thousands, except share data, unless otherwise noted.)

The following discussion and analysis provides information that the Company's management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of the Company. The discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes included in this report. This discussion and analysis contains forward-looking statements and should be read in conjunction with the disclosures and information contained in "Forward-Looking and Cautionary Statements" and Item 1A "Risk Factors" included in this report.

OVERVIEW

The Company is a diverse company with a focus on delivering education-related products and services and loan asset management. The largest operating businesses engage in student loan servicing; education technology, services, and payment processing; and communications. A significant portion of the Company's revenue is net interest income earned on a portfolio of federally insured student loans. The Company also makes investments to further diversify the Company both within and outside of its historical core education-related businesses, including, but not limited to, investments in real estate and early-stage and emerging growth companies.

GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments

The Company prepares its financial statements and presents its financial results in accordance with GAAP. However, it also provides additional non-GAAP financial information related to specific items management believes to be important in the evaluation of its operating results and performance. A reconciliation of the Company's GAAP net income to net income, excluding derivative market value and foreign currency transaction adjustments, and a discussion of why the Company believes providing this additional information is useful to investors, is provided below.

	Year ended December 31,			
	2018		2017	2016
GAAP net income attributable to Nelnet, Inc.	$	227,913	173,166	256,751
Realized and unrealized derivative market value adjustments	(1,014)		(26,379)	(59,895)
Unrealized foreign currency transaction adjustments	—		45,600	(11,849)
Net tax effect (a)	243		(7,304)	27,263
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency	$	227,142	185,083	212,270

transaction adjustments (b)				
Earnings per share:				
GAAP net income attributable to Nelnet, Inc.	$	5.57	4.14	6.02
Realized and unrealized derivative market value adjustments	(0.02)		(0.63)	(1.40)
Unrealized foreign currency transaction adjustments	—		1.09	(0.28)
Net tax effect (a)	—		(0.17)	0.63
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency transaction adjustments (b)	$	5.55	4.43	4.97

(a) The tax effects are calculated by multiplying the realized and unrealized derivative market value adjustments and unrealized foreign currency transaction adjustments by the applicable statutory income tax rate.

(b) "Derivative market value and foreign currency transaction adjustments" include (i) both the realized portion of gains and losses (corresponding to variation margin received or paid on derivative instruments that are settled daily at a central clearinghouse) and the unrealized portion of gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. "Derivative market value and foreign currency transaction adjustments" does not include "derivative settlements" that represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria is met. Management has structured all of the Company's derivative transactions with the intent that each is economically effective; however, the Company's derivative instruments do not qualify for hedge accounting. As a result, the change in fair value of derivative instruments is reported in current period earnings with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, the cumulative net realized and unrealized gain or loss caused by changes in fair values of derivatives in which the Company plans to hold to maturity will equal zero over the life of the contract. However, the net realized and unrealized gain or loss during any given reporting period fluctuates significantly from period to period. In addition, the Company incurred unrealized foreign currency transaction adjustments in 2017 and 2016 for periodic fluctuations in currency exchange rates between the U.S. dollar and Euro in connection with its student loan asset-backed bonds that were previously denominated in Euros with an interest rate based on a spread to the EURIBOR index. The principal and accrued interest on these bonds were remeasured 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 believes these point-in-time estimates of asset and liability values related to its derivative instruments and previously Euro-denominated bonds that are or were subject to interest and currency rate fluctuations are or were subject to volatility mostly due to timing and market factors beyond the control of management, and affect the period-to-period comparability of the results of operations. Accordingly, the Company's management utilizes operating results excluding these items for comparability purposes when making decisions regarding the Company's performance and in presentations with credit rating agencies, lenders, and investors. Consequently, the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

On October 25, 2017, the Company completed a remarketing of the Company's bonds that were prior to that date denominated in Euros, to denominate those bonds in U.S. dollars and reset the interest rate to be based on the three-month LIBOR index. The Company also terminated a cross-currency interest rate swap associated with those bonds. As a result, foreign currency transaction adjustments will not be incurred with respect to those bonds after October 25, 2017.

GAAP net income increased for the year ended December 31, 2018 compared to the same period in 2017 primarily due to the following factors:

- The contribution to net income from the acquisition of Great Lakes;
- The increase in core spread on the Company's loan portfolio;
- The decrease in the Company's effective tax rate due to the Tax Cuts and Jobs Act, effective January 1, 2018;
- Gains recognized from investment activities, primarily attributable to one equity security for which there was an observable price increase in 2018, resulting in an upward adjustment in the investment's carrying value; and
- The recognition of unrealized losses in 2017 related to foreign currency transaction adjustments caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars, which bonds were remarketed in October 2017 to denominate them in U.S. dollars.

These factors were partially offset by the following items:

- The increase in expenses for the continued build-out of the Company's ALLO fiber communications network in Lincoln, Nebraska;
- The decrease in the average balance of loans due to the run-off of the FFELP loan portfolio;
- The increase in the provision for loan losses related to the Company's portfolio of consumer loans;
- The impairment of software development costs at NDS and NBS related to its servicing software and its payment processing platform, respectively;
- A decrease in performance fees earned from the Company's SEC-registered investment advisor subsidiary;
- The increase in interest expense due to a larger weighted average outstanding balance under the Company's unsecured line of credit in 2018 as compared to 2017; and
- The recognition of a larger net gain during 2017 as compared to 2018 due to changes in the fair values of derivative instruments that do not qualify for hedge accounting.

Operating Results

The Company earns net interest income on its loan portfolio, consisting primarily of FFELP loans, in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of December 31, 2018, the Company had a $22.4 billion loan portfolio that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.7 years. The Company actively works to maximize the amount and timing of cash flows generated by its FFELP portfolio and seeks to acquire additional loan assets to leverage its servicing scale and expertise to generate incremental earnings and cash flow. However, due to the continued amortization of the Company's FFELP loan portfolio, over time, the Company's net income generated by the AGM segment will continue to decrease. The Company currently believes that in the short-term it will most likely not be able to invest the excess cash generated from the FFELP loan portfolio into assets that immediately generate the rates of return historically realized from that portfolio.

In addition, the Company earns fee-based revenue through the following reportable operating segments:

•Loan Servicing and Systems ("LSS") - referred to as Nelnet Diversified Solutions ("NDS")

•Education Technology, Services, and Payment Processing ("ETS&PP") - referred to as Nelnet Business Solutions ("NBS")

•Communications - referred to as ALLO Communications ("ALLO")

Other business activities and operating segments that are not reportable are combined and included in Corporate and Other Activities ("Corporate"). Corporate and Other Activities also includes income earned on certain investments and interest expense incurred on unsecured debt transactions.

The information below provides the operating results for each reportable operating segment and Corporate and Other Activities for the years ended December 31, 2018, 2017, and 2016 (dollars in millions). See "Results of Operations" for each reportable operating segment under this Item 7 for additional detail.

(a) Revenue includes intersegment revenue earned by LSS as a result of servicing loans for AGM.

(b) Total revenue includes "net interest income" and "total other income" from the Company's segment statements of income, excluding the impact from changes in fair values of derivatives and foreign currency transaction adjustments. Net income excludes changes in fair values of derivatives and foreign currency transaction adjustments, net of tax. For information regarding the exclusion of the impact from changes in fair values of derivatives and foreign currency transaction adjustments, see "GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above.

Certain events and transactions from 2018, which have impacted or will impact the operating results of the Company and its operating segments, are discussed below.

Impact from the Tax Cuts and Jobs Act

•The Tax Cuts and Jobs Act (the "Act"), signed into law on December 22, 2017, and effective January 1, 2018, reduced the corporate statutory federal tax rate from 35 percent to 21 percent. The Company's effective tax rate in 2018 was 20.5 percent. During 2018, the Company obtained clarity regarding certain tax positions that resulted in a reduction to income tax expense. The Company currently anticipates its effective tax rate will range between 23 to 24 percent in future periods.

Loan Servicing and Systems

•On February 7, 2018, the Company paid $150.0 million in cash to acquire Great Lakes. The operating results of Great Lakes are reported in the Company's consolidated financial statements from the date of acquisition.

Nelnet Servicing and Great Lakes are two companies that have student loan servicing contracts awarded by the Department to provide servicing for loans owned by the Department. In addition to servicing loans for the Department, Great Lakes serviced FFELP and private education loans.

From the date of acquisition and going forward, Great Lakes and Nelnet Servicing have continued, and will continue, to service their respective government-owned portfolios on behalf of the Department, while maintaining their distinct brands, independent servicing operations, and teams. Likewise, each entity continues to compete for new student loan volume under its respective existing contract with the Department. The Company has integrated, and will continue to integrate, technology as well as shared services and other activities to become more efficient and effective in meeting borrower needs. During 2018, the Company converted Great Lakes' FFELP and private education loan servicing volume to Nelnet Servicing's servicing platform to leverage the efficiencies of supporting more volume on fewer systems.

As of December 31, 2018, Nelnet Servicing was servicing $179.5 billion of student loans for 5.8 million borrowers under its contract with the Department, and Great Lakes was servicing $232.7 billion of student loans for 7.5 million borrowers under its contract. These contracts are currently scheduled to expire on June 16, 2019.

On February 20, 2018, the Department’s Office of Federal Student Aid ("FSA") released information regarding a contract procurement process entitled Next Generation Financial Services Environment (“NextGen”) for the servicing of all student loans owned by the Department. On August 24, August 27, and September 24, 2018, FSA made announcements that included canceling certain components of the NextGen process and issuing a solicitation for a separate new procurement process for certain of those NextGen components that were canceled.

On January 15, 2019, FSA released an amendment canceling all components of NextGen except the Enterprise-Wide Digital and Customer Care Platforms and Services component and issued new solicitations for three new NextGen components:

•NextGen Enhanced Processing Solution
•NextGen Business Process Operations
•NextGen Optimal Processing Solution

On February 20, 2019, FSA awarded the Enterprise-Wide Digital and Customer Care Platforms and Services component to Accenture Federal Services. The Company is part of teams that currently intend to respond to the solicitations for each of the three ongoing NextGen components. The Company cannot predict the timing, nature, or outcome of these solicitations.

•The Company will incur additional costs in 2019 to integrate two core processing systems for government-owned loans, be responsive to the Department's procurement, and develop new private education and consumer loan origination and servicing systems, a multi-year project, which the Company currently expects will decrease operating margin from recent historical results.

Education Technology, Services, and Payment Processing

•In 2018, the Company changed the name of its Tuition Payment Processing and Campus Commerce operating segment to Education Technology, Services, and Payment Processing to better describe the evolution of services this operating segment provides.

•Effective January 1, 2018, the Company adopted the FASB's new revenue recognition standard using the full retrospective method, which required it to restate each prior reporting period presented. The most significant impact of the standard relates to identifying this segment as the principal in its payment services transactions. As a result of this change, the Company presents the payment services revenue gross, with the direct costs to provide these services presented separately. For additional information on the new revenue recognition standard and its impact to the Company, see note 2 of the notes to consolidated financial statements included in this report.

•On October 16, 2018, the Company terminated its investment in a proprietary payment processing platform. This decision was made as a result of decreases in price and advancements of technology by established processors in the industry. As a result of this decision, the Company recorded an impairment charge of $7.8 million (pre-tax) in 2018. The charge represents computer equipment and external software development costs related to the payment processing platform. The decision will not impact the Company's existing payment processing revenue or customers.

•On November 7, 2018, the Company paid $27.0 million in cash to acquire Tuition Management Systems ("TMS"), a services company that offers tuition payment plans, billing services, payment technology solutions, and refund management to educational institutions. The TMS acquisition added 380 higher education schools and 170 K-12 schools to the Company's customer base, further enhancing NBS’ market share leading position with private faith-based K-12 schools and advancing to a market leading position in higher education.

Communications

•In 2018, ALLO increased its residential households served from 20,428 as of December 31, 2017 to 37,351 as of December 31, 2018 and increased revenue from $25.7 million in 2017 to $44.7 million in 2018. In 2018, ALLO also began to provide its services in Fort Morgan, Colorado, and Hastings, Nebraska, increasing households in its current markets to 152,840 from 137,500. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities.

•In 2018, ALLO's capital expenditures were $87.5 million, and the Company currently anticipates total expenditures of approximately $50 million in 2019. ALLO began providing services in Lincoln, Nebraska in September 2016, as part of a multi-year project to pass substantially all commercial and residential properties in the community. The Company currently anticipates the Lincoln build-out will be substantially complete during the first quarter of 2019.

•The Company currently anticipates ALLO's operating results will be dilutive to the Company's consolidated earnings as it finishes its network build-out in Lincoln, Nebraska, and continues to build its network in other communities, due to large upfront capital expenditures and associated depreciation and upfront customer acquisition costs.

Asset Generation and Management

•During 2018, the Company purchased $3.9 billion in loans. The vast majority of these loans are federally insured student loans.

•The Company's average balance of loans decreased to $22.6 billion in 2018, compared with $23.6 billion in 2017. Core loan spread increased to 1.32 percent in 2018, compared with 1.23 percent in 2017. Core loan spread, a non-GAAP measure, is computed as set forth in "Asset Generation and Management Operating Segment - Results of Operations - Loan Spread Analysis" below. Management believes core loan spread is a useful supplemental non-GAAP measure that reflects adjustments for derivative settlements related to net interest income (loan spread). However, there is no comprehensive authoritative guidance for the presentation of this measure, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance.

The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans are currently funded by the Company using operating cash, until they can be funded in a secured financing transaction. As such, consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.27 percent and 1.21 percent in 2018 and 2017, respectively.

In 2018, the Company recognized $121.7 million in fixed rate floor income (which includes $64.9 million of settlement payments received on derivatives used to hedge student loans earning fixed rate floor income). Fixed rate floor income contributed 55 basis points of core loan spread in 2018.

Liquidity and Capital Resources

•As of December 31, 2018, the Company had cash and cash equivalents of $121.3 million. In addition, the Company had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of $53.0 million as of December 31, 2018.

•The Company has historically generated positive cash flow from operations. For the year ended December 31, 2018, the Company’s net cash provided by operating activities was $270.9 million.

•On June 22, 2018, the Company amended its unsecured line of credit to, among other things, extend the maturity date of the facility from December 12, 2021 to June 22, 2023. On December 14, 2018, the Company increased the aggregate amount it can borrow under this facility from $350.0 million to $382.5 million. As of December 31, 2018, the unsecured line of credit had $310.0 million outstanding and $72.5 million was available for future use.

•The majority of the Company’s portfolio of student loans is funded in asset-backed securitizations that will generate significant earnings and cash flow over the life of these transactions. As of December 31, 2018, the Company currently expects future undiscounted cash flows from its securitization portfolio to be approximately $2.1 billion, of which approximately $1.3 billion will be generated over the next five years.

•During 2018, the Company repurchased a total of 868,147 shares of Class A common stock for $45.3 million ($52.22 per share).

•During 2018, the Company paid quarterly cash dividends totaling $26.8 million ($0.66 per share).
•The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP, private education, and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

CONSOLIDATED RESULTS OF OPERATIONS

An analysis of the Company's operating results for the years ended December 31, 2018, 2017, and 2016 is provided below.

The Company's operating results are primarily driven by the performance of its existing portfolio and the revenues generated by its fee-based businesses and the costs to provide such services. The performance of the Company's portfolio is driven by net interest income (which includes financing costs) and losses related to credit quality of the assets, along with the cost to administer and service the assets and related debt.

The Company operates as distinct reportable operating segments as described above. For a reconciliation of the reportable segment operating results to the consolidated results of operations, see note 14 of the notes to consolidated financial statements included in this report. Since the Company monitors and assesses its operations and results based on these segments, the discussion following the consolidated results of operations is presented on a reportable segment basis.

	Year ended December 31,				
	2018		2017	2016	Additional information
Loan interest	$	897,666	757,731	751,280	Year over year increases were due to increases in the gross yield earned on the loan portfolio, partially offset by decreases in the average balance of student loans and gross fixed rate floor income.
Investment interest	26,600		12,695	9,466	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations. Year over year increases were due to increases in interest-earning investments and interest rates.
Total interest income	924,266		770,426	760,746	
Interest expense	669,906		465,188	388,183	Year over year increases were due to increases in cost of funds, partially offset by decreases in the average balance of debt outstanding.
Net interest income	254,360		305,238	372,563	See table below for additional analysis.

Less provision for loan losses	23,000	14,450	13,500	Represents the periodic expense of maintaining an allowance appropriate to absorb losses inherent in the portfolio of loans. See AGM operating segment - results of operations.
Net interest income after provision for loan losses	231,360	290,788	359,063	
Other income:				
LSS revenue	440,027	223,000	214,846	See LSS operating segment - results of operations.
ETS&PP revenue	221,962	193,188	175,682	See ETS&PP operating segment - results of operations.
Communications revenue	44,653	25,700	17,659	See Communications operating segment - results of operations.
Other income	54,446	52,826	58,255	See table below for the components of "other income."
Gain from debt repurchases	359	2,902	7,981	Gains are from the Company repurchasing its own debt. See note 4 of the notes to consolidated financial statements included in this report for additional details on these debt repurchases.
Derivative settlements, net	70,071	667	(21,949)	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income. See table below for additional analysis.
Derivative market value and foreign	1,014	(19,221)	71,744	Includes (i) the realized and

currency transaction adjustments, net				unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses caused by the re-measurement to U.S. dollars of the Company's bonds that prior to October 25, 2017 were denominated in Euros.
Total other income	832,532	479,062	524,218	
Cost of services:				
Cost to provide education technology, services, and payment processing services	59,566	48,678	44,316	Represents primarily direct costs to provide payment processing services in the ETS&PP operating segment.
Cost to provide communications services	16,926	9,950	6,866	Represents costs of services and products primarily associated with television programming costs in the Communications operating segment.
Total cost of services	76,492	58,628	51,182	

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Operating expenses:				
Salaries and benefits	436,179	301,885	255,924	Year over year increases were due to (i) increases in contract programming related to the GreatNet joint venture (increase in 2017 as compared to 2016 only) and an increase in personnel to support the increase in volume of loans serviced for the government entering repayment status and the increase in private education and consumer loan servicing volume in the LSS operating segment; (ii) increases in personnel to support the growth in revenue in the ETS&PP operating segment; and (iii) increases in personnel at ALLO to support the Lincoln, Nebraska network expansion. In addition, a significant part of the increase in 2018 was due to an increase in personnel as a result of the acquisition of Great Lakes on February 7, 2018. See each individual operating segment results of operations discussion for additional information.
Depreciation and amortization	86,896	39,541	33,933	Year over year increases were due to additional depreciation expense at ALLO. Since the acquisition of ALLO on December 31, 2015, there has been a significant amount of property and equipment purchases to support the Lincoln, Nebraska network expansion. In addition, a significant part of the increase in 2018 was due to the amortization of

				intangible assets related to the acquisition of Great Lakes on February 7, 2018.
Loan servicing fees to third parties	12,059	22,734	25,750	Third-party loan servicing fees decreased year over year due to runoff of the Company's loan portfolio on third-party platforms, the conversion of loans to the Company's LSS operating segment from third-party platforms, and the acquisition of Great Lakes on February 7, 2018, which prior to the acquisition was a third-party servicer to the Company.
Other expenses	165,972	120,378	117,678	Other expenses includes expenses necessary for operations, such as postage and distribution, consulting and professional fees, occupancy, communications, and certain information technology-related costs. Year over year increases were due primarily to additional costs to support the increase in payment plans and campus commerce activity, and an increase in operating expenses at ALLO to support the Lincoln, Nebraska network expansion and the number of households served. In addition, a significant part of the increase in 2018 as compared to 2017 was due to the acquisition of Great Lakes on February 7, 2018. See each individual operating segment results of operations discussion for additional information.
Total operating expenses	701,106	484,538	433,285	
	286,294	226,684	398,814	

Income before income taxes					
Income tax expense	58,770		64,863	141,313	Effective tax rate: 2018 - 20.50%, 2017 - 27.25%, 2016 - 35.50%. The lower effective tax rate in 2018 as compared to 2017 was due to the Tax Cuts and Jobs Act effective January 1, 2018. In addition, the Company obtained clarity regarding certain tax positions that reduced the effective tax rate in 2018. The decrease in the effective tax rate in 2017 as compared to 2016 was due to the Company remeasuring its net deferred tax liabilities upon the date the Tax Cuts and Jobs Act was signed into law (December 22, 2017), resulting in a decrease to income tax expense of $19.3 million. The Company expects its future effective tax rate will range between 23 to 24 percent.
Net income	227,524		161,821	257,501	
Net loss (income) attributable to noncontrolling interests	389		11,345	(750)	Represents primarily the net loss of GreatNet attributable to Great Lakes, prior to the Company's acquisition of Great Lakes on February 7, 2018.
Net income attributable to Nelnet, Inc.	$	227,913	173,166	256,751	
Additional information:					
Net income attributable to Nelnet, Inc.	$	227,913	173,166	256,751	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value and foreign currency adjustments.
Derivative market value and foreign currency transaction adjustments, net	(1,014)		19,221	(71,744)	
Net tax effect	243		(7,304)	27,263	
Net income attributable to Nelnet, Inc., excluding	$	227,142	185,083	212,270	

derivative market
value and foreign
currency
transaction
adjustments

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The following table summarizes the components of "net interest income" and "derivative settlements, net."

Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company’s net interest income as presented in the table below. Net interest income (net of settlements on derivatives) is a non-GAAP financial measure, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included in this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative for the periods presented in the table under the caption "Income Statement Impact" in note 5 and in the table below.

	Year ended December 31,				
	2018		**2017**	**2016**	**Additional information**
Variable loan interest margin	$	181,488	189,594	199,215	Represents the yield the Company receives on its loan portfolio less the cost of funding these loans. Variable loan spread is also impacted by the amortization/accretion of loan premiums and discounts and the 1.05% per year consolidation loan rebate fee paid to the Department. See AGM operating segment - results of operations.
Settlements on associated derivatives	5,577		(9,390)	(3,391)	Includes the net settlements received (paid) related to the Company’s 1:3 basis swaps, and the cross-currency interest rate swap in place prior to the October 2017 remarketing of previously Euro-denominated bonds.
Variable loan interest margin, net of settlements on derivatives	187,065		180,204	195,824	
Fixed rate floor income	56,811		106,434	169,979	The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rates, generating fixed rate

					floor income. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk" for additional information.
Settlements on associated derivatives	64,901		10,838	(17,643)	Includes the net settlements received (paid) related to the Company’s floor income interest rate swaps.
Fixed rate floor income, net of settlements on derivatives	121,712		117,272	152,336	
Investment interest	26,600		12,695	9,466	
Corporate debt interest expense	(10,539)		(3,485)	(6,097)	Includes interest expense on the Junior Subordinated Hybrid Securities and unsecured line of credit. Increase in 2018 as compared to 2017 was due to a larger weighted average outstanding balance under the Company's unsecured line of credit in 2018 as compared to 2017. Decrease in 2017 as compared to 2016 was due to (i) during the first quarter of 2017, the Company repurchased $29.7 million of its Hybrid Securities and (ii) the weighted average balance outstanding under the Company's unsecured line of credit was lower during 2017 as compared to 2016.
Non-portfolio related derivative settlements	(407)		(781)	(915)	Includes the net settlements received (paid) related to the Company’s hybrid debt hedges.
Net interest income (net of settlements on derivatives)	$	324,431	305,905	350,614	

The following table summarizes the components of "other income."

	Year ended December 31,			
	2018		2017	2016
Borrower late fee income	$	12,302	11,604	12,838
Gain on investments and notes receivable, net of losses (a)	9,579		939	4,549
Management fee revenue (b)	6,497		—	—
Investment advisory fees (c)	6,009		12,723	6,129
Peterson's revenue (d)	—		12,572	14,254
Enrollment services revenue (e)	—		—	4,326
Other	20,059		14,988	16,159
Other income	$	54,446	52,826	58,255

(a) The Company accounts for its equity securities without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer (the measurement alternative method). During the year ended December 31, 2018, the Company recorded upward adjustments of $7.2 million on venture capital investments, of which $6.9 million was attributable to a single investment.

(b) Represents revenue earned from providing administrative support services primarily to Great Lakes' former parent company in accordance with a one-year contract that is subject to an optional annual renewal by the former parent company. The current contract expires in October 2019.

(c) The Company provides investment advisory services through WRCM under various arrangements and earns annual fees of 25 basis points on the majority of the outstanding balance of investments and up to 50 percent of the gains from the sale of securities or securities being called prior to the full contractual maturity for which it provides advisory services. As of December 31, 2018, the outstanding balance of investments subject to these arrangements was $935.7 million. The decrease in advisory fees in 2018 as compared to 2017 was the result of a decrease in performance fees earned.

(d) On December 31, 2017, the Company sold Peterson's.

(e) On February 1, 2016, the Company sold Sparkroom, LLC. After this sale, the Company no longer earns enrollment services revenue.

LOAN SERVICING AND SYSTEMS OPERATING SEGMENT – RESULTS OF OPERATIONS

Prior to the acquisition of the remaining 50 percent of GreatNet, the Company consolidated the operating results of GreatNet, as the Company was deemed to have control over the joint venture. The proportionate share of membership interest (equity) and net loss of GreatNet that was attributable to Great Lakes was reflected as a noncontrolling interest in the Company's consolidated financial statements.

Student Loan Servicing Volumes (dollars in millions)

Company owned	$16,962	$16,352	$15,789	$18,403	$17,827	$17,866	$19,113	$19,206	$19,123
% of total	8.7%	8.2%	7.9%	8.9%	8.4%	3.8%	4.1%	4.1%	4.1%
Number of servicing borrowers:									
Government servicing - Nelnet	5,972,619	5,924,099	5,849,283	5,906,404	5,877,414	5,819,286	5,745,181	5,805,307	5,771,923
Government servicing - Great Lakes	—	—	—	—	—	7,456,830	7,378,875	7,486,311	7,458,684
FFELP servicing - Nelnet	1,312,192	1,263,785	1,218,706	1,317,552	1,420,311	1,399,280	1,787,419	1,754,247	1,709,853
FFELP servicing - Great Lakes	—	—	—	—	—	461,553	—	—	—
Private education and consumer loan servicing - Nelnet	355,096	389,010	454,182	478,150	502,114	508,750	672,520	692,763	696,933
Private education and consumer loan servicing - Great Lakes	—	—	—	—	—	118,609	3,987	—	—
Total:	7,639,907	7,576,894	7,522,171	7,702,106	7,799,839	15,764,308	15,587,982	15,738,628	15,637,393
Number of remote hosted borrowers	2,230,019	2,305,991	2,317,151	2,714,588	2,812,713	6,207,747	6,145,981	6,406,923	6,393,151

Summary and Comparison of Operating Results

	Year ended December 31,			
	2018	2017	2016	Additional information
Net interest income	$ 1,351	510	111	
Loan servicing and systems revenue	440,027	223,000	214,846	See table below for additional analysis.
Intersegment servicing revenue	47,082	41,674	45,381	Represents revenue earned by the LSS operating segment as a result of servicing loans for the AGM operating segment. Increase in 2018 compared to 2017 was a result of significant purchases of loans by AGM during 2018 of which LSS is the servicer, and the acquisition of Great Lakes on February 7, 2018. Prior to the acquisition, Great Lakes was a third-party servicer to the Company's AGM operating segment. Decrease in 2017 compared to 2016 was due to AGM's portfolio run-off.
Other income	7,284	—	—	Represents revenue earned from providing administrative support services primarily to Great Lakes' former parent company in accordance with a one-year contract that is subject to an optional annual renewal by the

				former parent company. The current contract expires in October 2019.
Total other income	494,393	264,674	260,227	
Salaries and benefits	267,458	156,256	132,072	Increase in 2018 compared to 2017 was due to the Great Lakes acquisition, an increase in personnel to support the increase in volume of loans serviced for the government entering repayment status, and the increase in private education and consumer loan servicing volume. Increase in 2017 compared to 2016 was due to contract programming related to GreatNet, an increase in personnel to support the increase in volume of loans serviced for the government entering repayment status, and the increase in private education and consumer loan servicing volume.
Depreciation and amortization	32,074	2,864	1,980	Amortization of intangible assets and depreciation of fixed assets recorded as a result of the Great Lakes acquisition on February 7, 2018 was $18.0 million and $2.6 million, respectively, in 2018. Increase in 2018 was also due to continued investment in servicing and related support systems. Increase in 2017 compared to 2016 was due to infrastructure spend for GreatNet.
Other expenses	67,336	39,126	40,715	Increase in 2018 was due primarily to the Great Lakes acquisition. In addition, as part of integrating

				technology and becoming more efficient and effective in meeting borrower needs, the Company continues to evaluate the best use of its servicing systems on a post-Great Lakes acquisition basis. As a result of this evaluation, during 2018 the Company recorded an impairment charge of $3.9 million related to certain external software development costs that were previously capitalized.
Intersegment expenses	59,042	31,871	24,204	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services. Increase in 2018 was due to the Great Lakes acquisition.
Total operating expenses	425,910	230,117	198,971	
Income before income taxes	69,834	35,067	61,367	
Income tax expense	(16,954)	(18,128)	(23,319)	Reflects income tax expense at an effective tax rate of 24% in 2018 and 38% in 2017 and 2016, on income before taxes and the net loss attributable to noncontrolling

				interest. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act effective January 1, 2018.
Net income	52,880	16,939	38,048	
Net loss attributable to noncontrolling interest	808	12,640	—	Represents 50 percent of the net loss of GreatNet that was attributable to Great Lakes prior to the Company's acquisition of Great Lakes on February 7, 2018.
Net income attributable to Nelnet, Inc.	$ 53,688	29,579	38,048	
Before tax and noncontrolling interest operating margin	14.3%	18.0%	23.6%	Excluding the amortization of intangibles recorded as a result of the Great Lakes acquisition on February

7, 2018, and the impairment of external software development costs recognized in 2018, as discussed above, before tax and noncontrolling interest operating margin was 18.7% in 2018. The Company will incur additional costs in 2019 to integrate two core processing systems for the government-owned loans, be responsive to the Department's procurement, and develop new private education and consumer loan origination and servicing systems, a multi-year project, which the Company currently expects will decrease operating margin from recent historical results.

Loan servicing and systems revenue

	Year ended December 31,				
	2018		2017	2016	Additional information
Government servicing - Nelnet	$	157,091	155,829	151,728	Represents revenue from Nelnet Servicing's Department servicing contract. Increase in 2018 compared to 2017 was due to a shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses, partially offset by a decrease in the number of servicing borrowers. Increase in 2017 compared to 2016 was due to an increase in application volume for the TPD program, which the Company exclusively administers for the Department, the transfer of borrowers from a NFP servicer who exited the loan servicing business in August 2016, and the shift in the portfolio of loans serviced to a greater portion of loans in higher paying repayment statuses.
Government servicing - Great Lakes	168,298		—	—	Represents revenue from the Great Lakes' Department servicing contract from the date of acquisition,

				February 7, 2018.
FFELP servicing	31,542	15,542	15,948	Increase in 2018 was due to the Great Lakes acquisition. Over time, FFELP servicing revenue will decrease as third-party customers' FFELP portfolios run off.
Private education and consumer loan servicing	41,474	28,060	15,600	Increase in 2018 compared to 2017 was due to growth in loan servicing volume from existing and new clients, along with the Great Lakes acquisition. Increase in 2017 compared to 2016 was due to growth in private loan servicing volume from existing and new clients.
FFELP guaranty collection and servicing	—	—	9,560	The Company’s one remaining guaranty servicing and collection client exited the FFELP guaranty business at the end of their contract term on June 30, 2016.
Software services	32,929	17,782	18,132	Historically, the majority of software services revenue related to providing hosted student loan servicing. As a result of the Great Lakes acquisition, LSS now also provides hosted guaranty servicing and

					support to an unrelated third-party FFELP guaranty agency. Increase in 2018 was due to an increase in hosted student loan servicing volume and providing the new hosted guaranty servicing.
Outsourced services and other	8,693		5,787	3,878	The majority of this revenue relates to providing contact center outsourcing activities.
Loan servicing and systems revenue	$	440,027	223,000	214,846	

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EDUCATION TECHNOLOGY, SERVICES, AND PAYMENT PROCESSING OPERATING SEGMENT – RESULTS OF OPERATIONS

This segment of the Company's business is subject to seasonal fluctuations which correspond, or are related to, the traditional school year. Tuition management revenue is recognized over the course of the academic term, but the peak operational activities take place in summer and early fall. Higher amounts of revenue are typically recognized during the first quarter due to fees related to grant and aid applications as well as online applications and enrollment services. The Company's operating expenses do not follow the seasonality of the revenues. This is primarily due to generally fixed year-round personnel costs and seasonal marketing costs. Based on the timing of revenue recognition and when expenses are incurred, revenue and pre-tax operating margin are higher in the first quarter as compared to the remainder of the year.

Summary and Comparison of Operating Results

	Year ended December 31,				
	2018		2017	2016	Additional information
Net interest income	$	4,444	17	9	Increase was due to additional interest earnings on cash deposits due to an increase of interest rates in 2018.
Education technology, services, and payment processing revenue	221,962		193,188	175,682	See table below for additional information.
Cost to provide education technology, services, and payment processing services	59,566		48,678	44,316	Costs primarily relate to payment processing revenue. Increase was due to an increase in payments volume.
Salaries and benefits	81,080		69,500	62,329	Year over year increases were due to additional personnel to support the increase in payment plans and campus commerce activity and continued investments in and enhancements of payment systems and products.
Depreciation and amortization	13,484		9,424	10,595	Amortization of intangible assets related to business acquisitions for 2018, 2017, and 2016 was \$11.4 million, \$8.5 million, and \$9.2 million, respectively. Increase in 2018 as compared to 2017 was also due to continued investment in payment and related support systems.
Other expenses	28,137		17,897	17,122	Year over year increases were due to additional costs to

					support the increase in payment plans and campus commerce activity and continued investments in and enhancements of existing payment plan and campus commerce systems and products. Additionally, 2018 includes a $7.8 million impairment charge as the result of the Company’s decision to terminate its investment in a proprietary payment processing platform. The decision to terminate this investment will not impact existing payment processing revenue or customers.
Intersegment expenses, net	10,681		9,079	6,615	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	133,382		105,900	96,661	
Income before income taxes	33,458		38,627	34,714	
Income tax expense	(8,030)		(14,678)	(13,191)	Reflects income tax expense based on effective tax rates of 24% in 2018 and 38% in 2017 and 2016. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act, signed into law on December 22, 2017 and effective January 1, 2018.
Net income	$	25,428	23,949	21,523	

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Education technology, services, and payment processing revenue

The following table provides disaggregated revenue by service offering and before tax operating margin for each reporting period.

	Year ended December 31,			
	2018	**2017**	**2016**	**Additional information**
Tuition payment plan services	$ 85,381	76,753	72,405	Year over year increases were due to increases in the number of managed tuition payment plans resulting from the addition of new school customers.
Payment processing	84,289	71,652	64,100	Year over year increases were due to increases in payments volume from new school and non-education customers.
Education technology and services	51,155	44,539	38,308	Year over year increases were due to increases in the number of customers using the Company's financial needs assessment services and school administration software and services. Additionally, in 2018, FACTS Education Solutions experienced growth in the number of students and teachers receiving its professional development and educational instruction services.
Other	1,137	244	869	
Education technology, services, and payment processing revenue	221,962	193,188	175,682	
Cost to provide education technology,	59,566	48,678	44,316	Costs primarily relate to payment processing

services, and payment processing services				revenue. Year over year increases were due to increases in payments volume.
Net revenue	$ 162,396	144,510	131,366	
Before tax operating margin	20.6%	26.7%	26.4%	Excluding the impairment charge of $7.8 million in 2018 related to the Company’s decision to terminate its investment in a proprietary payment processing platform, as discussed above, before tax operating margin was 25.4% in 2018.

COMMUNICATIONS OPERATING SEGMENT - RESULTS OF OPERATIONS

Summary and Comparison of Operating Results

	Year ended December 31,				
	2018		**2017**	**2016**	**Additional information**
Net interest expense	$	(9,983)	(5,424)	(1,270)	See note (a) below for additional information.
Communications revenue	44,653		25,700	17,659	Communications revenue is derived primarily from the sale of pure fiber optic services to residential and business customers in Nebraska, including internet, television, and telephone services. Year over year increases were primarily due to additional residential households served. See additional financial and operating data for ALLO in the tables below.
Other income	1,075		—	—	In 2018, ALLO became eligible for certain tax incentives related to prior reporting periods. Income was not recognized until all qualifications were met.
Total other income	45,728		25,700	17,659	
Cost to provide communications services	16,926		9,950	6,866	Cost of services and products are primarily associated with television programming costs. Other costs include connectivity, franchise, and other regulatory costs directly related to providing internet and voice services.
Salaries and benefits	18,779		14,947	7,649	Since the acquisition of ALLO on December 31, 2015, there has

				been a significant increase in personnel to support the Lincoln, Nebraska network expansion. As of December 31, 2015, 2016, 2017, and 2018, ALLO had 97, 318, 508, and 550 employees, respectively, including part-time employees. ALLO also uses temporary employees in the normal course of business. Certain costs qualify for capitalization as ALLO builds its network.
Depreciation and amortization	23,377	11,835	6,060	Depreciation reflects the allocation of the costs of ALLO's property and equipment over the period in which such assets are used. Since the acquisition of ALLO on December 31, 2015, there has been a significant amount of property and equipment purchases to support the Lincoln, Nebraska network expansion. The gross property and equipment balances related to this segment as of December 31, 2015, 2016, 2017, and 2018 were \$32.5 million, \$71.3 million, \$186.4 million, and \$273.9 million, respectively. Amortization reflects the allocation of costs related to intangible assets recorded at fair value as of the date the Company

					acquired ALLO over their estimated useful lives.
Other expenses	11,900		8,074	4,370	Other expenses includes selling, general, and administrative expenses necessary for operations, such as advertising, occupancy, professional services, construction materials, and personal property taxes. Year over year increases were due to expansion of the Lincoln, Nebraska network and number of households served.
Intersegment expenses, net	2,578		2,101	958	Intersegment expenses represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	56,634		36,957	19,037	
Loss before income taxes	(37,815)		(26,631)	(9,514)	
Income tax benefit	9,075		10,120	3,615	Reflects income tax benefit based on effective tax rates of 24% in 2018 and 38% in 2017 and 2016. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act effective January 1, 2018.
Net loss	$	(28,740)	(16,511)	(5,899)	The Company anticipates this operating segment will be dilutive to consolidated earnings as it continues to build its network in Lincoln, Nebraska and other communities, due to large upfront capital

					expenditures and associated depreciation and upfront customer acquisition costs.
Additional Information:					
Net loss	$	(28,740)	(16,511)	(5,899)	
Net interest expense	9,983		5,424	1,270	
Income tax benefit	(9,075)		(10,120)	(3,615)	
Depreciation and amortization	23,377		11,835	6,060	
Earnings (loss) before interest, income taxes, depreciation, and amortization (EBITDA)	$	(4,455)	(9,372)	(2,184)	For additional information regarding this non-GAAP measure, see the table below.

(a) Nelnet, Inc. (parent company) issued a line of credit to ALLO for network capital expenditures and related expenses. In 2016 and 2017, the outstanding amount owed by ALLO to Nelnet, Inc. and the related interest expense incurred by ALLO and the interest income recognized by Nelnet, Inc. under this line of credit was eliminated in the Company's consolidated financial statements. On January 1, 2018, Nelnet, Inc. contributed equity to ALLO with an associated guaranteed payment and ALLO used the proceeds from this capital contribution to pay off all of the outstanding balance on its line of credit with Nelnet, Inc., including all accrued and unpaid interest on such line of credit. For financial reporting purposes, the guaranteed payment recorded by ALLO was classified as debt and such debt and the guaranteed return paid to Nelnet, Inc. (reflected as interest expense for ALLO) was eliminated in the consolidated financial statements. On October 1, 2018, the guaranteed payment was replaced with a yield-based preferred return of future earnings on the contributed equity. For financial reporting purposes, the preferred interest recorded by ALLO is classified as equity and the preferred return on the preferred interest is no longer reflected by ALLO as interest expense. Accordingly, subsequent to October 1, 2018, ALLO will not reflect interest expense in its income statement related to amounts contributed to ALLO from Nelnet, Inc.

Certain financial and operating data for ALLO is summarized in the tables below.

	Year ended December 31,		
	2018	**2017**	**2016**
Residential revenue	$ 33,434	17,696	11,088
Business revenue	10,976	7,744	6,235
Other revenue	243	260	336
Communications revenue	$ 44,653	25,700	17,659
Net (loss) income	$ (28,740)	(16,511)	(5,899)
EBITDA (a)	(4,455)	(9,372)	(2,184)
Capital expenditures	87,466	115,102	38,817
Revenue contribution:			
Internet	53.9 %	46.6 %	39.8 %
Television	29.0	31.2	32.7
Telephone	16.9	21.8	27.0
Other	0.2	0.4	0.5
	100.0 %	100.0 %	100.0 %

	As of December 31, 2018	**As of September 30, 2018**	**As of June 30, 2018**	**As of March 31, 2018**	**As of December 31, 2017**	**As of September 30, 2017**	**As of June 30, 2017**	**As of March 31, 2017**	**As of December 31, 2016**
Residential customer information:									
Households served	37,351	32,529	27,643	23,541	20,428	16,394	12,460	10,524	9,814
Households passed (b)	122,396	110,687	98,538	84,475	71,426	54,815	45,880	34,925	30,962
Total households in current markets (c)	152,840	142,602	137,500	137,500	137,500	137,500	137,500	137,500	137,500

(a) Earnings (loss) before interest, income taxes, depreciation, and amortization ("EBITDA") is a supplemental non-GAAP performance measure that is frequently used in capital-intensive industries such as telecommunications. ALLO's management uses EBITDA to compare ALLO's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure performance from period to period. EBITDA excludes interest and income taxes because these items are associated with a company's particular capitalization and tax structures. EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. The Company reports EBITDA for ALLO because the Company believes that it provides useful additional information for investors regarding a key metric used by management to assess ALLO's performance. There are limitations to using EBITDA as a performance measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from ALLO's calculations. In addition, EBITDA should not be considered a substitute for other measures of financial performance, such as net income or any other performance measures derived in accordance with GAAP. A reconciliation of EBITDA from net income (loss) under GAAP is presented under "Summary and Comparison of Operating Results" in the table above.

(b) Represents the number of single residence homes, apartments, and condominiums that ALLO already serves and those in which ALLO has the capacity to connect to its network distribution system without further material extensions to the transmission lines, but have not been connected.

(c) During the third quarter of 2018, ALLO began providing service in Fort Morgan, Colorado. During the fourth quarter of 2018, ALLO began providing service in Hastings, Nebraska.

ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

Loan Portfolio

As of December 31, 2018, the Company had a $22.4 billion loan portfolio, consisting primarily of federally insured loans, that management anticipates will amortize over the next approximately 20 years and has a weighted average remaining life of 8.7 years. For a summary of the Company's loan portfolio as of December 31, 2018 and 2017, see note 3 of the notes to consolidated financial statements included in this report.

Loan Activity

The following table sets forth the activity of loans:

	Year ended December 31,			
	2018		2017	2016
Beginning balance	$	21,995,877	25,103,643	28,555,749
Loan acquisitions:				
Federally insured student loans	3,708,188		254,740	295,443
Private education loans	68,337		3,785	60,667
Consumer loans	120,482		71,726	—
Total loan acquisitions	3,897,007		330,251	356,110
Repayments, claims, capitalized interest, and other	(2,282,631)		(2,257,450)	(2,520,835)
Consolidation loans lost to external parties	(1,066,043)		(1,127,364)	(1,242,621)
Loans sold	(23,712)		(53,203)	(44,760)
Ending balance	$	22,520,498	21,995,877	25,103,643

Allowance for Loan Losses and Loan Delinquencies

The Company maintains an allowance that management believes is appropriate to absorb losses, net of recoveries, inherent in the portfolio of loans, which results in periodic expense provisions for loan losses. Delinquencies have the potential to adversely impact the Company’s earnings through increased servicing and collection costs and account charge-offs.

For a summary of the activity in the allowance for loan losses for 2018, 2017, and 2016, and a summary of the Company's loan delinquency amounts as of December 31, 2018, 2017, and 2016, see note 3 of the notes to consolidated financial statements included in this report.

Provision for loan losses for federally insured loans was $14.0 million, $13.0 million, and $14.0 million in 2018, 2017, and 2016, respectively. During 2018, 2017, and 2016, the Company determined an additional allowance was necessary related to portfolios of federally insured loans that were purchased in prior periods and recognized $5.0 million (pre-tax) in 2018, 2017, and 2016 in provision expense related to such loans.

The Company did not record a provision for private education loans in 2018, and recorded a negative provision in 2017 and 2016 due to better than expected credit performance.

The Company began to purchase consumer loans in 2017. Provision for loan losses for consumer loans was $9.0 million and $3.5 million in 2018 and 2017, respectively. The increase in the provision for loan losses for consumer loans was due to purchasing $120.5 million of consumer loans in 2018.

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 based on current information and changes in expectations to determine the need for any additional allowance for loan losses.

Loan Spread Analysis

The following table analyzes the loan spread on the Company’s portfolio of loans, which represents the spread between the yield earned on loan assets and the costs of the liabilities and derivative instruments used to fund the assets. The spread amounts included in the following table are calculated by using the notional dollar values found in the table under the caption "Net interest income, net of settlements on derivatives" below, divided by the average balance of student loans or debt outstanding.

	Year ended December 31,		
	2018	**2017**	**2016**
Variable loan yield, gross	4.52 %	3.53 %	2.90 %
Consolidation rebate fees	(0.84)	(0.84)	(0.83)
Discount accretion, net of premium and deferred origination costs amortization (a)	0.04	0.07	0.06
Variable loan yield, net	3.72	2.76	2.13
Loan cost of funds - interest expense (b)	(2.98)	(1.99)	(1.41)
Loan cost of funds - derivative settlements (c) (d)	0.03	(0.04)	(0.01)
Variable loan spread	0.77	0.73	0.71
Fixed rate floor income, gross	0.25	0.45	0.63
Fixed rate floor income - derivative settlements (c) (e)	0.30	0.05	(0.06)
Fixed rate floor income, net of settlements on derivatives	0.55	0.50	0.57
Core loan spread (f)	1.32 %	1.23 %	1.28 %
Average balance of loans	$ 22,596,436	23,560,412	26,863,526
Average balance of debt outstanding	22,181,932	23,250,268	26,729,196

(a) In the third quarter of 2016, the Company revised its policy to correct for an error in its method of applying the interest method used to amortize premiums and accrete discounts on its student loan portfolio. Under the Company's revised policy, as of September 30, 2016, the constant prepayment rate used by the Company to amortize/accrete student loan premiums/discounts was decreased. During the third quarter of 2016, the Company recorded an adjustment to reflect the net impact on prior periods for the correction of this error that resulted in an $8.2 million reduction to the Company's net loan discount balance and a corresponding increase in interest income. The impact of this adjustment was excluded from the above table.

(b) In the fourth quarter of 2016, the Company redeemed certain debt securities prior to their legal maturity and recognized $7.4 million in interest expense to write off the remaining debt discount associated with these bonds. The impact of this expense was excluded from the above table.

(c) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements with respect to derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company's net interest income (loan spread) as presented in this table. The Company reports this non-GAAP information because it believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included in this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative for the periods presented in the table under the caption "Income Statement Impact" in note 5 and in this table.

(d) Derivative settlements include the net settlements received (paid) related to the Company's 1:3 basis swaps and previous cross-currency interest rate swap.

(e) Derivative settlements include the net settlements received (paid) related to the Company's floor income interest rate swaps.

(f) The Company began to purchase consumer loans in the second quarter of 2017. Consumer loans were funded by the Company in 2017 and 2018 and will continue to be funded with operating cash until they can be funded in a secured financing transaction. As such, in 2017 and 2018 consumer loans do not have a cost of funds (debt) associated with them. Core loan spread, excluding consumer loans, would have been 1.27% and 1.21% in 2018 and 2017, respectively.

A trend analysis of the Company's core and variable loan spreads is summarized below.

(a) The interest earned on a large portion of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds a portion of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and fu

increased 2018 2017 due to the impact of the Company beginning to purchase consumer loans in the second quarter of 2017. Variable loan spread without consumer loans was 0.71% for both 2018 and 2017. Variable loan spread increased in 2017 as compared to 2016

ted in the table above).

The primary difference between variable loan spread and core loan spread is fixed rate floor income. A summary of fixed rate floor income and its contribution to core loan spread follows:

	Year ended December 31,		
	2018	**2017**	**2016**
Fixed rate floor income, gross	$ 56,811	106,434	169,979
Derivative settlements (a)	64,901	10,838	(17,643)
Fixed rate floor income, net	$ 121,712	117,272	152,336
Fixed rate floor income contribution to spread, net	0.55%	0.50%	0.57%

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

The year over year decrease in gross fixed rate floor income was due to an increase in interest rates. The Company has a portfolio of derivative instruments in which the Company pays a fixed rate and receives a floating rate to economically hedge loans earning fixed rate floor income. See Item 7A, “Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk,” which provides additional detail on the Company’s portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

Summary and Comparison of Operating Results

	Year ended December 31,				
	2018		2017	2016	Additional information
Net interest income after provision for loan losses	$	226,142	285,519	355,375	See table below for additional analysis.
Other income	12,364		13,424	15,709	The primary component of other income is borrower late fees, which were $12.3 million, $11.6 million, and $12.8 million in 2018, 2017, and 2016, respectively.
Gain (loss) on debt repurchases	359		(1,567)	5,846	Historically, the Company has recorded gains from repurchasing its own asset-backed debt securities at less than par. In 2017, the Company paid a $2.7 million premium, and recorded a loss, to repurchase certain asset-backed debt securities that had above market interest rates. The underlying collateral was refinanced with a significantly lower cost of funds.
Derivative settlements, net	70,478		1,448	(21,034)	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income as reflected in the table below.
Derivative market value and foreign currency transaction adjustments, net	(2,159)		(19,357)	70,368	Includes (i) the realized and unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the unrealized foreign currency transaction

				gains or losses caused by the re-measurement of the Company's previously Euro-denominated bonds to U.S. dollars.
Total other income	81,042	(6,052)	70,889	
Salaries and benefits	1,526	1,548	1,985	
Loan servicing fees to third parties	12,059	22,734	25,750	Third party loan servicing fees decreased year over year due to runoff of the Company's loan portfolio on third-party platforms, significant conversions of loans to the LSS operating segment in August 2017, July 2018, and September 2018, and the acquisition of Great Lakes in February 2018, which prior to the acquisition was a third-party servicer to the Company. Servicing fees on loans serviced by Great Lakes are included in intersegment expenses effective as of the acquisition date.
Other expenses	3,902	3,900	6,005	
Intersegment expenses	47,870	42,830	46,494	Amounts include fees paid to the LSS operating segment for the servicing of the Company’s loan portfolio. These amounts exceed the actual cost of servicing the loans. Increase in 2018 as compared to 2017 was due to significant purchases of loans during the second quarter of 2018 of which LSS is the servicer, significant conversions of loans in August 2017, July 2018, and September 2018, and the acquisition of Great Lakes in February 2018, as described

					above. Decrease in 2017 as compared to 2016 was due to a decrease in loans serviced by the LSS operating segment due to portfolio runoff. Intersegment expenses also represent costs for certain corporate activities and services that are allocated to each operating segment based on estimated use of such activities and services.
Total operating expenses	65,357		71,012	80,234	Total operating expenses were 29, 30, and 30 basis points of the average balance of student loans for 2018, 2017, and 2016, respectively.
Income before income taxes	241,827		208,455	346,030	
Income tax expense	(58,038)		(79,213)	(131,492)	Reflects income tax expense based on effective tax rates of 24% in 2018 and 38% in 2017 and 2016. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act effective January 1, 2018.
Net income	$	183,789	129,242	214,538	
Additional information:					
Net income	$	183,789	129,242	214,538	See "Overview - GAAP Net Income and Non-GAAP Net Income, Excluding Adjustments" above for additional information about non-GAAP net income, excluding derivative market value and foreign currency transaction adjustments. Net income, excluding derivative market value and foreign currency transaction adjustments, increased in 2018 compared to 2017, due to a decrease in the segment's effective tax rate from 38% in 2017 to 24% in 2018 as the
Derivative market value and foreign currency transaction adjustments, net	2,159		19,357	(70,368)	
Net tax effect	(518)		(7,356)	26,740	
Net income, excluding derivative market value and foreign currency transaction adjustments	$	185,430	141,243	170,910	

result of the Tax Cuts and Jobs Act and an increase in core loan spread. These items were partially offset by a decrease in the average balance of loans. The decrease in 2017 compared to 2016 was due to a decrease in the Company's loan portfolio and a decrease in core loan spread.

Net interest income, net of settlements on derivatives

The following table summarizes the components of "net interest income after provision for loan losses" and "derivative settlements, net."

	Year ended December 31,				
	2018		2017	2016	Additional information
Variable interest income, gross	$	1,021,326	833,318	780,314	Year over year increases were due to increases in the gross yield earned on loans, partially offset by a decrease in the average balance of loans.
Consolidation rebate fees	(190,350)		(199,108)	(223,911)	Year over year decreases were due to decreases in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	9,879		17,087	24,900	Net discount accretion is due to the Company's purchases of loans at a net discount over the last several years. The decrease in 2018 was due to significant loan purchases in 2018 at a net premium. In the third quarter of 2016, the Company revised its policy to correct for an error in its method of applying the interest method used to amortize premiums and accrete discounts on its loan portfolio. Under the Company's revised policy, as of September 30, 2016, the constant prepayment rate used by the Company to amortize/accrete loan premiums/discounts was decreased. During the third quarter of 2016, the Company recorded an adjustment to reflect the net impact on prior periods for the correction of this error that resulted in an $8.2 million reduction to the Company's net loan discount balance and a corresponding increase in interest income.
Variable interest	840,855		651,297	581,303	

income, net				
Interest on bonds and notes payable	(659,367)	(461,703)	(382,088)	Year over year increases were due to increases in cost of funds, partially offset by decreases in the average balance of debt outstanding.
Derivative settlements, net (a)	5,577	(9,390)	(3,391)	Derivative settlements include the net settlements received (paid) related to the Company’s 1:3 basis swaps and previous cross-currency interest rate swap.
Variable loan interest margin, net of settlements on derivatives (a)	187,065	180,204	195,824	
Fixed rate floor income, gross	56,811	106,434	169,979	Year over year decreases in fixed rate floor income were due to the rising interest rate environment.
Derivative settlements, net (a)	64,901	10,838	(17,643)	Derivative settlements include the net settlements received (paid) related to the Company's floor income interest rate swaps. Year over year increases in net settlements received were due to the rising interest rate environment.
Fixed rate floor income, net of settlements on derivatives	121,712	117,272	152,336	
Core loan interest income (a)	308,777	297,476	348,160	
Investment interest	13,836	6,494	3,506	Year over year increases were due to higher balances of interest-earning investments and increases in interest rates.
Intercompany interest	(2,993)	(2,553)	(3,825)	
Provision for loan losses - federally insured loans	(14,000)	(13,000)	(14,000)	See "Allowance for Loan Losses and Loan Delinquencies" included above under "Asset Generation and Management Operating Segment - Results of Operations."
Negative provision for loan losses - private education loans	—	2,000	500	

Provision for loan losses - consumer loans	(9,000)		(3,450)	—
Net interest income after provision for loan losses (net of settlements on derivatives) (a)	$	296,620	286,967	334,341

(a) Derivative settlements represent the cash paid or received during the current period to settle with derivative instrument counterparties the economic effect of the Company's derivative instruments based on their contractual terms. Derivative accounting requires that net settlements on derivatives that do not qualify for "hedge treatment" under GAAP be recorded in a separate income statement line item below net interest income. The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. As such, management believes derivative settlements for each applicable period should be evaluated with the Company’s net interest income as presented in this table. Core loan interest income and net interest income after provision for loan losses (net of settlements on derivatives) are non-GAAP financial measures, and the Company reports this non-GAAP information because the Company believes that it provides additional information regarding operational and performance indicators that are closely assessed by management. There is no comprehensive, authoritative guidance for the presentation of such non-GAAP information, which is only meant to supplement GAAP results by providing additional information that management utilizes to assess performance. See note 5 of the notes to consolidated financial statements included in this report for additional information on the Company's derivative instruments, including the net settlement activity recognized by the Company for each type of derivative referred to in the "Additional information" column of this table, for the periods presented in the table under the caption "Income Statement Impact" in note 5 and in this table.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s Loan Servicing and Systems and Education Technology, Services, and Payment Processing operating segments are non-capital intensive and both produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to these segments and any liquidity or capital needs are satisfied using cash flow from operations. Therefore, the Liquidity and Capital Resources discussion is concentrated on the Company’s liquidity and capital needs to meet existing debt obligations in the Asset Generation and Management operating segment and capital needs to expand ALLO's communications network in the Company's Communications operating segment.

The Company may issue equity and debt securities in the future in order to improve capital, increase liquidity, refinance upcoming maturities, or provide for general corporate purposes. Moreover, the Company may from time-to-time repurchase certain amounts of its outstanding secured and unsecured debt securities, including debt securities which the Company may issue in the future, for cash and/or through exchanges for other securities. Such repurchases or exchanges may be made in open market transactions, privately negotiated transactions, or otherwise. Any such repurchases or exchanges will depend on prevailing market conditions, the Company’s liquidity requirements, contractual restrictions, compliance with securities laws, and other factors. The amounts involved in any such transactions may be material.

The Company has historically utilized operating cash flow, secured financing transactions (which include warehouse facilities, asset-backed securitizations, and liquidity programs offered by the Department), operating lines of credit, and other borrowing arrangements to fund its Asset Generation and Management operations and loan acquisitions. In addition, the Company has used operating cash flow, borrowings on its unsecured line of credit, repurchase agreements, and unsecured debt offerings to fund corporate activities, business acquisitions, repurchases of common stock, repurchases of its own debt, and expansion of ALLO's fiber network. The Company has also used its common stock to partially fund certain business acquisitions.

Sources of Liquidity

The Company has historically generated positive cash flow from operations. For the years ended December 31, 2018 and 2017, the Company's net cash provided by operating activities was $270.9 million and $322.3 million, respectively.

As of December 31, 2018, the Company had cash and cash equivalents of $121.3 million. The Company also had a portfolio of available-for-sale investments, consisting primarily of student loan asset-backed securities, with a fair value of $53.0 million as of December 31, 2018.

The Company also has a $382.5 million unsecured line of credit that matures on June 22, 2023. As of December 31, 2018, there was $310.0 million outstanding on the unsecured line of credit and $72.5 million was available for future use.

In addition, the Company has repurchased certain of its own asset-backed securities (bonds and notes payable) in the secondary market. For accounting purposes, these notes are eliminated in consolidation and are not included in the Company’s consolidated financial statements. However, these securities remain legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. As of December 31, 2018, the Company holds $15.0 million (par value) of its own asset-backed securities.

The Company intends to use its liquidity position to capitalize on market opportunities, including FFELP, private education, and consumer loan acquisitions; strategic acquisitions and investments; expansion of ALLO's telecommunications network; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions. The timing and size of these opportunities will vary and will have a direct impact on the Company's cash and investment balances.

Cash Flows

During the year ended December 31, 2018, the Company generated $270.9 million from operating activities, compared to $322.3 million for the same period in 2017. The decrease in cash provided by operating activities reflects the 2017 adjustments to net income from foreign currency transaction adjustments, the decrease in proceeds from the clearinghouse related to the Company's derivative portfolio in 2018 as compared to 2017, and the impact of changes in loan accrued interest receivable during 2018 as compared to 2017. These factors were partially offset by an increase in net income, the adjustments to net income for depreciation and amortization and derivative market value adjustments, an increase in net proceeds received from termination of derivative instruments in 2018 as compared to 2017, and the impact of changes in other assets during 2018 as compared to 2017.

The primary items included in the statement of cash flows for investing activities are the purchase and repayment of loans. The primary items included in financing activities are the proceeds from the issuance of and payments on bonds and notes payable used to fund loans. Cash used in investing activities and cash provided by financing activities for the year ended December 31, 2018 was $732.4 million and $711.8 million, respectively, and cash provided by investing activities and cash used in financing activities for the year ended December 31, 2017 was $2.9 billion and $3.5 billion, respectively. Investing and financing activities are further addressed in the discussion that follows.

Liquidity Needs and Sources of Liquidity Available to Satisfy Debt Obligations Secured by Loan Assets and Related Collateral

The following table shows the Company's debt obligations outstanding that are secured by loan assets and related collateral:

	As of December 31, 2018		
	Carrying amount		**Final maturity**
Bonds and notes issued in asset-backed securitizations	$	21,099,490	11/25/24 - 2/25/67
FFELP warehouse facilities	986,886		5/20/20 / 5/31/21
	$	22,086,376	

Bonds and Notes Issued in Asset-backed Securitizations

The majority of the Company's portfolio of student loans is funded in asset-backed securitizations that are structured to substantially match the maturity of the funded assets, thereby minimizing liquidity risk. Cash generated from student loans funded in asset-backed securitizations provide the sources of liquidity to satisfy all obligations related to the outstanding bonds and notes issued in such securitizations. In addition, due to (i) the difference between the yield the Company receives on the loans and cost of financing within these transactions, and (ii) the servicing and administration fees the Company earns from these transactions, the Company has created a portfolio that will generate earnings and significant cash flow over the life of these transactions.

As of December 31, 2018, based on cash flow models developed to reflect management's current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately $2.10 billion as detailed below.

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of December 31, 2018. As of December 31, 2018, the Company had $21.3 billion of loans included in asset-backed securitizations, which represented 94.7 percent of its total loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded in its warehouse facilities as of December 31, 2018, private education and consumer loans funded with operating cash, or loans acquired subsequent to December 31, 2018.

The forecasted future undiscounted cash flows of approximately $2.10 billion include approximately $0.90 billion (as of December 31, 2018) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances on the consolidated balance sheet: "loans receivable," "restricted cash," and "loan accrued interest receivable." The difference between the total estimated future undiscounted cash flows and the overcollateralization of approximately $1.20 billion, or approximately $0.91 billion after estimated income taxes based on the estimated effective tax rate, is expected to be accretive to the Company's December 31, 2018 balance of consolidated shareholders' equity.

Certain of the Company’s asset-backed securitizations are structured as “Turbo Transactions” which require all cash generated from the student loans (including excess spread) to be directed toward payment of interest and any remaining principal until such time as all principal on the notes has been paid in full. Once the notes in such transactions are paid in full, the remaining unencumbered student loans (and other remaining assets, if any) in the securitization will be released to the Company, at which time the Company will have the option to refinance or sell these assets, or retain them on the balance sheet as unencumbered assets. The Company's forecast of the timing of the release of the equity in the Turbo Transactions is highly sensitive to prepayment rate assumptions.

The Company uses various assumptions, including prepayments and future interest rates, when preparing its cash flow forecast. These assumptions are further discussed below.

Prepayments: The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity, borrower default rates, and utilization of debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company’s cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company’s recent asset-backed securitization transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately $120 million to $150 million.

Interest rates: The Company funds a large portion of its student loans with three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed primarily to a one-month LIBOR rate. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes three-month LIBOR will exceed one-month LIBOR by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between three-month and one-month LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately $110 million to $130 million. As the percentage of the Company's outstanding debt financed by three-month LIBOR declines, the Company's basis risk will be reduced.

There is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021, and any market transition away from the current LIBOR framework could result in significant changes to the forecasted cash flows from the Company's asset-backed securitizations. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate."

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. The forecasted cash flow does not include cash flows the Company expects to pay/receive related to derivative instruments used by the Company to manage interest rate risk. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk."

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 December 31, 2018, the Company had two FFELP warehouse facilities with an aggregate maximum financing amount available of $1.2 billion, of which $1.0 billion was outstanding and $0.2 billion was available for additional funding. One warehouse facility has a static advance rate until the expiration date of the liquidity provisions (May 20, 2019). In the event the liquidity provisions are not extended, the valuation agent has the right to perform a one-time mark to market on the underlying loans funded in this facility, subject to a floor. The loans would then be funded at this new advance rate until the final maturity date of the facility (May 20, 2020). The other warehouse facility has static advance rates that requires initial equity for loan funding and does not require increased equity based on market movements. As of December 31, 2018, the Company had $57.0 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at December 31, 2018, see note 4 of the notes to consolidated financial statements included in this report.

Upon termination or expiration of the warehouse facilities, the Company would expect to access the securitization market, obtain replacement warehouse facilities, use operating cash, consider the sale of assets, or transfer collateral to satisfy any remaining obligations.

Other Uses of Liquidity

Effective July 1, 2010, no new loan originations can be made under the FFEL Program and all new federal loan originations must be made through the Federal Direct Loan Program. As a result, the Company no longer originates new FFELP loans, but continues to acquire FFELP loan portfolios from third parties and believes additional loan purchase opportunities exist, including private education and consumer loans.

The Company plans to fund additional loan acquisitions using current cash and investments; using its Union Bank participation agreement (as described below); using its existing FFELP warehouse facilities (as described above); establishing new warehouse facilities; and continuing to access the asset-backed securities market.

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, a related party, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans. As of December 31, 2018, $664.3 million of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days' notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750.0 million or an amount in excess of $750.0 million if mutually agreed to by both parties. Loans participated under this agreement have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheets.

Asset-backed Securities Transactions

During 2018, the Company completed five asset-backed securitizations totaling $3.0 billion (par value). See note 4 of the notes to consolidated financial statements included in this report for additional information on these securitizations. In addition, on February 27, 2019, the Company completed an asset-backed securitization of $496.8 million (par value). The proceeds from these transactions were used primarily to refinance student loans included in the Company's FFELP warehouse facilities.

Depending on future market conditions, the Company currently anticipates continuing to access the asset-backed securitization market. Such asset-backed securitization transactions would be used to refinance loans included in its warehouse facilities, loans purchased from third parties, and/or loans in its existing asset-backed securitizations.

Consumer Loan Warehouse Facility

On January 11, 2019, the Company closed on a consumer loan warehouse facility with an aggregate maximum financing amount available of $100.0 million, an advance rate of 70 or 75 percent depending on type of collateral, and a maturity date of January 10, 2021. Upon closing, the Company initially funded $98.1 million (par value) of consumer loan assets in this facility.

Liquidity Impact Related to Hedging Activities

The Company utilizes derivative instruments to manage interest rate sensitivity. By using derivative instruments, the Company is exposed to market risk which could impact its liquidity. Based on the derivative portfolio outstanding as of December 31, 2018, the Company does not currently anticipate any movement in interest rates having a material impact on its capital or liquidity profile, nor does the Company expect that any movement in interest rates would have a material impact on its ability to meet potential collateral deposits with its counterparties and/or variation margin payments with its third-party clearinghouse. However, if interest rates move materially and negatively impact the fair value of the Company's derivative portfolio or if the Company enters into additional derivatives for which the fair value becomes negative, the Company could be required to deposit additional collateral with its derivative instrument counterparties and/or pay additional variation margin to a third-party clearinghouse. The collateral deposits or variation margin, if significant, could negatively impact the Company's liquidity and capital resources. In addition, clearing requirements require the Company to post amounts of liquid collateral when executing new derivative instruments, which could prevent or limit the Company from utilizing additional derivative instruments to manage interest rate sensitivity and risks. See note 5 of the notes to consolidated financial statements included in this report for additional information on the Company's derivative portfolio.

Liquidity Impact Related to the Communications Operating Segment

ALLO has made significant investments in its communications network and currently provides fiber directly to homes and businesses in eight communities in Nebraska and one in Colorado. ALLO plans to continue to increase market share and revenue in its existing markets and is currently evaluating opportunities to expand to additional communities. ALLO began providing services in Lincoln, Nebraska in September 2016, as part of a multi-year project to pass substantially all commercial and residential properties in the community. The Company currently anticipates the Lincoln build-out will be substantially complete during the first quarter of 2019. In 2018, ALLO's capital expenditures were $87.5 million and the Company currently anticipates total expenditures of approximately $50 million in 2019. However, this amount could change based on customer demand for ALLO's services. The Company currently plans to use cash from operating activities and its third-party unsecured line of credit to fund ALLO's capital expenditures, as well as potentially other third-party financing alternatives.

Other Debt Facilities

As discussed above, the Company has a $382.5 million unsecured line of credit with a maturity date of June 22, 2023. As of December 31, 2018, the unsecured line of credit had $310.0 million outstanding and $72.5 million was available for future use. Upon the maturity date in 2023, there can be no assurance that the Company will be able to maintain this line of credit, increase the amount outstanding under the line, or find alternative funding if necessary.

The Company has issued Junior Subordinated Hybrid Securities (the "Hybrid Securities") that have a final maturity of September 15, 2061. The Hybrid Securities are unsecured obligations of the Company. As of December 31, 2018, the

Company had $20.4 million of Hybrid Securities that remain outstanding.

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The Company entered into a repurchase agreement in both 2017 and 2018, the proceeds of which are collateralized by FFELP asset-backed security investments and private education loans, respectively. As of December 31, 2018, $41.4 million and $45.0 million were subject to these repurchase agreements, respectively. Upon termination or expiration of the repurchase agreements, the Company would use cash proceeds or transfer collateral to satisfy any outstanding obligations subject to the agreements.

The Company has other notes payable included in its consolidated financial statements which were issued by partnerships in connection with the development of certain real estate projects in Lincoln, Nebraska, including a project involving Hudl, a related party. Although the Company's ownership of these partnerships are 50 percent or less, because the Company was the developer of and is a current tenant in these buildings, the operating results of these partnerships are included in the Company's consolidated financial statements. The total amount of real estate debt outstanding issued by these partnerships and included in the Company's consolidated financial statements as of December 31, 2018 was $33.9 million, of which $7.7 million was recourse to the Company.

For further discussion of these debt facilities described above, see note 4 of the notes to consolidated financial statements included in this report.

Debt Repurchases

Due to the Company's positive liquidity position and opportunities in the capital markets, the Company has repurchased its own debt over the last several years, and may continue to do so in the future. See note 4 of the notes to consolidated financial statements included in this report for information on debt repurchased by the Company during the years ended December 31, 2018, 2017, and 2016.

Stock Repurchases

The Board of Directors has authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 25, 2019. Shares may be repurchased from time to time depending on various factors, including share prices and other potential uses of liquidity. Shares repurchased by the Company during 2018, 2017, and 2016 are shown in the table below. Certain of these repurchases were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

	Total shares repurchased	**Purchase price (in thousands)**		**Average price of shares repurchased (per share)**	
Year ended December 31, 2018	868,147	$	45,331	$	52.22
Year ended December 31, 2017	1,473,054	68,896		46.77	
Year ended December 31, 2016	2,038,368	69,091		33.90	

As of December 31, 2018, 2,305,252 shares remain authorized for purchase under the Company's repurchase program.

Dividends

Dividends of $0.16 per share on the Company’s Class A and Class B common stock were paid on March 15, 2018, June 15, 2018, and September 14, 2018, respectively, and a dividend of $0.18 per share was paid on December 14, 2018.

The Company's Board of Directors declared a first quarter 2019 cash dividend on the Company's Class A and Class B common stock of $0.18 per share. The dividend will be paid on March 15, 2019, to shareholders of record at the close of business on March 1, 2019.

The Company currently plans to continue making regular quarterly dividend payments, subject to future earnings, capital requirements, financial condition, and other factors. In addition, the payment of dividends is subject to the terms of the Company's outstanding Hybrid Securities, which generally provide that if the Company defers interest payments on those securities it cannot pay dividends on its capital stock.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Contractual Obligations

The Company’s contractual obligations were as follows:

	As of December 31, 2018					
	Total		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable (a)	$	22,537,099	86,408	986,886	323,685	21,140,120
Operating lease obligations	35,346		9,181	14,037	6,649	5,479
Total	$	22,572,445	95,589	1,000,923	330,334	21,145,599

(a) Amounts exclude interest as substantially all bonds and notes payable carry variable rates of interest.

As of December 31, 2018, the Company had a reserve of $18.5 million for uncertain income tax positions (including the federal benefit received from state positions). This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This Management’s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. The Company bases its estimates and judgments on historical experience and on various other factors that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the notes to consolidated financial statements included in this report includes a summary of the significant accounting policies and methods used in the preparation of the consolidated financial statements.

On an on-going basis, management evaluates its estimates and judgments, particularly as they relate to accounting policies that management believes are most "critical" — that is, they are most important to the portrayal of the Company’s financial condition and results of operations and they require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the allowance for loan losses as a critical accounting policy.

Allowance for Loan Losses

The allowance for loan losses represents management’s estimate of probable losses on loans. This evaluation process is subject to numerous estimates and judgments. The Company evaluates the appropriateness of the allowance for loan losses separately on each of its federally insured, private education, and consumer loan portfolios.

The allowance for the federally insured student loan portfolio is based on periodic evaluations of the Company’s loan portfolios considering loans in repayment versus those in a nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company’s future provision for loan losses.

In determining the appropriateness of the allowance for loan losses on the private education and consumer loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for loan losses. The Company places a private education or consumer loan on nonaccrual status when the collection of principal and interest is 90 days past due and charges off the loan and accrued interest when the collection of principal and interest is 120 days or 180 days past due, depending on type of loan program.

The allowance for loan losses is maintained at a level management believes is appropriate to provide for estimated probable credit losses inherent in the loan portfolios. This evaluation is inherently subjective because it requires estimates that may be susceptible to significant changes.

RECENT ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, the FASB issued a new standard regarding the accounting for leases. The standard will require the identification of arrangements that should be accounted for as leases by lessees and the disclosure of key information about leasing arrangements. The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability for all leases with a term longer than twelve months and classify the lease as operating or financing. The income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases.

The standard requires the use of the modified retrospective transition method, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company expects to adopt the new standard on its effective date of January 1, 2019 and use the effective date as its date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company expects to elect the 'package of practical expedients', which permits it to not reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs.

The Company believes the most significant effects of this adoption will relate to (1) the recognition of new ROU assets and lease liabilities on its balance sheet primarily for office and dark fiber operating leases; (2) the deconsolidation of existing assets and liabilities for certain sale-leaseback transactions arising from build-to-suit lease arrangements for which construction is complete and the Company is leasing the constructed assets that currently do not qualify for sale accounting; and (3) providing significant new disclosures about the Company's leasing activities. On adoption, the Company currently expects to recognize lease liabilities of approximately $34 million based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. It will recognize ROU assets of approximately $33 million, which corresponds to the lease liabilities reduced by deferred rent expense as of the effective date. The Company will also deconsolidate total assets of approximately $44 million and total liabilities of approximately $35 million for those entities that have been consolidated due to sale-leaseback transactions that failed to qualify for recognition as sales under the prior guidance. Deconsolidation of these entities will reduce noncontrolling interests by approximately $6 million.

The new standard also provides practical expedients for an entity's ongoing accounting. The Company currently expects to elect the short-term lease recognition exemption for all leases that qualify and to elect the practical expedient to not separate lease and non-lease components for all of its office space leases.

In addition, the Company has identified itself as the lessor in its Communications operating segment for services provided to customers that include customer-premise equipment. The Company expects to apply the practical expedient to account for those services and associated leases as a single, combined component. The Company has determined the non-lease services are 'predominant' in those contracts, which will require the Company to continue to account for the combined component as a single performance obligation under ASC Topic 606.

Allowance for Loan Losses

In June 2016, the FASB issued accounting guidance regarding the measurement of credit losses on financial instruments, which will change the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. The Company currently uses an incurred loss model when calculating its allowance for loans losses. As a result, the Company expects the new guidance will increase the allowance for loan losses. This guidance will be effective for the Company beginning January 1, 2020. This standard represents a significant departure from existing GAAP, and may result in significant changes to the Company's accounting for the allowance for loan losses. The Company is evaluating the impact this pronouncement will have on its ongoing financial reporting.

Hedging Activities

In August 2017, the FASB issued accounting guidance to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and in some situations better align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This guidance will be effective for the Company beginning January 1, 2019. Upon adoption, this pronouncement will not have a material impact on the Company's consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(All dollars are in thousands, except share amounts, unless otherwise noted)
Interest Rate Risk
The Company's primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates.
The following table sets forth the Company's loan assets and debt instruments by rate characteristics:

	As of December 31, 2018		As of December 31, 2017	
	Dollars	Percent	Dollars	Percent
Fixed-rate loan assets	$ 2,792,734	12.4 %	$ 4,966,125	22.6 %
Variable-rate loan assets	19,727,764	87.6	17,029,752	77.4
Total	$ 22,520,498	100.0 %	$ 21,995,877	100.0 %
Fixed-rate debt instruments	$ 88,128	0.4 %	$ 101,002	0.5 %
Variable-rate debt instruments	22,448,971	99.6	21,626,125	99.5
Total	$ 22,537,099	100.0 %	$ 21,727,127	100.0 %

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the special allowance payment ("SAP") formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.
Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company may earn floor income to the next reset date, which the Company refers to as variable rate floor income. All FFELP loans first originated on or after April 1, 2006 effectively earn at the SAP rate, since lenders are required to rebate fixed rate floor income and variable rate floor income for those loans to the Department.
No variable-rate floor income was earned by the Company during the years ended December 31, 2018, 2017, and 2016. A summary of fixed rate floor income earned by the Company during these years follows.

	Year ended December 31,		
	2018	2017	2016
Fixed rate floor income, gross	$ 56,811	106,434	169,979

Derivative settlements (a)	64,901		10,838	(17,643)
Fixed rate floor income, net	$	121,712	117,272	152,336

(a) Includes settlement payments on derivatives used to hedge student loans earning fixed rate floor income.

The year over year decreases in gross fixed rate floor income were due to increases in interest rates.
Absent the use of derivative instruments, a rise in interest rates may reduce the amount of floor income received and this may have an impact on earnings due to interest margin compression caused by increasing financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with their special allowance payment formulas. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed rate loans effectively become variable rate loans, the impact of the rate fluctuations is reduced.

The following graph depicts fixed rate floor income for a borrower with a fixed rate of 6.75% and a SAP rate of 2.64%:

The following table shows the Company's federally insured student loan assets that were earning fixed rate floor income as of December 31, 2018:

Fixed interest rate range	**Borrower/lender weighted average yield**	**Estimated variable conversion rate (a)**	**Loan balance**	
5.0 - 5.49%	5.30%	2.66%	$	367,077
5.5 - 5.99%	5.67%	3.03%	357,259	
6.0 - 6.49%	6.19%	3.55%	392,253	
6.5 - 6.99%	6.70%	4.06%	382,285	
7.0 - 7.49%	7.17%	4.53%	134,034	
7.5 - 7.99%	7.71%	5.07%	229,966	
8.0 - 8.99%	8.18%	5.54%	532,171	
> 9.0%	9.05%	6.41%	198,597	
			$	2,593,642

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of December 31, 2018, the weighted average estimated variable conversion rate was 4.24% and the short-term interest rate was 240 basis points.

The following table summarizes the outstanding derivative instruments as of December 31, 2018 used by the Company to economically hedge loans earning fixed rate floor income.

Maturity	**Notional amount**		**Weighted average fixed rate paid by the Company (a)**
2019	$	3,250,000	0.97 %
2020	1,500,000		1.01
2021	100,000		2.95
2023	400,000		2.24
2024	300,000		2.28
2027	25,000		2.35
	$	5,575,000	1.18 %

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

In addition, during 2014 and 2018, the Company paid $9.1 million and $4.6 million, respectively for interest rate swap options to economically hedge loans earning fixed rate floor income. The interest rate swap options give the Company the right, but not the obligation, to enter into interest rate swaps in which the Company would pay a fixed amount and receive discrete one-month LIBOR. The following table summarizes these derivative instruments as of December 31, 2018.

If exercised effective date	Notional amount		Weighted average fixed rate paid by the Company	If exercised maturity date
August 21, 2019	$	750,000	3.28 %	August 21, 2024
September 25, 2019	250,000		3.00	September 25, 2024
	$	1,000,000	3.21 %	

The Company is also exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company’s assets do not match the interest rate characteristics of the funding for those assets. The following table presents the Company’s FFELP student loan assets and related funding for those assets arranged by underlying indices as of December 31, 2018:

Index	Frequency of variable resets	Assets		Funding of student loan assets
1 month LIBOR (a)	Daily	$	20,574,347	—
3 month H15 financial commercial paper	Daily	970,261		—
3 month Treasury bill	Daily	611,288		—
3 month LIBOR (a)	Quarterly	—		9,851,965
1 month LIBOR	Monthly	—		10,340,158
Auction-rate (b)	Varies	—		793,476
Asset-backed commercial paper (c)	Varies	—		986,886
Other (d)		1,351,899		1,535,310
		$	23,507,795	23,507,795

(a) The Company has certain basis swaps outstanding in which the Company receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps"). The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes the 1:3 Basis Swaps outstanding as of December 31, 2018.

Maturity	Notional amount	
2019	$	3,500,000

2020	1,000,000	
2021	250,000	
2022	2,000,000	
2023	750,000	
2024	250,000	
2026	1,150,000	
2027	375,000	
2028	325,000	
2029	100,000	
2031	300,000	
	$	10,000,000

The weighted average rate paid by the Company on the 1:3 Basis Swaps as of December 31, 2018 was one-month LIBOR plus 9.4 basis points.

(b) As of December 31, 2018, the Company was sponsor for $793.5 million of asset-backed securities that are set and periodically reset via a "dutch auction" ("Auction Rate Securities"). The Auction Rate Securities generally pay interest to the holder at a maximum rate as defined by the indenture. While these rates will vary, they will generally be based on a spread to LIBOR or Treasury Securities, or the Net Loan Rate as defined in the financing documents.

(c) The interest rates on the Company's FFELP warehouse facilities are indexed to asset-backed commercial paper rates.

(d) Assets include accrued interest receivable and restricted cash. Funding represents overcollateralization (equity) and other liabilities included in FFELP asset-backed securitizations and warehouse facilities.

There is significant uncertainty regarding the availability of LIBOR as a benchmark rate after 2021, and any market transition away from the current LIBOR framework could result in significant changes to the interest rate characteristics of the Company's LIBOR-indexed assets and funding for those assets. See Item 1A, "Risk Factors - Loan Portfolio - Interest rate risk - replacement of LIBOR as a benchmark rate."

Sensitivity Analysis

The following tables summarize the effect on the Company’s earnings, based upon a sensitivity analysis performed by the Company assuming hypothetical increases in interest rates of 100 basis points and 300 basis points while funding spreads remain constant. In addition, a sensitivity analysis was performed assuming the funding index increases 10 basis points and 30 basis points while holding the asset index constant, if the funding index is different than the asset index. The sensitivity analysis was performed on the Company’s variable rate assets (including loans earning fixed rate floor income) and liabilities. The analysis includes the effects of the Company’s interest rate and basis swaps in existence during these periods.

	Interest rates				**Asset and funding index mismatches**			
	Change from increase of 100 basis points		**Change from increase of 300 basis points**		**Increase of 10 basis points**		**Increase of 30 basis points**	
	Dollars	**Percent**	**Dollars**	**Percent**	**Dollars**	**Percent**	**Dollars**	**Percent**
	Year ended December 31, 2018							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$ (20,162)	(7.0)%	$ (35,592)	(12.4)%	$ (11,769)	(4.1)%	$ (35,306)	(12.3)%
Impact of derivative settlements	62,310	21.8	186,927	65.3	7,775	2.7	23,326	8.1
Increase (decrease) in net income before taxes	$ 42,148	14.8%	$ 151,335	52.9%	$ (3,994)	(1.4)%	$ (11,980)	(4.2)%
Increase (decrease) in basic and diluted earnings per share	$ 0.78		$ 2.81		$ (0.07)		$ (0.22)	

	Year ended December 31, 2017										
Effect on earnings:											
Decrease in pre-tax net income before impact of derivative settlements	$	(39,894)	(17.6)%	$	(73,999)	(32.5)%	$	(13,423)	(5.9)%	$	(40,271)	(17.8)%
Impact of derivative settlements		59,639	26.3		178,911	79.0		6,408	2.8		19,226	8.5
Increase (decrease) in net income before taxes	$	19,745	8.7%	$	104,912	46.5%	$	(7,015)	(3.1)%	$	(21,045)	(9.3)%
Increase (decrease) in basic and diluted earnings per share	$	0.29		$	1.55		$	(0.09)		$	(0.30)	
	Year ended December 31, 2016										
Effect on earnings:											
Decrease in pre-tax net income before impact of derivative settlements	$	(67,877)	(17.0)%	$	(124,818)	(31.3)%	$	(16,033)	(4.1)%	$	(48,098)	(12.1)%
Impact of derivative settlements		59,847	15.0		179,541	45.0		3,052	0.8		9,155	2.3
Increase (decrease) in net income before taxes	$	(8,030)	(2.0)%	$	54,723	13.7%	$	(12,981)	(3.3)%	$	(38,943)	(9.8)%
Increase (decrease) in basic	$	(0.12)		$	0.80		$	(0.19)		$	(0.57)	

and
diluted
earnings
per
share

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Financial Statement Impact – Derivatives and Foreign Currency Transaction Adjustments

For a table summarizing the effect of derivative instruments in the consolidated statements of income, including the components of "derivative market value and foreign currency transaction adjustments and derivative settlements, net" included in the consolidated statements of income, see note 5 of the notes to consolidated financial statements included in this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the consolidated financial statements listed under the heading “(a) 1. Consolidated Financial Statements” of Item 15 of this report, which consolidated financial statements are incorporated into this report by reference in response to this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company’s management, with the participation of the Company's principal executive and principal financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2018. Based on this evaluation, the Company’s principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2018, the Company implemented a plan that called for modifications to its processes related to the accounting for leases as a result of ASC Topic 842, *Leases*. The modified controls have been designed to address risks associated with accounting for lease assets and liabilities and the related income and expense under ASC 842.

There were no other changes in the Company's internal control over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective January 1, 2018, the Company implemented ASC Topic 606, *Revenue from Contracts with Customers*. Although the new revenue standard has an immaterial impact on the Company's revenue recognition patterns and ongoing net income, management did implement changes to its processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, new training, ongoing contract review requirements, and gathering of information provided for disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) for the Company. The Company's internal control system is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on the criteria for effective internal control described in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report included herein.

Inherent Limitations on Effectiveness of Internal Controls

The Company's management, including the chief executive and chief financial officers, understands that the disclosure controls and procedures and internal control over financial reporting are subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors
Nelnet, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Nelnet, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 27, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
/s/ KPMG LLP
Lincoln, Nebraska
February 27, 2019

ITEM 9B. OTHER INFORMATION

During the fourth quarter of 2018, no information was required to be disclosed in a report on Form 8-K, but not reported.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information as to the directors, executive officers, corporate governance, and Section 16(a) beneficial ownership reporting compliance of the Company set forth under the captions “PROPOSAL 1 - ELECTION OF DIRECTORS,” “EXECUTIVE OFFICERS,” “CORPORATE GOVERNANCE,” and “SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement to be filed on Schedule 14A with the SEC, no later than 120 days after the end of the Company's fiscal year, relating to the Company's 2019 Annual Meeting of Shareholders scheduled to be held on May 23, 2019 (the “Proxy Statement”), is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the captions “CORPORATE GOVERNANCE” and “EXECUTIVE COMPENSATION” in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption “SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - Stock Ownership” in the Proxy Statement is incorporated herein by reference.
There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in the control of the Company.
The following table summarizes information about compensation plans under which equity securities are authorized for issuance.

Equity Compensation Plan Information

	As of December 31, 2018		
Plan category	**Number of shares to be issued upon exercise of outstanding options, warrants, and rights (a)**	**Weighted-average exercise price of outstanding options, warrants, and rights (b)**	**Number of shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by shareholders	—	—	2,144,814 (1)

Equity compensation plans not approved by shareholders	—	—	—
Total	—	—	2,144,814

(1) Includes 1,563,438, 118,498, and 462,878 shares of Class A Common Stock remaining available for future issuance under the Nelnet, Inc. Restricted Stock Plan, Nelnet, Inc. Directors Stock Compensation Plan, and Nelnet, Inc. Employee Share Purchase Plan, respectively.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth under the captions "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS," "CORPORATE GOVERNANCE - Board Composition and Director Independence," and "CORPORATE GOVERNANCE - Board Committees" in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information set forth under the caption "PROPOSAL 2 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM - Independent Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

The following consolidated financial statements of Nelnet, Inc. and its subsidiaries and the Report of Independent Registered Public Accounting Firm thereon are included in Item 8 above: